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Electronic book reading
Resurgence and Realignment in the Indo-Pacific

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These days, people who talk about the Indo-Pacific region – the arc of Asia from Japan through China to Pakistan – always begin by noting that it’s becoming the world’s center of economic gravity. That’s true. The region’s economy is now half again as large as America’s or Europe’s. In purchasing power terms it’s twice as big. It accounts for nearly half the world’s manufacturing. It is growing faster than anywhere else. And it is increasingly Sino-centric.

The Indo-Pacific region has become too big and dynamic to be regulated by outside powers. Sadly, however, it is not effectively regulating itself. The status quo is unsustainable. As balances of power within the region evolve, the risk of war by inadvertence is rising. Current U.S. policy virtually guarantees that any such war would implicate the U.S. homeland and risks trans-Pacific war – the first such war since 1941.

In 2012, for the first time, Indo-Pacific states spent more on their armed forces than Europeans did. With the exception – so far – of Japan, major powers there are boosting their defense budgets at double-digit rates to cope with threats within their region – from each other and from U.S. forces there. None is yet attempting to develop the capacity to project force into other regions of the world. But rising tensions with the United States are pushing China in this direction.

The squabbles over borders that are driving Asian arms races are not new. History is the remembrance of mostly lamentable events. Asia has a history surplus. The past there is never over. It’s just unfinished business.

The contention over the region’s scruffy archipelagos and dynamited reefs is a case in point. It is fueled by patriotic fervor, with a subtext of resource nationalism. Many think there is oil and gas – perhaps lots of it – to be found in the East and South China Sea’s territorial seas and exclusive economic zones (EEZs). The entry into force of a new law of the sea treaty
has stimulated littoral states – belatedly including China – to rush to stake out claims by seizing, populating, and fortifying anything visible at high tide in the empty seas between them.

All of the claimants other than the Philippines now have competent navies and coast guards Oral arguments have been succeeded by brawls in which ships push, shove, ram, and bombard each other with water cannon while armed jets joust in international airspace. What's happening is just one step away from armed combat.

China’s Politburo sees itself as the custodian of its country’s imperial grandeur and the vindicator of its historic territorial claims. These claims were for long undefended. Beijing’s newly active defense of them and opposition to the counterclaims of others has alarmed its neighbors and driven them to consider how best to counter Chinese with American power. The United States has enjoyed military primacy in the Western Pacific since World War II. There is no doubt that it will continue to be a major factor in the Indo-Pacific’s strategic geography, but China’s growing strength is calling its dominance into question.

Most of America’s Indo-Pacific allies ceased long ago to be weak. Unlike in Europe, however, they are not part of a coherent regional security structure. They have no commitment to defend each other, still less to come to America’s defense. With the notable exception of Australia, they are consumers, not producers, of U.S.-provided security – protectorates and dependencies rather than partners with mutual defense commitments and well-developed arrangements for constant consultation with Washington. They have exploited their vulnerability and America’s paternalistic instincts to enlist the United States behind their disputes with China.

As a result, the U.S. is now everywhere aligned against China in de facto support of territorial claims in which it is impossible to identify any direct or intrinsic American interest. Despite its military weakness, the Philippines feels free to give China a one-finger salute. Japan hides behind its U.S. shield as Mr. Abe labors to reverse the post World War II demilitarization of Japanese national security policy, alienating Korea as well as China as he does so. India and Vietnam court Japan and flirt with America while keeping it safely at arms length.

The Association of Southeast Asian Nations (ASEAN), with an increasingly integrated economy half again larger than India’s, is the only significant cooperative body in the Indo-Pacific. It has become badly split on issues relating to China. Some fear it will pull apart.
No one in the region now believes that the United States will be able indefinitely to put off sharing responsibility for managing security in the Western Pacific with China. The most powerful states in the Indo-Pacific – India and Japan – are not prepared to support the United States in any cause other than their own defense. The balance between their military capabilities and those of China continues to shift in favor of China. The gap between U.S. capabilities and those of the People’s Liberation Army (PLA) continues to narrow. So, even as China’s burgeoning wealth is unifying the Indo-Pacific economically, its rising power is dividing the region politically, stimulating its neighbors to hedge against the erosion of American dominance, and drawing it into confrontation with the United States. Hopes that China might manage a “peaceful rise” have everywhere given way to apprehensions about how it will manage the drive for hegemony it appears to have undertaken.

Most pondering this question do not share the American enthusiasm for military posturing, sanctions, and threats against China, still less a possible resort to force. They don’t want to have to kowtow to Beijing but they also don’t want to be caught between China and the United States. The result is a growing set of arms races as well as the accelerated exploration of strategic coalitions among countries without reference to the United States. Every country in the Indo-Pacific is now modernizing its armed forces or broadening its defense relationships in anticipation of conflict.

Arms sales to the Indo-Pacific were up by at least 25 percent last year. Japan is developing defense ties to Australia, India, the Philippines, and Vietnam. India is courting Japan and Vietnam and eyeing Indonesia. Australia is hedging against overreliance on the United States by associating itself with India, Japan, and other potential balancers of China and neighboring Indonesia.

Political paralysis in Washington and the distractions of the Middle East (and now Eastern Europe) have made the U.S. “pivot to Asia” a hard sell. Showing up at meetings in the Indo-Pacific after sometimes failing to do so earlier has not been enough to persuade most Asians that America has really refocused on them. Some are so concerned about being submerged in a Sino-American Cold War in Asia that they seem relieved by the apparent lack of U.S. follow-through. Others are alarmed by it. All are, to one extent or another, rebalancing themselves to hedge against the rise of China and the decline of American power.

Washington has complemented the mainly military focus of its “pivot” with a proposed framework for trade and investment that excludes China. The
Trans-Pacific Partnership (TPP) may be clever gamesmanship but, in a region where China is everybody’s biggest trading partner, it’s an unpersuasive strategy. In the somewhat unlikely event that TPP actually comes into being, Beijing will probably try to join it. For now, however, it views TPP as part of a broader U.S. effort to divide Asia against it.

China was long at pains to avoid setting up such a zero-sum contest with Washington over who would make the rules for trade and investment in the Indo-Pacific. Now, however, its perceptions of American and Japanese hostility have stimulated it to try to dilute Washington’s and Tokyo’s regional leadership, in part by fostering new institutions that exclude its strategic rivals. This trend is buttressed by the fact that overdue reform of the international institutions created under American leadership after World War II is bogged down in U.S. political gridlock and European recalcitrance.

Beijing has stepped up efforts to establish a Regional Comprehensive Economic Partnership (RCEP). RCEP would bring together Australia, China, India, Japan, south Korea, New Zealand, and the ten member countries of the Association of Southeast Asian Nations (ASEAN) in a single free-trade area. It would include 46 percent of the world’s population, 40 percent of its GDP, and most of its fastest-growing large economies. China would, of course, be the heavy hitter in RCEP. The United States would not be part of it.

China is also pressing for a Free Trade Area of the Asia Pacific (FTAAP) that would embrace all members of the Asia-Pacific Economic Cooperation (APEC), including the United States and Canada. The U.S. has resisted this proposal as a distraction from TPP. China proposes to make it the main topic of discussion at APEC’s November summit in Beijing.

When established institutions fail to adapt to new conditions, requirements, and distributions of economic power, they invite work-arounds. China has the capital to bankroll these. East Asia needs at least $800 billion of public infrastructure investment each year. It has not come close to meeting this requirement. So, in early May, China convened consultations that bypassed the United States, India, and Japan to create an Asian Infrastructure Investment Bank (AIIB) outside the U.S. and Japanese-dominated Asian Development Bank (ADB).

The U.S. Congress has continued to block reforms in governance and other needed changes at the International Monetary Fund and World Bank. In response, in July 2014, China and other non Western economic powers launched a huge new development bank and exchange reserves pool that will bypass and erode American and European dominance of the global monetary
system. The bank will begin lending in 2016.

It’s good that someone is belatedly stepping forward to craft institutions and arrangements that harness new balances of economic power and enable responses to looming global and regional financial challenges. But everyone understands that the institutions that China and others are creating will not promote the rule of law or condition lending on structural reform, measures to reduce corruption, or enforcement of environmental standards. They thus mark the beginning of the end of global governance under American and other Western leadership.

If Washington remains unwilling or unable to manage the transition to new ways of doing things, the future in the Indo-Pacific and elsewhere will be built on an American foundation but shaped by others without benefit of U.S. input. The continuing absence of consensus will also take its toll on efforts to treat instances of fiscal and monetary dysfunction and dementia. One can see an example of this in the tragically inadequate international financial response to the situation in Ukraine.

Meanwhile, worldwide systems of governance that have defined the international order are everywhere yielding to regional structures. Trade and investment liberalization no longer takes place through the World Trade Organization (WTO) but in frameworks like RCEP, TPP, and the Trans-Atlantic Investment Partnership (TTIP). National firewalls divide a once globally open internet. Security concerns increasingly limit high tech companies to national rather than global markets. Unilateral financial sanctions imposed through the Society for Worldwide Interbank Financial Telecommunication (SWIFT) inspire alternate systems, like China’s UnionPay, that can settle transactions outside it. Organizations like the African Union, the Arab League, and the Organization for Security and Cooperation in Europe (OSCE) displace the United Nations as the preferred means for managing conflict in their regions.

But the Indo-Pacific lacks conflict management structures and mechanisms. It is too embittered by history and divided by differing civilizational heritages, political systems, development levels, religions, and languages to produce a coherent regional architecture. Since World War II, the region has looked to the United States to guarantee the relatively stable and predictable environment it has needed for peace and development. There is no plausible replacement for the United States in that role. The Indo-Pacific’s greatest powers – China, India, and Japan – are both rivals in that regard and objects of apprehension to lesser nations on their peripheries.

The Pax Americana enabled Japan to reinvigorate itself after its
devastation in World War II. It promoted Korea’s recovery from war and poverty. It permitted India to sustain non-alignment during the Cold War and to pursue economic rejuvenation after it. It helped ASEAN to coalesce, consolidate itself, and incorporate former enemies. It facilitated a peaceful end to colonialism in Hong Kong and Macau and empowered Taiwan to become greater China’s first prosperous multiparty democracy. It provided the peaceful and open international environment in which China could regain wealth and power. But the very success of American hegemony has cost it much of its relevance.

The Indo-Pacific now includes some of the most prosperous, strongest, most competent, and assertively nationalistic societies in the world. The region has developed its own economic and politico-military dynamics, which exploit and react to American policies and capabilities but are no longer driven by them. These dynamics are divisive, dangerous, and a challenge to statecraft.

Current American strategy in the Indo-Pacific posits an imperative of preserving U.S. military dominance indefinitely. A consensus embodying this unrealistic belief is now so entrenched in Washington that it need not be articulated, cannot be questioned, and allows no discussion of alternative, less risky strategies for securing peace and stability in the region. It has generated policies that include blank check commitments to allies and friends tussling with China, a drift toward ever-clearer embrace of their territorial claims against China’s, a vigorous effort to deny China immunity from attack from the seas immediately off its coasts, aggressive intelligence collection there, and war plans that envisage air and cyber strikes deep inside Chinese territory.

So far at least, these elements of U.S. policy have jeopardized, not enhanced, security not just for China but for both America and its Asian allies. Chinese animosity toward the United States has risen. Confrontations between China and its neighbors have multiplied and intensified. Beijing’s stand on its claims has hardened as others have been emboldened to challenge them. The number of insignificant places where miscalculations could spark armed conflict has grown. No one wants war but, despite lip service to diplomacy, no one is doing anything to dampen, still less cure, the disputes that might ignite it. Both the United States and China remain focused on upping the military ante to deter each other, not on diplomacy aimed at removing the need to do so.

Despite enormous progress in every other dimension of their relations,
Washington and Beijing have yet to develop the accuracy of mutual perception, confident understanding of each other, and precision of discourse needed to contain conflict and prevent its escalation. Sino-Japanese relations are in crisis. China's proposal for a new type of relationship between itself and other great powers remains a notion without substantive content and no effective process to define its meaning. The potential consequences of these deficiencies are enormous. They include intercontinental cyber and nuclear war. By comparison to the United States, its allies, and China, the combatants who blundered into World War I were vastly better equipped to avoid the conflagration they failed to stave off.

In accordance with the United States' dedication to retaining its strategic dominance of the Western Pacific, the U.S. Navy routinely probes Chinese coastal defenses and seeks to demonstrate its ability to deny China control of its near seas in time of war. After initially disputing America's legal right to do this, China has begun to carry out similar activities off Guam. It is laying plans to do so along the U.S. Pacific coast.

Neither side disputes the right to innocent passage of the others' warships through its waters or proposes to interfere with freedom of commercial navigation in times of peace. Both are very dependent on international trade and vulnerable to its interdiction. Still, the U.S. effort to sustain a credible naval threat to the Chinese homeland is well along in generating a reciprocal and growing, if as yet far less credible, threat to Guam, Hawaii, and the continental United States. There is no gain for the security of either side in this dynamic. Both lose from it. Meanwhile, China's efforts to modernize its defenses and to deter attack by U.S. forces in the event of Taiwan or other contingencies are having the perverse effect of stimulating American planning for "active defense" (to use the Chinese term) against China preemptive offense.

Much of the intelligence collection effort against China is designed to support a new U.S. doctrine of "Air-Sea Battle." This is an evolving concept of military operations designed to respond to the increasing ability of China and other nations to block attacks by U.S. forces deployed off their coasts. It envisions strikes deep inside China to disrupt command, control, communications, computers, intelligence, surveillance and reconnaissance capabilities, destroy weapons systems, and deprive Chinese forces of the ability to retaliate. It is as technically brilliant as the German General Staff's plan for victory in World War I was, but even more politically obtuse.

Like the German ("Schlieffen") plan, Air-Sea Battle is all about an
offensive to overwhelm the other side’s defenses before it can take the offensive itself. Despite the near certainty that any conflict with China would be protracted, the doctrine seems to assume a short, decisive war. There are no long-term strategies or war aims associated with its planning scenarios. It is unrelated to any thinking about war termination. Air-Sea Battle too is being developed on a military technical basis in isolation from serious policy oversight. By focusing on strikes deep within the Chinese homeland, it effectively excludes defensive campaign strategies and limits rather than expands U.S. options in Taiwan, Senkaku, or other contingencies. It does not consider how to discourage counterattacks or control escalation. It is much more likely to produce multiple setbacks than strategic gains and to yield a long-term relationship of hostility between the United States and China than a decisive victory followed by reconciliation.

If U.S. policy should have as its objective stabilizing the Indo-Pacific region while precluding the rise of a hostile hegemon there, the current strategy is not only not working, it is dangerously counterproductive. If China’s policy should aim at a cooperative transition to shared responsibility with the United States and other regional powers for peace and development in the Indo-Pacific, it too is not working. In practice, Washington’s mainly military responses to China’s rise are goading Beijing into considering how to match or outdo U.S. threats to its homeland. Interactions between China and the United States, its allies and friends over maritime territorial claims are meanwhile exacerbating, not calming regional tensions. The result is rising mutual alarm.

Unconditional commitments to allies who have no reciprocal obligation to defend the United States, consider U.S. interests, or heed American advice about how to manage their disputes with China are, of course, inherently problematic. Such commitments excuse those to whom they are made from providing an adequate defense for themselves, relieve them from pressure to settle disputes with neighbors, and free them to take risks they otherwise would not. They also subject Americans automatically to the military consequences of miscalculations by foreign politicians on issues of great importance to their nationalistic constituents but not to the United States.

Policies and actions that might embroil an ally in war should not be decided unilaterally. The United States has no interest of its own in who owns any of the areas in dispute between China and its neighbors or in where they fix their boundaries. It cannot be wise to let issues in which one has no intrinsic interest decide whether there is peace or war with another
nation, still less a nuclear-armed great power. U.S. allies are acting more independently. This dynamic is likely in time to cause the United States to seek to limit its commitments when its own interests are not directly involved in disputes. Japan and the Philippines in particular need to recognize an obligation to the United States to co-determine policies, activities, and paramilitary and military movements that risk war with China or others. The United States has a strategic interest in honoring its commitments to them. It has no obligation to give them blank checks to fill out in American blood.

The current U.S. focus on deterring China, rather than helping it and U.S. allies and friends settle their disputes, makes these disputes flash points for a widened conflict. Chinese policies pressing other claimants to retreat have a similar effect. By doing nothing to resolve disputes with the potential to erupt in armed conflict, the United States and China are perpetuating the risk of war even as they seek to limit that risk.

No one wants war of any kind. But, as events in Europe in the summer of 1914 remind us, discounting the possibility of war and not wanting it are not enough to prevent it from happening. Nothing is inevitable, but with so many military units and patriotic passions bumping up against each other – Chinese, Indian, Japanese, Filipino, Vietnamese, and American – accidents are very likely. National miscalculations over even the most minor of territorial disputes could easily produce an escalating international catastrophe. So, despite all the factors inhibiting our doing so, it’s worth considering whether there may not be better and more affordable ways to produce a stable order in the Indo-Pacific that includes China and reduces the risk of trans-Pacific war.

As a rule, diplomacy – peaceful efforts at problem solving – should come before military posturing. The current exclusive focus by all sides on military and paramilitary deterrence raises tensions, perpetuates the disputes in question, and provides no path to their resolution by measures short of war. It is not just inadequate. It is dangerous.

In this connection, Japan’s denial that, in practice, China disputes its sovereignty in the Senkaku (or Diaoyu) Islands is both an obstacle to peace and an incitement to paramilitary confrontation. To accept that there is a difference of opinion is not to accept the validity of another’s claims. For diplomacy to have a chance, this is a principle that China, Japan, Korea, and Vietnam need to accept as applying to their differences.

If China’s claims to the Diaoyu (or Senkaku) Islands have any validity at all after 115 years, it is because these uninhabitable rocks have historically
been associated with Taiwan. But, as long as the relationship between Taiwan and the rest of China remains unsettled, neither Beijing nor Taipei can effectively negotiate their status with Tokyo. If an issue that can spark war cannot be resolved, it is best shelved. The Senkaku / Diaoyu Islands were on a Japanese-administered shelf until 2010. They need to be put back there.

China’s confrontation with Japan was provoked by developments in Japanese domestic politics. These began with Japan’s assertion of domestic legal jurisdiction over the Senkaku / Diaoyu Islands and culminated in its preemptive “nationalization” of the islands. There is nothing to prevent Tokyo from now “denationalizing” them by transferring their ownership to a private foundation dedicated to preserving them in pristine condition, free of human intrusions. If China really wants to set the issue aside, as it says it does, this would allow it to do so. There is no indication that China wants to take actual possession of the disputed islands as opposed to denying undisputed possession of them to Japan.

Sixty-nine years after America occupied Japan, China has inadvertently undercut Japan’s rationale for strategic subservience to the United States. A U.S.-Japan relationship that is equal and reciprocal rather than unbalanced and unilateral has long been overdue. Ironically, Chinese policy is pushing the relationship in that direction. China cannot reasonably ask Japan not to build robust defenses for itself when Chinese forces actively challenge Japanese interests. As a corollary, Japan cannot be expected to rely for its defense entirely on the United States when it must respond to challenges to interests that the United States does not share, like sovereignty over the Senkaku / Diaoyu Islands.

Japan has taken a step toward being able to assist U.S. forces engaged in supporting its interests. It should also be prepared to defend its own peripheral interests on its own, with a small U.S. military presence in Japan as a tripwire and guarantee against attacks on the Japanese homeland. The worsening of Sino-Japanese relations is providing a powerful stimulus to increases in Japanese defense spending. The differences between Tokyo and Washington on the question of sovereignty over the Senkaku / Diaoyu Islands are meanwhile pushing Japan toward a stand that is both less dependent on American power and less deferential to it. The constraints that the US-Japan alliance imposed on Japanese national security policy are loosening. Japan’s neighbors must prepare themselves for a Japan that can take actions opposed by the United States.

The South China Sea is different. Negotiations there are both possible
and timely. China and ASEAN have wasted twelve years in an effort to draw up a code of conduct that would inhibit land grabs there. But everything that can be grabbed now has been. The attempt to prevent the hardening of differences between claimants has failed. What is needed is either an outright settlement of claims between the littoral states on the basis of the status quo or regional agreement on principles for resolving these claims through bilateral negotiation, arbitration, or mediation.

At most four ASEAN member states dispute Chinese claims to land features in the South China Sea. Six have no dog in the fight. When ASEAN attempts to address South China Sea claims and conduct, it splits. It is the wrong body to address these issues. That must be done by the five claimants themselves – China (including Taiwan), Malaysia, the Philippines, Vietnam, and – if it wishes to assert a claim – Brunei. At this point, I suspect, none of them can hope to gain anything it doesn’t already possess – other than the goodwill of the others.

The United States should be urging and aiding them to settle their arguments, not helping them entrench them. The most rational approach may well be for each party to keep what it has, however wrongful its possession of this territory and its adjacent seas may seem to the others. The disputes must be settled peacefully de jure or they will be settled de facto by military strong-arming and other forms of gunboat diplomacy.

Strategic objectives should reflect present and future, not past realities. The growth and redistribution of economic and military power in the Indo-Pacific has transformed the post World War II / Cold War order. China’s enhanced ability to defend itself is a threat to America’s military freedom of action against China. It is not a threat to the United States as such. China has no reason to pose such a threat other than to deter U.S. attack. With an economy soon to be larger than America’s, a defense budget growing toward parity with the United States, and the advantages of a defensive posture with short lines of communication, China can and will more than hold its own in any arms race with the United States.

The most appropriate U.S. response to China’s enhanced ability to defend itself is to ensure that Americas’ own defenses are adequate, not to focus on crippling China’s military capabilities by taking the offensive. American adoption of an offensive posture invites China to do the same. The United States gains nothing by signaling that it wants to be able to smash through China’s defenses at will. Rather than pretending it can continue to exclude China from a role in deciding what happens on its periphery, Washington
should be leveraging current U.S. strengths to negotiate rules that protect U.S. interests while also recognizing China’s, India’s, Indonesia’s, Japan’s, and other Asian countries’ roles in assuring stability and prosperity in the Indo-Pacific. This is precisely what the notion of a new type of great power relations in the Pacific implicitly invites.

In the absence of compelling reasons to the contrary, proposals to free up trade and investment flows should be inclusive, not exclusive. America needs to focus on getting its own act together, not on countering or curtailing the successes of others. China needs to recognize that its prosperity depends on a world and region that remain globally open to trade and investment. Free trade zones and other market opening arrangements should be designed to enhance national productivity, boost competitiveness and foster both pan-Pacific prosperity and the creation of jobs, not to score points in games of geopolitical one-upmanship.

There is now no common enemy to push the United States and China toward a grand bargain of the sort the two countries achieved in the Shanghai Communiqué of 1972. But this does not mean that such a relationship cannot be constructed through a complex of agreements and understandings that promote cooperation and constrain competition on specific matters. To move toward this, China must make a serious effort to facilitate the shelving of the Senkaku / Diaoyu Islands dispute with Japan and to end the dangerous confrontations between it and other claimants in the South China Sea. What has been done to contain and manage the Taiwan issue points the way.

With flashpoints under control, the United States and China should seek a mutual balance of reassurance, not terror. This might include negotiations to confirm the standards of the United Nations Charter by mutually setting aside the notion of preemptive war. It might also include the mutual adoption of a version of the Chinese no-first-use nuclear doctrine, with qualifications to buttress nonproliferation by incorporating U.S. extended deterrence for non-nuclear allies like Japan and South Korea. It should aim at establishing rules of the road for cyberspace.

The two sides should also recognize that the division of the Indo-Pacific into spheres of influence is not in the interest of either China or the United States, still less the nations that would be subordinated to such a division. Both should undertake to promote open and inclusive architecture for regional institutions and participate actively in them.

China’s neighbors need to be able to work out political and economic
accommodations with it backed by coalitions among themselves backed, as appropriate, by external powers like the U.S.

To do this, they must be able to come together diplomatically or militarily to bargain or work with China on specific issues as well as to balance or block it. U.S. policy should facilitate this by offering support to efforts by Indo-Pacific states themselves to take the lead in solving regional problems. For its part, China must recognize that – more than any other factor – its demeanor will determine the extent to which its neighbors bandwagon against it, with or without the United States.

It is inaccurate and misleading to attribute “the China threat theory” to American machinations. It is a theory made in Asia by Asians. It may be contagious but it is not American in origin. Nor does the cure for it lie in adjusting US-China relations. It derives from China’s neighbors observations and apprehensions about China’s relationships with them, not the United States, and it will only be cured by changes in Chinese behavior and how it is perceived.

It is vitally important to the futures of both China and the United States that the currently largely negative pattern of strategic interaction between the two countries be changed. Between us, China and the United States are dividing Asia, raising the danger of conflict there, and inching toward self-destructive rivalry at the global level. Neither side wishes or intends such a result. This is not just sad but dangerous. It should be unacceptable – all the more so because the United States, China, and the other countries of the Indo-Pacific have so very much to gain by working together. It’s time to rebalance and realign our policies so as to be able to do this.
Accelerating the RCEP Process through Strengthening Cooperation among the APT Countries

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Abstract

East Asia has seen a rapid proliferation in the number of FTAs since the beginning of the 21st century. However, the overlapping and complex FTA arrangements in East Asia lead to a higher cost of doing business in the region. In order to consolidate the existing five ASEAN+1 FTAs, ASEAN and its six FTA partners decided to launch the Regional Comprehensive Economic Partnership (RCEP) negotiation in 2013. Yet this negotiation proves to be quite dragging. Since the ASEAN Plus Three (APT) countries have played a very important role in promoting this region’s cooperation and integration, this paper aims to provide the background of the ongoing RCEP negotiations in terms of the necessity and potential benefits respectively, unfold the progress of the RCEP negotiations from the perspectives of ambitions, achievements and challenges and explore the possible role of the APT countries through cooperation in pushing forward the RCEP Process. It ends up with a prospect of the future development of economic integration in the Asia Pacific.

Keyword: RCEP, TPP, FTA Consolidation, APT Cooperation
The Regional Comprehensive Economic Partnership (RCEP) negotiations were launched by leaders from the ten ASEAN member countries and ASEAN’s FTA partners (Australia, China, India, Japan, South Korea and New Zealand) on November 20, 2012. The negotiations present an opportunity as well as a challenge for the participating countries. It is an opportunity to consolidate the ever proliferating and overlapping sets of FTAs and form a region-wide FTA in East Asia. It is a challenge however because of the varying degrees of interests and levels of ambition of each of the negotiating parties, and the relative extent to which they seek to undertake commitments on liberalization and facilitation in trade and investment, and other issues.

The U.S.-driven TPP reached a historic conclusion before the end of 2015, the RCEP, however, which was also scheduled to conclude by the end of 2015, seems hopeless to reach a meaningful conclusion given the current speed and status of the negotiations. This may put great pressure on the RCEP partners, particularly those left out of the TPP. The RCEP process is now in urgent need of building up momentum to help gain confidence and impetus for the negotiations to press ahead. It is very timely and appropriate for the APT (ASEAN plus Three) countries to discuss the issue of the RCEP process. The reason is quite simple: The RCEP is beneficial to the APT countries and the APT countries comprise one of the main pillars of the RCEP process. If the APT countries can reach consensus in some difficult areas and cement their shared views on what is needed to bring the RCEP negotiations to a close, we firmly believe that, through our joint efforts, the RCEP blueprint can be turned into reality rather than remain just talk.

This paper consists of five sections. Sections 1 and 2 provide the background of the ongoing RCEP negotiations in terms of the necessity and potential benefits respectively. Section 3 unfolds the progress of the RCEP negotiations from the perspectives of ambitions, achievements and challenges. Section 4 tries to propose some suggestions on prompting the RCEP negotiations through cooperation among the APT countries. The last section provides concluding remarks with a prospect of the future development of economic integration in the Asia Pacific.

1. Why does the RCEP process need to be accelerated?

So far, the RCEP negotiations have completed five rounds of talks. Though details remain sparse, the challenges can be imagined and the
outcome is still unpredictable. The RCEP process needs to be accelerated mainly due to the following three considerations:

1.1. East Asia is in urgent need of a region-wide trade agreement

East Asia has gone from a region with almost no FTAs to a region with too many to count. According to the ADB Asia Regional Integration Center’s statistics, East Asia has seen a rapid increase in the number of FTAs since the beginning of the 21st century. Countries with numerous concluded FTAs (or EPAs) include Singapore (21), India (13), Japan (13), China (12), Malaysia (12), and Thailand (12). More FTAs are currently under negotiation.

This explosion of trade arrangements has developed without any organizational plan or guiding principles. The overlapping and complex FTA arrangements in East Asia lead to a higher cost of doing business in the region. In particular, the presence of different, multiple rules of origin is one of the troublesome components of the Asian “noodle bowl”, which also includes different, competing tariff schedules, exclusion lists, and rules and standards.

Most importantly, the existing regional initiatives have not yet achieved a fully liberalized region. There is much room for the RCEP to strengthen ASEAN and East Asia as a production base. The recent international financial crisis made it clear that East Asian countries need to work together to sustain regional growth and stability by addressing common challenges. The Market-led economic integration has begun to require further liberalization of FDI and trade, and harmonization of policies, rules, and related standards, etc.

1.2. Intensifying FTA activities outside the region put much pressure on East Asia

The stagnated WTO Doha Round trade talks have encouraged many major economies to take FTAs as attractive and accessible alternatives. The new rules and disciplines underpinning the rise of supply-chain trade have

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1 ADB, Asia Regional Integration Centre (ARIC), Free Trade Agreements, http://aric.adb.org/fta-country.
been and continue to be written outside the WTO—primarily in deep RTAs (Baldwin, 2012:1-24). Efforts to harmonize these new rules and disciplines are taking place in mega-regionals (e.g. TPP and TTIP) and mega-bilaterals (e.g. EU-Japan) that are under negotiation or discussion. WTO-plus agreements and those addressing the Singapore issues are becoming more common throughout the world. These giant trading blocs of Europe and America might dominate rule-setting in the global trading system, thereby marginalizing Asia. Policymakers should realize the need for stepping up the pace of East Asian integration to improve international competitiveness.

Special attention should be paid to the developments in other competing regional initiatives, especially the TPP, which appears to be growing as an alternative hub for Asian FTA integration (Lim et al., 2012). The TPP agreement is a key component for the U.S. rebalancing strategy towards Asia. It would solidify US economic, political, and security links with the Asia-Pacific economies for future decades. However, the political implication may be more straightforward. As an Asia Pacific Economic Cooperation (APEC)-centered initiative, the TPP is aimed at creating a highly liberal trade regime with comprehensive issue coverage. These initiatives could potentially impair the ASEAN Centrality if they move much faster than the RCEP process, and if they have much richer content than the RCEP (Fukunaga and Isono, 2013:1-37).

In addition, there have been a number of recent developments, indicating a kind of momentum for the TPP rather than the RCEP. These include the announcement of the TTIP; Japan’s entry into the TPP; China’s statement that it is giving serious consideration to the TPP; and USTR’s signal that it will soon seek Trade Promotion Authority (Lewis, 2013:359-378). Most importantly, the TPP negotiations now have concluded in advance of the RCEP, some of the dual members may have less desire to continue their efforts on the RCEP.

1.3. The RCEP is currently the optimal choice for East Asia to achieve regional integration

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ASEAN and its dialogue partners had been discussing for some time a wider arrangement in East Asia, partly prompted by the experience of the Asian Financial Crisis, a desire to be more self-reliant, and a perception that regional trade was becoming more concentrated. There had been parallel tracks, with ASEAN+3 favored by China and ASEAN+6 favored by Japan. The latter perhaps provides a larger group, which will help Japan manage its relationship with China. By 2009, two working groups had been set up to study the feasibility of these arrangements. But ASEAN, with the split sponsorship, was stuck: which should it support? [MI4]

These activities continued on parallel tracks for some time, then the issue was resolved when in August 2011 China and Japan made a joint proposal for a regional FTA, which was incorporated into a concept that ASEAN leaders had already been developing. Therefore, a direct driver of the cooperation between China and Japan on this proposal, essentially founded in China’s willingness to push less strongly for ASEAN+3, was a result of progress in the TPP, which was also captured in a statement of ambition made at the APEC Leaders Meeting in 2011. In this sense, the TPP prompted a resolution on establishing the RCEP in East Asia. All the parties believe that the RCEP has the potential to build an Asian FTA that would rival every other region in the world, while at the same time give due consideration to the different levels of development among the members.

The RCEP, characterized with “ASEAN Centrality”, is expected to demonstrate ASEAN’s leadership in bringing together its own ten members and external partners for economic growth, development and harmonization and may also avert the rivalry between the Northeast Asian countries. This has become a unique but effective feature of the economic integration process in East Asia.

However, some may worry that the rising political tension between China, Japan and South Korea may have negative impact on the RCEP negotiations. Fortunately, news leaked from the negotiation tables shows no sign of this. Rather, due to the absence of bilateral FTAS between these three giant Northeast Asian economies, the RCEP, with its larger membership, has provided the only optimal platform for the three countries to sit together and work out a regional integration scheme which will benefit all.
2. The potential benefits of the RCEP

As with other FTAs, a region-wide FTA in East Asia would provide extensive and far-reaching benefits, both economically and politically, for all the participating countries.

2.1. Addressing the “noodle bowl” problem

A unique economic rationale for a region-wide FTA in East Asia comes from the reduction of transaction costs. The countries of East Asia have seen a rapid increase in the number of FTAs among themselves as well as with non-regional countries since the beginning of the 21st century. This has already created a spaghetti bowl phenomenon. At present, there are at least 22 different ROOs (Rules of Origin) among ASEAN+1 FTAs, even after aggregating those that are similar but not the same. Only about 30% of tariff lines across the ASEAN+1 FTAs share common ROOs. With bilateral agreements — the Japan-India FTA for instance — there are 12 types of ROOs, seven of which are unique from the ASEAN+1 FTAs (Menon, 2013). With differing rules of origin and tariff reduction/elimination schedules, the multitude of FTAs has already created a spaghetti bowl problem, increasing transaction costs of intra-regional trade and hence the costs of regional production networks, especially for SMEs in East Asia.

If a comprehensive agreement like the RCEP can be reached, the rules of origin could be rationalized and made more flexible, and be better administered through electronic means. In the area of investment rules, where no WTO agreement exists, the RCEP will promote easier FDI flows and technology transfers by multinational corporations (Wignaraja, 2013).

2.2. Building up a highly liberalized and larger common market

Another economic rationale resides in the scale of economy. The consolidated market size for RCEP (48% of the world population and 28% of the world GDP in 2011, as shown in Table 1) is large enough to create a positive trade creation effect and boost more inclusive economic growth in this region. The higher ratio of intra-regional trade among RCEP member economies of over 40% (as shown in Table 2) is another promising factor in
expecting a large trade creation effect.

### Table 1: Comparing the Regional Initiatives

<table>
<thead>
<tr>
<th>Regional Initiative</th>
<th>Population (billion)</th>
<th>GDP (nominal, US$ trillion)</th>
<th>GDP (PPP, US$ trillion)</th>
<th>Merchandise Trade (US$ trillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RCEP</td>
<td>3.4</td>
<td>3.5</td>
<td>19.9</td>
<td>26.2</td>
</tr>
<tr>
<td></td>
<td>(48%)</td>
<td>(48%)</td>
<td>(28%)</td>
<td>(32%)</td>
</tr>
<tr>
<td>TPP</td>
<td>0.66</td>
<td>0.68</td>
<td>20.7</td>
<td>24.4</td>
</tr>
<tr>
<td></td>
<td>(9.4%)</td>
<td>(9.4%)</td>
<td>(29%)</td>
<td>(30%)</td>
</tr>
<tr>
<td>ASEAN</td>
<td>0.60</td>
<td>0.64</td>
<td>2.1</td>
<td>3.1</td>
</tr>
<tr>
<td></td>
<td>(8.7%)</td>
<td>(8.8%)</td>
<td>(3.1%)</td>
<td>(3.8%)</td>
</tr>
<tr>
<td>APT</td>
<td>2.1</td>
<td>2.2</td>
<td>16.5</td>
<td>21.8</td>
</tr>
<tr>
<td></td>
<td>(31%)</td>
<td>(30%)</td>
<td>(23%)</td>
<td>(26%)</td>
</tr>
<tr>
<td>CJK FTA</td>
<td>1.5</td>
<td>1.5</td>
<td>14.3</td>
<td>18.7</td>
</tr>
<tr>
<td></td>
<td>(22%)</td>
<td>(21%)</td>
<td>(20%)</td>
<td>(23%)</td>
</tr>
<tr>
<td>APEC</td>
<td>2.7</td>
<td>2.8</td>
<td>38.8</td>
<td>48.5</td>
</tr>
<tr>
<td></td>
<td>(40%)</td>
<td>(39%)</td>
<td>(56%)</td>
<td>(59%)</td>
</tr>
<tr>
<td>NAFTA</td>
<td>0.46</td>
<td>0.47</td>
<td>17.9</td>
<td>21.1</td>
</tr>
<tr>
<td></td>
<td>(6.6%)</td>
<td>(6.5%)</td>
<td>(26%)</td>
<td>(25%)</td>
</tr>
<tr>
<td>EU</td>
<td>0.50</td>
<td>0.50</td>
<td>17.6</td>
<td>17.5</td>
</tr>
<tr>
<td></td>
<td>(7.2%)</td>
<td>(7.0%)</td>
<td>(25%)</td>
<td>(21%)</td>
</tr>
</tbody>
</table>

**Note:** The numbers in the parenthesis give the global percentages; * implies IMF forecast.

**Source:** World Economic Outlook, IMF, October 2012 database; WTO Database; Sanchita Basu Das (2013).

### Table 2: Intraregional Trade Share: 2000-2011 (%)

<table>
<thead>
<tr>
<th>Regional Initiative</th>
<th>2000</th>
<th>2005</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>22.7</td>
<td>24.9</td>
<td>24.6</td>
<td>24.1</td>
</tr>
<tr>
<td>CJK</td>
<td>20.3</td>
<td>23.7</td>
<td>22.1</td>
<td>21.3</td>
</tr>
<tr>
<td>RCEP</td>
<td>40.6</td>
<td>43</td>
<td>44.1</td>
<td>43.8</td>
</tr>
<tr>
<td>TPP</td>
<td>48.1</td>
<td>43.5</td>
<td>39</td>
<td>38.6</td>
</tr>
<tr>
<td>APEC</td>
<td>72.2</td>
<td>69.5</td>
<td>67.1</td>
<td>66.1</td>
</tr>
</tbody>
</table>

**Source:** Sanchita Basu Das (2014).

Many studies show that the RCEP would generate larger benefits than the TPP because it should cover the Asia's giant economies (China, Japan, Korea and India). As Table 3 shows, all the RCEP members except China have a higher trade interdependence rate with the RCEP than with the TPP. Table 4 shows that RCEP boosts more GDP growth than the TPP, even for the same countries participating in both the RCEP and TPP. For instance,
Vietnam will have an increase of 23.42% of real GDP from the success of the RCEP, while only 12.81% from the TPP. If successfully done by 2015, the RCEP as a grouping is likely to generate a GDP of US$ 28 trillion (approximately 30% of the world).

Table 3: Trade interdependency Rate\(^3\) to Different Integration Arrangements

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>61.57%</td>
<td>74.99%</td>
<td>68.75%</td>
<td>91.99%</td>
<td>54.97%</td>
<td>62.32%</td>
</tr>
<tr>
<td>Cambodia</td>
<td>25.19%</td>
<td>48.11%</td>
<td>25.68%</td>
<td>49.37%</td>
<td>33.63%</td>
<td>38.64%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>22.61%</td>
<td>25.83%</td>
<td>25.55%</td>
<td>29.04%</td>
<td>22.98%</td>
<td>19.08%</td>
</tr>
<tr>
<td>Laos *</td>
<td>-</td>
<td>84.50%</td>
<td>-</td>
<td>85.70%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Malaysia</td>
<td>85.25%</td>
<td>77.84%</td>
<td>91.79%</td>
<td>87.49%</td>
<td>89.13%</td>
<td>55.63%</td>
</tr>
<tr>
<td>Myanmar *</td>
<td>-</td>
<td>80.80%</td>
<td>-</td>
<td>90.50%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Philippines</td>
<td>39.89%</td>
<td>24.98%</td>
<td>42.09%</td>
<td>26.34%</td>
<td>52.40%</td>
<td>20.10%</td>
</tr>
<tr>
<td>Singapore</td>
<td>123.14%</td>
<td>131.28%</td>
<td>133.95%</td>
<td>148.22%</td>
<td>124.18%</td>
<td>83.09%</td>
</tr>
<tr>
<td>Thailand</td>
<td>48.62%</td>
<td>67.69%</td>
<td>52.35%</td>
<td>74.67%</td>
<td>52.61%</td>
<td>51.05%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>48.94%</td>
<td>80.80%</td>
<td>54.40%</td>
<td>86.89%</td>
<td>37.87%</td>
<td>48.44%</td>
</tr>
<tr>
<td>China</td>
<td>14%</td>
<td>11.98%</td>
<td>14.96%</td>
<td>14.39%</td>
<td>17.77%</td>
<td>15.78%</td>
</tr>
<tr>
<td>Japan</td>
<td>6%</td>
<td>11.68%</td>
<td>7.10%</td>
<td>13.31%</td>
<td>6.94%</td>
<td>7.88%</td>
</tr>
<tr>
<td>Korea</td>
<td>20%</td>
<td>36.75%</td>
<td>21.72%</td>
<td>41.16%</td>
<td>22.30%</td>
<td>28.33%</td>
</tr>
<tr>
<td>Australia</td>
<td>15%</td>
<td>19.28%</td>
<td>17.10%</td>
<td>21.27%</td>
<td>15.07%</td>
<td>11.50%</td>
</tr>
<tr>
<td>India</td>
<td>4%</td>
<td>9.71%</td>
<td>4.05%</td>
<td>10.60%</td>
<td>5.17%</td>
<td>8.22%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>13%</td>
<td>17.11%</td>
<td>22.52%</td>
<td>25.39%</td>
<td>23.78%</td>
<td>19.18%</td>
</tr>
<tr>
<td>USA</td>
<td>5%</td>
<td>6.52%</td>
<td>4.96%</td>
<td>7.17%</td>
<td>7.76%</td>
<td>8.87%</td>
</tr>
</tbody>
</table>


*: Data unavailable.

Source: Calculated by the author. Trade and GDP data is from UN Comtrade and WDI database respectively. Some of the ASEAN countries’ trade data is not available in UNComtrade database.

Table 4: Impact of Regional Trade Liberalization on Real GDP (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Worldwide</th>
<th>FTAAP</th>
<th>ASEAN+6</th>
<th>ASEAN+3</th>
<th>CJK FTA</th>
<th>TPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>4.71</td>
<td>3.64</td>
<td>3.69</td>
<td>3.00</td>
<td>-0.32</td>
<td>-0.36</td>
</tr>
</tbody>
</table>

\(^3\) Trade Interdependency Rate=Total Trade Value (Export and Import Value) of Country i to different integration groups/GDP of country i.
Regional production networking has become an integral part of the economic landscape of East Asia since the end of the Cold War. Many factors have contributed to the formation of the production sharing in the region, such as MNCs’ global integration strategy caused by growing international competition, unit cost reduction incurred from the IT revolution, and the openness and ease of the policy environment in East Asia. Besides, continuous and rapid economic growth has made China an important link in the regional production system and formed a very unique “China model” concerning industrial structure.

However, in the wake of the recent financial and economic crisis, the global economy is now undergoing an era of restructuring and rebalancing, with the U.S. resolved in revitalizing its manufacturing amidst its shale oil “miracle”, the EU effecting a series of economic reforms, China shifting its growth pattern, and the world witnessing a rising motley of regional trade agreements, which is not the best way to organize world trade. All these developments put great pressure on East Asia to maintain its competitiveness of the region’s production networks.

Instead, the RCEP would play a critical role in promoting and reinforcing regional production networks by liberalizing and facilitating both trade and investment, and even by tackling behind-the-border issues relevant to supply...
chains and production networks.

2.4. Gaining experience for merging into an international trading system of higher standard and larger membership

At present, economic integration in East Asia is quite shallow, referring to the extent of liberalization in trade and investment, and coverage of issues included in the existing miscellaneous FTAs. However, the launch of the TPP and TTIP has released a very important signal that world trade might evolve in a quite opposite direction, in which high liberalization in all sectors and new rules concerning issues like IPRs, competition policy, government procurement, labor, and environment, will all be introduced comprehensively and substantially.

The RCEP, serving as a gangplank for East Asia to meet the challenges posed by the ever changing world trade system, has provided an ideal vehicle for the region to practice reaching a relatively high standard trade agreement, but not so high as to deter the potential parties (mainly developing countries) in the region. This will surely gain the region very precious experience to aim at more ambitious trade arrangements in the future.

It seems that the RCEP is also being negotiated with the possibility in mind that it could be expanded into an FTAAP. The simulation results in Table 4 show that the impact of trade liberalization measured in terms of an increase in real GDP is greatest when trade liberalization is undertaken on a worldwide basis, followed in a descending order by under the framework of FTAAP, ASEAN+6 (RCEP), ASEAN+3. It is important for these countries to pursue trade liberalization covering as many countries as possible, expanding the geographic coverage even to all over the world. So far, the RCEP will be the highest priority for China and most developing countries in the region.

3. Progress of the RCEP negotiations: ambitions, achievements and challenges

The start of negotiations for the RCEP was declared by the ASEAN+6 leaders on the sidelines of the 21st ASEAN Summit in November 2012 in Phnom Penh, Cambodia. Since then, the ASEAN process has boarded on its own track.
3.1. Ambitions of the RCEP Negotiations

The RCEP is an ambitious FTA involving complex negotiations as expressed in its “Guiding Principles and Objectives for Negotiating the RCEP” (hereinafter called “Guiding Principles”).

Objectives: The RCEP initiative aims to be an ASEAN-led process through which ASEAN would broaden and deepen its economic engagements with its FTA partners. Its vision is to be a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement among the ASEAN Member States and ASEAN’s FTA partners. Negotiations commenced in early 2013 with an aim to be completed by end-2015.

Scope of Negotiations: The RCEP negotiations will cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues.

Guiding Principles: The RCEP negotiations are guided by the following principles: (1) being consistent with the WTO, including GATT Article XXIV and GATS Article; (2) having broader and deeper engagement with significant improvements over the existing ASEAN+1 FTAs, while recognizing the individual and diverse circumstances of the participating countries; (3) including provisions to facilitate trade and investment and to enhance transparency in trade and investment relations between the participating countries, as well as to facilitate the participating countries’ engagement in global and regional supply chains; (4) including appropriate forms of flexibility including provision for special and differential treatment, plus additional flexibility to the least-developed ASEAN Member States, consistent with the existing ASEAN+1 FTAs, as applicable; (5) maintaining the validity of the existing ASEAN+1 FTAs and the bilateral/plurilateral FTAs between and among participating countries; (6) having an open accession clause to enable the participation of any ASEAN FTA partner that did not participate in the RCEP negotiations and any other external economic partners after the completion of the RCEP negotiations; (7) providing technical assistance and capacity building, building upon the ASEAN+1 FTAs, to the developing and least-developed countries participating in the RCEP to enable all parties to fully participate in the negotiations, implement obligations under the RCEP and enjoy the benefits from the RCEP; and (8) conducting the negotiations on trade in goods, trade in services, investment and other areas in parallel to ensure a comprehensive and balanced outcome.
3.2. Achievements of the RCEP Negotiations

So far the RCEP has carried out ten rounds of negotiations, with the first kicking off in Brunei in May 2013 and the latest one in South Korea in October 2015.

The negotiations began with the major areas of goods, services and investment, on which three Working Groups were established in the first round of talks. With the negotiations going broader and deeper in the subsequent talks, the new Working Groups on Intellectual Property, Competition, and Economic and Technical Cooperation commenced their work in the fourth round and the Working Group on Dispute Settlement was established in the fifth round of talks. To date, the scheduled seven working groups have all been in place and commenced their work. The participating countries have reached some preliminary consensus on a series of issues concerning the RCEP.

On trade in goods, the negotiations discussed the texts, modalities to be used for tariff negotiations and other issues relating Non-tariff Measures (NTBs), Trade Remedy, Standards, Technical Regulations and Conformity Assessment Procedures (STRACAP), Sanitary and Phytosanitary Measures (SPS) as well as on Customs Procedures and Trade Facilitation (CPTF) and Rules of Origin (ROO). On trade in services, the participating countries deliberated on the structure and elements of the services chapter, the approach to scheduling market access commitments and a number of other specific issues. On investment, the elements of investment chapter including investment modalities were discussed deeply. Progress has also been made on a range of issues concerning intellectual property, competition, economic and technical cooperation, and dispute settlement.

However, the leaked information from the RCEP negotiations suggests that the agreement is far from being concluded due to various and complex reasons.

3.3. Challenges facing the RCEP Negotiations

Despite concrete progress in the previous rounds, the RCEP negotiations are facing challenges, which mainly reside in the lack of cohesion among the participating countries and the complications of the negotiations themselves.
3.3.1. The lack of cohesion: a country-level perspective

Any free trade agreement is a compromise made by all the participating members. It will be easier to come to a compromise if there is strong cohesion among the partners. However, in the RCEP negotiations, thorny issues which undermine the cohesion still exist, not only coming from countries directly involved in the negotiations, but also from other regionalism initiatives in the Asia-Pacific Region, and not only economically but also politically.

**Firstly, ASEAN’s centrality in the RCEP negotiations is not in full play.** “ASEAN’s centrality” is commonly recognized by all the participants and plays a flagship role in steering the direction of the RCEP process. However, this centrality might be eroded due to the fact that ASEAN’s internal and external integration are less clearly sequenced but proceeding in parallel. Thus, ASEAN faces challenges: it has to develop external relationships even though its ability to make common policy is limited. As a result, the external trade policies of ASEAN members are not closely integrated. As an FTA rather than a customs union, ASEAN cannot set common tariffs.

So far as internal integration is concerned, there has been progress on the ASEAN Economic Community (AEC), but the project is not likely to meet its 2015 timetable. The ASEAN Summit in April 2013 declared that 259 measures or 77.54% of the AEC Blueprint had been implemented. But in any case, the remaining over 20% of measures will be especially challenging. The summit, therefore, recognized the need to develop a post-2015 program to continue progress on economic cooperation.\(^4\) This prospect of ASEAN’s internal integration will inevitably make the RCEP negotiations a must\[MI8\], whose progress is highly dependent on the timely conclusion of the AEC Blueprint.

**Secondly, different levels of economic development and trade liberalization in the RCEP countries are a substantial drag.** The huge development gaps will naturally result in varied stances among the participating countries. A very informative study (Urata, 2013:1-25) shows that there are wide variations in trade liberalization rates among the countries in ASEAN+1 FTAs.

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\(^4\) Chairman’s Statement at the 22nd ASEAN Summit, 2013.
In terms of trade in goods, as shown in Table 5: Among the five ASEAN+1 FTAs, the ASEAN–Australia/New Zealand FTA (AANZFTA) has the highest trade liberalization rate at 95.7%, while the ASEAN–India FTA (AIFTA) has the lowest rate at 79.6%. Among the ASEAN countries, Indonesia has the lowest trade liberalization rate at 83.4%, the remaining are arranged in descending order as follows: Brunei Darussalam (95.9%), Philippines (93.1%), Thailand (92.6%), Malaysia (92.0%), Cambodia (90.0%), Vietnam (89.5%), Lao PDR (89.3%), and Myanmar (87.3%). Among ASEAN’s FTA partners, Australia and New Zealand have the highest trade liberalization rate at 100%, while India has the lowest rate at 78.8%. China has a rate of 94.1%, followed by Japan (91.9%) and the ROK (90.5%).

Table 5: Tariff Elimination Levels by Country under the ASEAN + 1 FTAs

<table>
<thead>
<tr>
<th></th>
<th>AANZFTA</th>
<th>ACFTA</th>
<th>AIFTA</th>
<th>AJCEP</th>
<th>AKFTA</th>
<th>Average</th>
</tr>
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<tr>
<td>Brunei</td>
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<td>98.3%</td>
<td>85.3%</td>
<td>97.7%</td>
<td>99.2%</td>
<td>95.9%</td>
</tr>
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<td>89.9%</td>
<td>88.4%</td>
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<td>97.1%</td>
<td>90.0%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>93.7%</td>
<td>92.3%</td>
<td>48.7%</td>
<td>91.2%</td>
<td>91.2%</td>
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</tr>
<tr>
<td>LAO PDR</td>
<td>91.9%</td>
<td>97.6%</td>
<td>80.1%</td>
<td>86.9%</td>
<td>90.0%</td>
<td>89.3%</td>
</tr>
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<td>93.4%</td>
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<td>94.1%</td>
<td>95.5%</td>
<td>92.0%</td>
</tr>
<tr>
<td>Myanmar</td>
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<td>94.5%</td>
<td>76.6%</td>
<td>85.2%</td>
<td>92.2%</td>
<td>87.3%</td>
</tr>
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<td>95.1%</td>
<td>93.0%</td>
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<tr>
<td>Thailand</td>
<td>98.9%</td>
<td>93.5%</td>
<td>78.1%</td>
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<td>95.6%</td>
<td>92.6%</td>
</tr>
<tr>
<td>Vietnam</td>
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<td>n.a.</td>
<td>79.5%</td>
<td>94.4%</td>
<td>89.4%</td>
<td>89.5%</td>
</tr>
<tr>
<td>Australia</td>
<td>100.00%</td>
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<td>PRC</td>
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<td>-0.19</td>
<td>-0.24</td>
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<tr>
<td>India</td>
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<td>-0.05</td>
<td>0.09</td>
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</tr>
<tr>
<td>Japan</td>
<td>91.90%</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea</td>
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<td></td>
<td></td>
<td></td>
<td>90.50%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
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<td>94.70%</td>
<td>79.60%</td>
<td>92.80%</td>
<td>94.50%</td>
<td></td>
</tr>
</tbody>
</table>

Notes: HS2007 version, HS 6-digit base. Data on Vietnam under the ASEAN-PRC is missing. Data on Myanmar under the ASEAN-PRC FTA is missing for HS01-HS08.

Trade liberalization rate (also known as [MI9]tariff elimination coverage), is defined as the proportion of tariff elimination in total number of tariff lines (number of products).

Source: Fukunaga and Isono (2013).
In terms of trade in services, only the ASEAN–China, the ASEAN–Korea, and the ASEAN–Australia/New Zealand FTAs contain commitments in trade in services. Among them, as shown in Table 6, Australia and New Zealand committed most, with substantially large additional commitments beyond their GATS commitments. The ROK’s and China’s commitments are significantly lower, with much smaller additional commitments under their ASEAN+1 FTAs. For the ASEAN countries, their additional commitments are high for AANZFTA while they are low for AKFTA and ACFTA, reflecting the reciprocal approach adopted in FTA negotiations. There exist wide variations in the level of commitment among the ASEAN countries, with Cambodia being the highest and Brunei Darussalam the lowest.

Table 6: WTO Plus in ASEAN+1 Free Trade Agreements (in terms of the Hoekman Index)

<table>
<thead>
<tr>
<th>Country</th>
<th>AANZFTA</th>
<th>ACFTA</th>
<th>AKFTA</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>WTO+</td>
<td>Total</td>
<td>WTO+</td>
</tr>
<tr>
<td>Brunei</td>
<td>0.18</td>
<td>0.15</td>
<td>0.05</td>
<td>0.02</td>
</tr>
<tr>
<td>Cambodia</td>
<td>0.51</td>
<td>0.14</td>
<td>0.38</td>
<td>0.01</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.29</td>
<td>0.22</td>
<td>0.09</td>
<td>0.03</td>
</tr>
<tr>
<td>Lao</td>
<td>0.24</td>
<td>NA</td>
<td>0.02</td>
<td>NA</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.31</td>
<td>0.21</td>
<td>0.11</td>
<td>0.01</td>
</tr>
<tr>
<td>Myanmar</td>
<td>0.26</td>
<td>0.23</td>
<td>0.04</td>
<td>0.01</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.26</td>
<td>0.17</td>
<td>0.11</td>
<td>0.02</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.44</td>
<td>0.33</td>
<td>0.3</td>
<td>0.19</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.36</td>
<td>0.12</td>
<td>0.25</td>
<td>0.02</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.46</td>
<td>0.19</td>
<td>0.34</td>
<td>0.07</td>
</tr>
<tr>
<td>ASEAN Average</td>
<td>0.33</td>
<td>0.2</td>
<td>0.17</td>
<td>0.04</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Total</th>
<th>WTO+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>0.52</td>
<td>0.18</td>
</tr>
<tr>
<td>China</td>
<td></td>
<td>0.28</td>
</tr>
<tr>
<td>Korea</td>
<td></td>
<td>0.31</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0.51</td>
<td>0.26</td>
</tr>
</tbody>
</table>

Note: “Total” means the score based on the simple average of the Hoekman Index derived from 155 sub-sectors. “WTO Plus” is the difference between commitments under FTAs and those under the GATS, meaning “additional commitment” to the WTO commitment. As is shown, most countries have commitment levels of less than 0.5, meaning that the “unbound (no commitment)” is dominant overall.
From the above, it is self-evident that most of the RCEP countries have their own sensitive areas that are vulnerable to competition from joining RCEP. Accordingly, they will inevitably seek maximum protection for such areas in the negotiations, thus making the process more difficult. Furthermore, high-income countries like Japan, Australia and New Zealand would also like to seek broader coverage of new trade issues such as competition policy, environment and labor standards, which, once in place, will make the negotiations even more difficult. For the low-income countries, the promising benefits from the RCEP would seem less attractive because it is difficult for them to afford physical infrastructure and improve trade facilitation so that they are not really able to enjoy the benefits of smoother flow of goods and services across RCEP member countries.

Thirdly, the RCEP cannot avoid competition from other free trade agreements like the TPP. The countries which are common to both the RCEP and TPP negotiations among the ASEAN members include Brunei Darussalam, Malaysia, Singapore and Vietnam, and among the non-ASEAN countries are Japan, Australia and New Zealand. The Republic of Korea, the Philippines and Thailand have also shown their interest in joining the TPP. Any competition between these two agreements may lead to disunity within ASEAN, which may undermine the ASEAN’s centrality in the region, and detract negotiating capital by the seven dual members in both negotiations.

Fourthly, political tension among the negotiating countries can be a possible impediment to the RCEP negotiations. The most worrisome cases are the territorial and political tensions between the PRC and Japan, Between Japan and South Korea, and between China and Vietnam, and the Philippines. It is encouraging to observe that China, Japan, and the ROK began trilateral FTA (CJK FTA) negotiations in March 2013 with a fourth round of negotiations in April 2014, despite heightened political tensions. Having noted optimism, it is very important for the leaders to avoid aggravating the situation and to improve political relations in order to make progress on and to conclude the RCEP and the CJK FTA negotiations.

3.3.2. The complications of the negotiations: a technical perspective

Technically speaking, FTA negotiations are quite tough and cumbersome with so many details to cover and different interests to accommodate. The RCEP negotiations are especially so with even more technical issues to be
Firstly, negotiators must strike a balance between “flexibility” and “high standards”. On one hand, the RCEP is envisaged to become the next generation of the trade liberalization process. This means all the participants need to make substantial concessions on many issues to ensure the RCEP is a “respectable” FTA. On the other hand, the Guiding Principles also include some form of flexibility including provision for special and differential treatment, plus additional flexibility to the least-developed ASEAN Member States. Flexibility could be a boon or bane for the RCEP. While it could help break deadlocks and protect disparate national interests, it could also limit change or curtail progress in achieving greater liberalization. Flexibility, built on “ASEAN way” and differential treatment, may slow the progress.

Secondly, the absence of some important FTAs within RCEP members is another drag. The RCEP scheme is mainly based on bilateral free trade agreements (FTAs) among participating countries. In the absence of these important FTAs, including those between China and Japan, China and India, Japan and South Korea, and India and New Zealand, the RCEP negotiations can hardly make a breakthrough any time soon.

Thirdly, consolidating the existing five ASEAN+1 FTAs is not a technically easy task. Since these FTAs were signed and negotiated at different points in time and differ in terms of the way of negotiation, economic coverage and stages of implementation, consolidation may be just as difficult, if not more difficult, than simply starting from scratch.

One thing to note is that ASEAN+1 FTAs are currently not uniform in structure. For example, they not only use different tariff classifications for their tariff concessions but also use different schedules for their FTAs with different countries. A study on the liberalization status for individual ASEAN countries reveals the difficulties in establishing a region-wide FTA (Urata, 2013:1-25). As shown in Table 7, it is only Singapore that does not have any problems in achieving a high level region-wide FTA. Other ASEAN member countries face difficulty in liberalizing a number of sectors. Indeed, the shares of “eliminated to all” in all products are low for many countries, Indonesia (46.0%), Cambodia (64.3%), Myanmar (66.6%), and Lao PDR (68.0%), indicating the possible presence of enormous obstacles in tariff elimination. Furthermore, the sheer number of ROOs and their lack of commonality across FTAs will also make the task of harmonizing and consolidating them much harder. Besides, trade in services and investment are not concluded for all ASEAN+1 FTAs either.
Table 7: Distribution of Tariff Lines by Liberalization Status

<table>
<thead>
<tr>
<th>Country</th>
<th>% of “Eliminated to All” Products</th>
<th>% of “Depends on FTA” Products</th>
<th>% of “Protected to All” Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>84.1</td>
<td>15.9</td>
<td>0</td>
</tr>
<tr>
<td>Cambodia</td>
<td>64.3</td>
<td>35.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>46</td>
<td>52.8</td>
<td>1.2</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>68</td>
<td>31.6</td>
<td>0.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>76</td>
<td>22.9</td>
<td>1.1</td>
</tr>
<tr>
<td>Myanmar</td>
<td>66.6</td>
<td>31.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Philippines</td>
<td>74.6</td>
<td>24.4</td>
<td>1</td>
</tr>
<tr>
<td>Singapore</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Thailand</td>
<td>75.6</td>
<td>24.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Vietnam</td>
<td>78.1</td>
<td>19.1</td>
<td>2.8</td>
</tr>
<tr>
<td>Average</td>
<td>73.3</td>
<td>25.8</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Note: Those products that are subject to tariff elimination in all ASEAN+1 FTAs are classified under “eliminated to all,” while those products that are excluded from tariff elimination in all ASEAN+1 FTAs are classified under “protected to all.” Those products that do not fall under either “eliminated to all” or “protected to all” are classified under “depends on FTA.” In other words, those products that are subject to tariff elimination in some FTAs and are excluded from tariff elimination in other FTAs are classified under “depends on FTA.”


**Fourthly, each negotiator has more or less to face a tough balance between its international requirements and domestic interests.**

Though trade liberalization is beneficial to the participating nation as a whole, income distribution effects across sectors still exist which will incur protectionism from those who lose. Breaking through these pressures will not be easy, and will require a stronger commitment to domestic reforms from all members, especially in terms of intensifying job training and education programs, and providing sustainable and effective social safety nets for the affected workers.

4. Suggestions on pushing forward the RCEP process through cooperation among the APT countries

As an important cooperative framework in East Asia, ASEAN plus Three
(APT) has, in the past, played a crucial role in enhancing regional economic integration. For the time being, the RCEP process is at a crucial crossroad, indicating that a bit more push might hammer out an agreement to the long-run interests of all while a little relaxation might lead nowhere. In order to maintain and build up momentum for the negotiations, here are some suggestions on pushing forward the RCEP process through cooperation among the APT countries.

4.1. Substantiating ASEAN’s centrality in the RCEP process

As the driver, ASEAN will continue to play its dominant role in carrying out the RCEP blueprint and the pace of RCEP negotiations is heavily dependent on how duly ASEAN exerts its centrality influence. Therefore, the very first step in the RCEP negotiations should be to substantiate ASEAN’s centrality. The deficiency of this centrality might be reversed if the APT countries can work together to let the RCEP process be a process benefiting ASEAN’s centrality and its internal integration. How then?

First, the APT countries must strictly stick to the Guiding Principles in the RCEP negotiations, stipulating that “taking into consideration the different levels of development of the participating countries, the RCEP will include appropriate forms of flexibility including provision for special and differential treatment, plus additional flexibility to the least developed ASEAN Member States.” To avoid the abuse of flexibility, it would be better that flexibility should only be extended to the least developed AMSs rather than all the members in the RCEP negotiations.

Second, in order to maintain credibility in creating common markets in the region, and bring additional and real gains for ASEAN countries, as the driver, ASEAN should set a clear goal of higher level of commitments for the RCEP negotiations while leaving enough flexibility to the least-developed members. This may involve: (1) aiming at a higher level than the contents of the current ASEAN+1 FTAs in terms of tariff, ROOs, trade facilitation, services, investment and economic cooperation; (2) introducing as many convergent rules as possible to all the chapters: common concessions in tariff structure; clear definition and approach in non-tariff barriers (NTBs); a general rule in ROOs; a region-wide approach in trade facilitation and economic cooperation; and fewer types of limitations in services regulation; and (3) making the new framework more attractive than its rivals, i.e., TPP,
so that it can maintain the “ASEAN Centrality”. This strategy is realistic only if the ASEAN nations move quickly to build momentum in the RCEP negotiating process.

Third, the CJK countries should stand and work together to provide full support for the proposals put forward by ASEAN based on the Guiding Principles. Some may worry that negotiators from large countries may find it difficult to respect the ASEAN centrality in the RCEP. This will not be the case at least for China. Chinese Premier Li Keqiang had already expressed China’s willingness to push forward RCEP talks in cooperation with ASEAN during his visit to Brunei last year.

Last but not the least, besides the above soft support at the negotiation table, the CJK countries should also contribute strong support to the realization of the AEC Blueprint and capacity building in the least-developed AMSs. One of the most important areas will be infrastructure connectivity. Though lots of efforts have been made, the ASEAN region is still facing a huge financing gap in addressing its infrastructure needs. As the largest economies in this region, China, Japan and South Korea possess a high potential in financing the region’s infrastructure connectivity. It is worthy to note that Chinese President Xi Jinping has proposed, during his visit to Indonesia last year, to establish an Asian Infrastructure Investment Bank (AIIB) to offer financial support for infrastructure construction in developing countries in the region, including members of the ASEAN. To date, China has begun the practical work with a Working Group for the AIIB preparation in a bid to accelerate the process. China is also willing to welcome more countries to join the AIIB as founding members.

4.2. Advancing the parallel FTA negotiations in this region

Since the RCEP scheme is mainly based on bilateral free trade agreements (FTAs) among the participating countries, the absence of some important arrangements might be an obstacle. A more productive strategy for a smooth RCEP process is to see streamlined trade agreements conducted in parallel with or even in advance of the RCEP.

One is to parallel the strategy for creating the AEC. Upgrading the ASEAN Free Trade Agreement (AFTA) of the 1990s to the more comprehensive ASEAN Trade in Goods Agreement (ATIGA) was one of the first steps taken to implement the AEC, alongside a broader program
including work to implement the Master Plan for ASEAN Connectivity.

Other FTAs like CJKFTA shall also be prompted. Involving the three largest economies in the region, the conclusion of CJKFTA will be an important boost for the further progress of the RCEP. It will also be an important stabilizer for the trilateral political relations in the future. However, considering the geo-political and economic reality in this region, such endeavor will not be an easy task. Maybe the recent success of the bilateral FTA between China and Korea will bring about a breakthrough in the trilateral negotiations, with a trilateral investment treaty already in place.

Besides, China and Australia recently also sealed a major free trade agreement. This will also be a backup for the RCEP process.

4.3. Revitalizing the RCEP approach in the negotiations

The RCEP takes a very unique approach in pursuing its goal: while introducing “significant improvements” over the existing agreements, this approach allows for differential treatment and different pathways for different economies. In this sense, the RCEP negotiations have actually adopted the ASEAN Way which stresses both consensus and flexibility (i.e. avoidance of strict reciprocity, hard legalization and rigid implementation time-frame) in pursuing regional cooperation. Now to expedite the negotiations, the RCEP approach needs to explore some new elements by innovating or generating some new explanations from the ASEAN Way in order to maintain its vitality.

In terms of the principle of consensus, the “ASEAN minus X” formula (Dean and Wignaraja, 2007:1-53) can be adopted innovatively into the RCEP approach to overcome the “consensus paradox”. Excessive stress on consensus might result in a “race to the bottom” effect, where the lowest common denominator rules or the final agreement means nothing. To avoid this hazard, an innovated “RCEP minus X centered on ASEAN” rule might be a solution. The rule will work as follows: taking ASEAN as a bloc and the central partner, once ASEAN moves a proposal on the RCEP negotiations, if the majority (at least 4) of all the 7 partners second the motion, then the agreeing participating countries may proceed to do so without having to extend the commitments to non-agreeing participating countries. In doing so, proper flexibility will always be left to the least-developed AMSs, which means they may enjoy the benefits of the majority-agreed commitments during a transitional period while the non-agreeing, non-ASEAN participating countries
cannot benefit from the early harvest until they make the same commitments. In this sense, by relaxing the too strict “consensus”, some of the RCEP goals can be firstly achieved within a smaller range of membership.

**In terms of the principle of flexibility,** the RCEP approach needs to gain some binding ties among the participating countries by setting an explicit schedule for all the issues covered with sequential steps (timetable) for concluding the negotiations. For example, to successfully achieve trade facilitation, the RCEP should try to establish one ROO per one product. But if this is difficult to be achieved in one go, then a co-equal approach should first be applied to all the products, followed by a gradual move to a one ROO per one product framework.

Therefore, the RCEP should take, rather than a single undertaking, a sequential approach with flexible membership and an explicit schedule, and be a phased-in arrangement that accommodates member countries at different levels of development.

4.4. Introducing the “Pilot Program” into the negotiations

While catering to the disparity among the 16 countries and providing special policies for the least developed members of ASEAN, the RCEP scheme could also consider selecting some areas as a priority “Pilot Program” on which consensus could be reached more easily, so that participating countries could enjoy the benefits as early as possible and will be willing to promote the follow-up deals. This will help gain momentum for the RCEP negotiations and avoid being trapped in a deadlock.

Such tangible functional cooperation in trade facilitation as harmonization of ROOs, facilitation of customs procedures, and FTA utilization can be a target for the “Pilot Program” since these areas are very basic foundations for trade liberalization and have relatively unanimous demand from all the parties.

Tourism can also be a target for an early step in service trade liberalization since each of the 16 members has her own distinct but abundant resources in tourism. An early liberalization and facilitation of tourism services in this region will surely bring about the development of local economies by prospering hotels, restaurants, travel agencies and so on and so forth.

There are also many areas to be explored in terms of economic and
technical cooperation, which is also one of the issues covered by the RCEP negotiations. Cooperation in E-commerce, new energy and green industry, connectivity, regional industry value chains, capacity building for the least developed countries, addressing trade imbalance, and financial and monetary cooperation can all be included in the “Pilot Program” as field trips for the RCEP process.

5. Conclusion

The RCEP should be prompted not only as an economic integration but also as a process towards the Community in the long run. However, the road ahead will not be smooth and is expected to be fraught with many economic and political obstacles. In conclusion, two things need to be highlighted.

One is the importance of APT cooperation. As the main pillar of the RCEP, the APT countries should continue their virtuous tradition in cooperation and work together to achieve more ambitious common goals under the RCEP. It may be reiterated that the APT initiative has indeed carried two indispensable core advantages for the larger RCEP endeavor. Politically, ASEAN centrality is supported by all the other six members of the RCEP, with the centrality of ASEAN further facilitating the future RCEP negotiation process. Economically, the APT initiative for economic integration has already made much practical progress in many areas such as financial cooperation as the APT economies are highly complementary with each other. Therefore, the APT process can be seen as a good foundation for the RCEP process. What we need is even stronger political will and commitments to the RCEP.

The other is the relationship between the RCEP and the TPP. Both the RCEP and the TPP are ambitious regional trade arrangements, which involve complex negotiation processes with multiple parties at different stages of economic development and sectors that may or may not be prepared for liberalization.

The TPP and the RCEP are often discussed as alternatives. Especially in the short run, the two parallel negotiations add much pressure on human capital, budget and other country resources to the dual members. There is also a concern that if the TPP negotiations are concluded ahead of the RCEP, some of the dual members may have less desire to continue their efforts on the RCEP.
However, competition is not the whole story. Most believe these two arrangements offer different approaches towards deepening economic integration in the Asia-Pacific region. The TPP requires much deeper economic liberalization from its members and contains provisions to protect labor rights, environment and intellectual property, reform state-owned enterprises and boldly eliminate tariff, while the RCEP places more importance on providing developing members with economic and technical cooperation to narrow the development gaps. Because of these differences, the RCEP and the TPP should complement each other rather than substitute one another. Furthermore, for the most part, the TPP and the RCEP offer benefits that are largely complementary—one focuses on deeper integration with the Americas, and the other on improved access to Asian markets. Indeed, these two frameworks can be considered as two different stages. Developing countries that cannot meet the high requirements for TPP membership may achieve economic development under the RCEP, and then may later join the TPP when they can pass the membership requirements. Therefore, the RCEP and TPP can just be two complementary building blocks for the realization of the long-term objective of a Free Trade Area of the Asia-Pacific (FTAAP).

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Competition for Rules: China, the United States and East Asian FTA Negotiations

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Abstract

Free Trade Agreements play an important role in the economic relations of East Asian countries and appear in various forms, one after another. However, East Asian FTA negotiations are facing an obvious trend of competition, with the strategic competition between China and the United States being the most typical of them all. FTA competition between China and the U.S. partly reflects their pattern of economic interaction in the course of power transition in East Asia. The two countries not only consider the economic factor of FTA, but its geopolitical and strategic importance as well. East Asian FTA competition mainly affects China in the aspects of regulations and rules rather than the economy. To cope with FTA competition, China has formulated a series of FTA policies. In general, East Asian FTA competition goes against the economic integration and development of that region and therefore, China, the United States and other East Asian Countries should adopt a cooperative attitude to avoid the worst-case scenario.

With the Doha Round failing to make a breakthrough, the conclusion of a regional FTA is the main focus of major economies regarding trade policies, and this is more evident in East Asia compared to other regions. As the regional economic order changes with each passing day and the process of regional power transition accelerates, an indication of competition sounds alarms in East Asia. China and the United States, with the initiatives of the Regional Comprehensive Economic Partnership (RCEP) and Trans-Pacific Partnership (TPP) respectively, use FTA as a strategic and economic policy. Other major regional economies also hope to achieve more competitive advantage in FTA competition through participation in and conclusion of regional and bilateral
FTAs, which makes the East Asian FTA negotiations complicated.

**Keyword:** FTA, TPP, Economic Rules

**The Mode of East Asian FTA Negotiations**

At present, the important East Asian FTA proposals mainly comprise of the TPP (led by the United States), the RCEP (originally put forward by ASEAN), and Free Trade Area of Asia-Pacific (FTAAP) (newly proposed by China, etc.) (Chia, 2013:1-37). Although Japan has not proposed a self-dominant FTA in this region, as one of participating powers in the said three FTAs, it still plays a significant role. Economies such as ASEAN, China, Japan and the United States have different modes of FTA negotiation with respect to their strengths, advantages and foreign objectives.

The mode of FTA adopted by ASEAN focuses on regional stability and seeks negotiation leadership. As the result of integration of regional economic cooperation, ASEAN itself has the motive of keeping away military confrontation and maintaining internal peace and stability in this region through strong interdependence arising from regional economic integration (Koo, 2013:89-110). ASEAN, as it seeks a leading position in the course of the East Asian FTA, once guided this process. The efforts of ASEAN really propelled the development of regional economic integration in East Asia, but it now goes beyond its ability due to limitations in economic volume and the FTA initiatives of other powers.

The mode of FTA adopted by China focuses on “unity consolidation and East Asian integration”. The plans for “Mainland and Hong Kong Closer Economic Partnership Arrangement”, “Mainland and Macao Closer Economic Partnership Arrangement” and “Mainland and Taiwan Economic Cooperation Framework Agreement”, among twelve effective FTAs, are actually made under the political framework of a “One-China Policy” and are aimed to strengthen political unity through deeper economic integration.

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1 These twelve FTAs of China are Mainland and Hong Kong CEPA, Mainland and Macao CEPA, China-ASEAN FTA, China-Pakistan FTA, China-Chile FTA, China-New Zealand FTA, China-Singapore FTA, China-Peru FTA, China-Costa Rica FTA, China-Iceland FTA, and China-Switzerland FTA. In addition, the Cross-straits ECFA signed between Mainland and Taiwan is largely deemed as a form of FTA. Chinese FTA negotiations with South Korea and Australia have reached substantive conclusion but have not officially come into force.
among mainland China, Hong Kong, Taiwan, and Macao. China pays greatest attention to the talks with East Asian members in the course of promoting its FTA negotiation strategy. For example, China’s first FTA is the “10+1” FTA concluded with ASEAN. China has completed the FTA negotiation with South Korea in 2015, and now is pushing forward a trilateral FTA with Japan and South Korea and “10+3” negotiations among China, Japan, Korea, and ASEAN. These FTAs with East Asian members aim at promoting economic integration and regional economic cooperation in this region.

The mode of FTA adopted by Japan focuses on “balancing China and protecting the agricultural sector”. By analyzing the history of Japanese FTA conclusions, the strategy of balancing China is quite evident. As China exerts more and more regional economic influence on East Asia, Japan tries to utilize various policy instruments including FTA to balance China. Its bilateral FTA with ASEAN is spurred by the conclusion of the “China-ASEAN” FTA. It is quite clear that Japan regards the effective “Japan-India” FTA and the finished “Japan-Mongolia” FTA as a way of balancing the regional influence of China. Instead of the approach of prioritizing East Asia adopted by China, the Japanese FTA strategy shows Asia-Pacific orientation, with its target countries of FTA mostly overlapping with the APEC members. As farmers have great influence on Japanese domestic politics, the negotiation of Japan’s FTA stresses the protection of its domestic agriculture. More often than not, the protection of the agricultural sector becomes the limiting factor in Japanese FTA negotiations.

FTA Competition between China and the United States

The United States is not an East Asian country in terms of geography, but with its close economic ties with the region, it is one of the main actors in East Asian FTA competition”. The mode of American East Asian FTA negotiation focuses on “allies first and security-oriented”. The main purpose of choosing target countries for American FTAs in East Asia is to deepen alliance relations and fortify the American influence in East Asia, and all America’s FTA partners in this regional are military allies. With the help of FTAs, the United States wants to promote closer bilateral relationships with its allies. While FTA negotiation is carried out by Office of the United States Trade Representative, it has been essentially integrated into US diplomacy as an important component which serves the security objective in East Asia. The
TPP in particular, at the heart of America’s pivoting to Asia-Pacific strategy, has extremely important diplomatic and security implications (Campbell and Ratner, 2011:106-116).

By comparing the modes of FTA negotiation adopted by China, the United States and Japan, it is quite clear that they share common features although they differ in modes. For instance, China, the United States and Japan tend to establish FTAs with a greater number of small and medium-sized economies rather than big economies. In terms of economic benefits, FTAs with small and medium-sized economies are not ideal, but are easy to complete. While an FTA is called a “trade” agreement, economic factors are not the most vital consideration for the FTA strategies of the big powers. They hope to realize diplomatic and security demands such as stabilize the neighboring situation, strengthen the alliance and expand regional influence pursuant to their geological location and diplomatic strategy (Lee, 2012:109-129).

Considering the economic vitality, potential growth and extreme importance of East Asia, China and the United States both regard East Asia as the center for their FTA strategy, and the latter have therefore drawn up ambitious plans for East Asian FTA negotiations (Garcia, 2012). China and the United States are the two major East Asian FTA competitors and the tension of TPP and RCEP is quite self-evident. It basically reflects the way of maintaining and expanding the economic and strategic interests by China and the United States under the context of regional economic power transition (Song and Yuan, 2012:107-119). There are three forms of FTA competition between China and the United States in East Asia.

Firstly, China and the United States exclude each other in their FTA negotiations. China and the United States are the two biggest economies in the world which exert the most influence on the economy of East Asia. Both countries have concluded various self-oriented FTAs respectively. Up till now, 20 FTAs have taken effect in the United States and that number is 12 in China, but there is no FTA in any form between the two countries.

Secondly, China and the United States try to form new FTAs with each other’s FTA partners so as to reduce, balance and eliminate their counterpart’s economic, political and security advantage acquired through FTAs. After concluding an FTA with South Korea, an important trading partner for China, the United States is working on FTA negotiations with the EU, ASEAN and Japan, namely, the first, third and fourth trading partner with China.
Thirdly, China and the U.S. compete over FTA standards. The different FTAs have inconsistent thresholds, regulations, provisions and requirements. American FTAs with East Asian economies all set high standards, while FTAs propelled by China are not quite strict with a practical plan of gradually increasing difficulty and achieving Early Harvest. The conflict of different FTA standards between China and the United States triggers the battle of FTA standards that are about not only ideas but also competition strategy. The United States intends to adopt stricter standards to exclude China from East Asian FTA negotiations. Instead, China advocates looser standards, hoping to facilitate the conclusion of FTAs with other regional countries through relaxed standards and gain competitive advantage.

The Effects of East Asian FTA Competition on China

FTA competition leads to various effects among economies in East Asia. In terms of China and the United States, East Asian FTA competition requires more economic and diplomatic resources which are counted as costs. While economic powers such as China and the United States are competing for FTAs, regional small and medium economies with economic or geopolitical importance become the valuable FTA negotiators. For example, countries like South Korea and Singapore tactically conclude FTAs with major economies and consequently become the biggest beneficiary of East Asian FTA competition.

As for China, TPP and other bilateral FTAs dominated by the United States and East Asian FTA competition in other forms have not directly caused great losses in economic interests. Compared with 2009 when the United States officially proposed TPP, the current gross domestic production (GDP) of China has actually more than doubled, and its economic ties with neighboring countries are getting closer. Even TPP has been in concluded in 2015 and will come into force in 2016, it is hard for it to fundamentally bring about negative economic impact on China. For China, FTA competition in fact reflects a mild change in trade rules, and unfavorable effects on regional economic influence and the global trading system. China’s real worry regarding East Asian FTA competition lies not only in economic loss as it may seem, but in the harmful effect on its influence on economic norms and rules in East Asia in case it lags behind in the competition.

Firstly, China will suffer from the constraints of rules during FTA
negotiations. The American East Asian FTA negotiations are based on high standards and strict requirements which are different from the Chinese standards of adaptability and flexibility at its core. With the persistence of the United States, FTA negotiations that center on TPP incorporate labor standards, environmental standards, state-owned enterprises, and the protection of intellectual property rights as the threshold. The high standard proposed by the United States has not only surpassed that of the current WTO rules, but is also beyond the current endurance capacity of China. To some extent, the higher-level standards put China in a dilemma. On one hand, if China negotiates FTAs with the United States and other countries on the condition of accepting these high standards, it will mean that China would loss dominance and relevant economic interest. The situation is as complex as the second entry into the WTO for China in the 1990’s. On the other hand, if China refuses to accept these standards the United States will use high standards as invisible barriers to exclude China successfully. If the United States duplicates those high standards in future regional FTA negotiations and WTO multilateral negotiation, China will be badly restricted on FTA negotiations because the United States could raise the threshold of rules and therefore close the FTA door to China.

Secondly, China’s regional economic influence would be undermined. When TPP had not been proposed by the United States before 2010, China played an increasing role of leading the process of regional economic integration in East Asia. But the current East Asian FTA competition weakens China’s obtained dominance in FTA negotiation in the region and its influence on the regional economy. As the matter of fact, when the U.S. competes with China in East Asian FTA negotiations, it has a strong geographic base which is the North and Latin American region. Among 20 FTAs in force, the United States has 12 FTAs with North and Latin American countries (Canada, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Peru), which accounts for two thirds of America’s total number of FTAs. China is facing offensive and defensive dilemmas when the United States proposes various Asian Pacific FTAs. On the offensive side, it is hard for China to penetrate into the neighboring region of the United States in North America in the foreseeable future. On the defensive side, East Asia, which is a geographically strategic foundation for China, has become the focus of FTA competition for other major economies. The FTA between the United States and South Korea has been in force since 2013 while China and South Korea just concluded substantive
negotiations for an FTA in 2014. Because of TPP had been finished in 2015, this means that the United States and Japan will also have an FTA in the framework of TPP. If most of the East Asian countries conclude FTAs with United States through TPP or various bilateral FTAs, their motivations for establishing intra-regional FTAs in East Asia will fade away accordingly. In this sense, China may have gradually lost the East Asian FTA competition not only in terms of numbers but also its special geopolitical advantage as an East Asian country.

Thirdly, the international multilateral trade system will be weakened. The United States attempts to partly amend the “defected” rules in WTO through FTAs, and its main object is China. With its entry into WTO in 2001, China fully enjoys the facilitation of global trade liberalization and rapid growth of foreign trade. The United States deems WTO membership as an important factor for China to push rapid economic growth, which weakens America’s own benefit. Furthermore, if Doha Round negotiations reach a conclusion, China will still enjoy more economic benefits than other major economies, including the U.S. (Hufbauer et al., 2010:11).

China’s Strategic Responses

Even as the world’s No. 1 goods-trading country and largest economy in East Asia, if China fails to properly handle the East Asian FTA competition, its interests are set to be damaged and would be marginalized in East Asia. Therefore, China is making full preparations which include passive response and active shaping to facilitate the protection of its interests, so as to protect its economic interests, promote regional economic integration and prevent regional trade division. Such measures are being implemented and pushed forward, some of which could be proposed in the future.

Firstly, China needs to accelerate its FTA initiatives in its neighboring areas. Since the inauguration of the new leader of China in 2012, neighboring areas are not only a priority for Chinese diplomacy but a foothold for China’s FTA strategy as well. China is striving to establish FTAs with most of its neighboring countries (Song, 2013:152-166).

Among all FTA proposals with neighboring countries, the RCEP is not only the key point of implementation of China’s FTA strategy but also in the strategic interests of China. The RCEP is the largest FTA China has ever negotiated. The smooth establishment of the RCEP is of great importance
to China’s fighting to take initiative in the new round of reconstruction of the international trade rules, raising China’s position in the global industrial value chain, creating a more relaxed external environment for foreign trade and economic cooperation, cultivating stable surroundings for China’s peaceful rising and safeguarding and lengthening the strategic development opportunity period. China needs to play a more constructive role to showcase sufficient political motivation, provide more economic resources, and push the process of RCEP negotiation positively and actively.

China should build more economic belts covering different neighboring areas. Due to internal political and economic conditions, some neighboring countries cannot meet the basic requirements to start FTA negotiations with China. The construction of economic belts with a lower threshold will help China build closer economic and trade relations with neighboring areas. China has proposed such important economic initiatives as the “Silk Road Economic Belt”, “Maritime Silk Road in the 21st Century”, “China-Pakistan Economic Corridor”, and “Economic Corridor Connecting China, India, Burma and Bangladesh”. The future task is to integrate these economic initiatives into a new mega regional FTA which covers countries in Southeast Asia, South Asia, and Middle Asia.

China needs to bring a China and South Korean FTA into force as soon as possible. In terms of feasibility and necessity, an FTA between China and South Korea is undoubtedly the focus of China’s current bilateral FTA negotiations. South Korea’s FTA with such economies as the United States, ASEAN, India and EU have been enforced, and it has an important position in the East Asian FTA network. With China-South Korea FTA coming into force, it will not only become the strongest catalyst for a trilateral trade agreement between China, Japan and South Korea, but become an excellent model in the East Asian free trade area as well, and even push the RCEP negotiations forward.

China should urge the conclusion of negotiations for an upgraded FTA between China and ASEAN. The current China-ASEAN FTA established in 2001 is China’s first FTA, which has helped China acquire a clear understanding of FTA. However, the current China FTA is somewhat out of date, and cannot meet the new reality of China-ASEAN trade relations. Therefore, China’s Premier Li Keqiang put forward an initiative to construct an upgraded FTA between China and ASEAN when he visited Brunei in 2013. China shall further promote bilateral trade liberalization, gradually raise the standard of FTA rules through an upgraded FTA between China and ASEAN and facilitate
the launch of more high-standard FTA negotiations on a global level.

Meanwhile, it should be pointed out that the FTA between China and neighboring areas emphasizes East and Southeast Asia while neglecting Central Asia. China is a country embracing long borders on both land and sea whose geopolitical advantage lies not only in maritime East Asia but also in the western inland neighboring areas. The conclusion of all-round and multifaceted FTAs with Central Asian countries will have a profound economic impact and far-reaching political and security implications. Considering the fierce competition forming inside and outside East Asia, it would be particularly important and pressing if China adopts the strategy of coordinating negotiations in the Central Asian area. The key is to build FTA within the framework of The Shanghai Cooperation Organization or conclude bilateral FTA directly with Central Asian countries.

Secondly, China proposes FTAs with new emerging economies, the BRICS countries in particular. China should strive to initiate FTA negotiations among emerging powers, especially the BRICS, and make positive progress. The emerging economies represented by the BRICS are lagging behind in FTA negotiations worldwide. Not only have China, India, Brazil and Russia not concluded FTAs with the United States, but there are no bilateral or multilateral FTAs between them either, which creates a weird no-man’s-land in FTA negotiation, a situation inconsistent with their importance in the current world trade structure and their standing in the future international economic system.²

But from a different perspective, it also means that a huge strategic opportunity lies within. China should regard FTA negotiation and conclusion with the BRICS as a stepping stone in its global FTA strategy, take the preemptive opportunity based on the current mechanism of economic and trade cooperation with the BRICS and turn it into a multilateral FTA involving all BRICS countries. The purpose would be to raise the voices of the emerging countries in formulating international trade regulations while resisting and offsetting the exclusive FTA network established by such developed countries as the United States, etc. If the multilateral FTA among the BRICS is hard to achieve at the moment, a bilateral FTA with any two of the BRICS

² As of 2014, the BRICS Summit has been held for six rounds, and there is no word about an FTA proposal in the Summit declaration, i.e., Yekaterinburg BRICS Summit in 2009, Brasilia BRICS Summit in 2010, SanYa BRICS Summit in 2011, New Delhi BRICS Summit in 2012, Durban BRICS Summit in 2013, and Fortaleza Declaration BRICS Summit in 2014.
countries should be pushed forward. For example, China’s initiative for a new bilateral FTA with India within the framework of RCEP will become the starting point for an expanding trilateral FTA among China, Russia and India which are the largest in population and territory.

Thirdly, China should seek strategic compromise by highlighting inclusion with America’s FTA proposals. China often interprets America’s East Asian FTAs from a competitive perspective. Considering the coincidence of proposing TPP and the strategy of pivot to Asia-Pacific by the United State, and America’s unfavorable stance in the dispute of the Diaoyu Islands (the Senkaku Islands to the Japanese) and South China Sea, it is quite natural that China makes a negative assessment of FTA proposed by the United States. But the United States will continue to be the largest economy in the world and the most important market for China for a period of time in the future, so it would be smart for China to stress the strategic inclusion instead of the exclusion of FTAs in East Asia, and attempt to invite the United States to join such FTA negotiations as “10+3” and RCEP in which China has played an decisive role. Meanwhile, China should claim to join TPP dominated by the United States based on equality, or even directly propose a bilateral FTA negotiation between China and U.S. as scholars has suggested (Bergsten et al., 2014:1-29). It is certain that there are also some considerations of “counter-balancing” and “bypassing” the United States in Chinese strategy of FTA competition (Kurlantzick, 2007:67-77). In fear of being marginalized by East Asia regional economic cooperation led by China, the United States has been speeding up TPP negotiations to win over the East Asia partners. In this sense, the way of establishing strategic mutual trust on FTAs between China and the United States is an important aspect in building a new-type of major power relationship between China and the U.S. The initiative of FTAAP proposed by China to APEC in 2014 may be referred to as the kindness expressed by China to the United States, and hopefully, both countries will cooperate with each other on the common platform of FTAAP and avoid direct confrontation.

Fourthly, China should revive WTO Doha Round negotiations through the support of other major economies. The success of Doha Round negotiations is the fundamental approach to avoid East Asian FTA competition and facilitate the growth of global trade. If various forms of East Asian competitive FTAs bring about an exclusive and opposing FTA bloc, it will fragment the economic integration and trade relationship in East Asia, and is ultimately detrimental to the common interests of China and other East Asian
economies. China should continue to hold high the banner of Doha Round and work together with other major economies by expressing political will and showcasing the elasticity of its interest. China should exert its economic influence and propel Doha Round negotiations in order to make positive progress and boost the confidence of all countries in multilateral trade system. Only by returning to WTO and embracing the global multilateral trade system can the negative effects of FTAs led by various major economies on China be reduced to the minimum level.

Conclusion

The original reason for a continuous increase in East Asian FTAs has been that regional countries hope to push forward the internal trade liberalization of East Asia through FTAs in case the negotiations on global multilateral trade come to a halt. With the increasing number and expanding scale of this effort, the objective of trade and economic growth in East Asia will be realized. At present, East Asian FTAs comprise both cooperative and competitive effects. Many regional and bilateral FTAs have not achieved the expected collaboration, instead, the tendency of a competitive and confrontational FTA led by different powers seeking to realize national economic, political and security objectives is gathering momentum (Dent, 2013:963-985). Without proper control, FTA competition will destroy the WTO-based global free trade order, hinder the deepened economic integration in East Asia, and even create opposing trade blocs. China, the United States and other East Asian countries should deal with this cautiously to avoid the worst-case scenario.

Compared to other major economies, China has not put too much effort into FTA strategy, and consequently it is in a relatively weak position in East Asian FTA competition among powers. With the increasing importance of FTAs in shaping the regional economic order, China is placing more emphasis on the economic, geo-political and strategic effects of FTAs. China should not become a spectator and follower, but a participator and leader to develop national competitiveness through the establishment of FTAs. It should raise its voice in formulating international regulations and protecting and expanding the developed interests of China. China should protect its interests, ease the East Asian FTA competition, push forward regional economic cooperation and integration, and play a constructive role in regional development.
References


Prospects for the Japanese Economy under Abenomics (December 2014)¹

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Abstract

Abenomics started in the spring of 2013 with very drastic expansionary monetary and fiscal policies designed to stimulate the economy, achieve full employment and put an end to years of deflation. To achieve sustained economic growth, structural reforms – the so-called “growth strategy” – would follow. These reforms include, among others, business deregulation, flexibilization of the labor market, stimulating women to participate in the labor force, reduction in the corporate tax, and advancing free trade.

In the first two years, the most visible results of the new policies are a rebound in the stock market, a sharp depreciation of the Japanese yen, and an improvement in the level of employment. In April 2014 the government raised the consumption tax to repair its finances, and the economy has fallen into recession. The inflation rate has turned positive, though this has been mostly due to the depreciation of the currency that caused rising cost of imported goods like fuels. Committed to reflate the economy, the Bank of Japan and the government promised to extend their expansionary policies and revive the economy again.

We predict that domestic demand will struggle to achieve strong growth, but as the world economy rebalances and grows faster, Japan’s exports will improve, companies will boost capital spending and the Japanese economy will return to positive growth again. However, important demographic and

¹ This paper is a revised version of a presentation made at the 8th International Conference on East Asian Studies at Liaoning University in Shenyang, China, on September 13, 2014.
energy restrictions should be resolved to both achieve sustained growth and reduce the public debt. Many of the proposed structural reforms have the potential to lift those restrictions, but if not implemented quickly enough, the extraordinary monetary measures being undertaken may cause grave instability and growth would fall below its potential once again. In any case, a reinforcement of the social safety net to compensate those social groups that may lose in the ongoing economic restructuring is necessary.

*Keyword*: Abenomics, quantitative easing, government debt, structural reform.

**Introduction**

In the summer of 2012 the Japanese economy was losing steam, and stimulus policies for consumption and housing were not enough to prevent Japan from falling into recession. The yen continued rising and big export companies threatened to shift their operations abroad. The economy was caught in a deflation spiral where consumers postponed their purchase plans for the future when prices would be lower, and company profits and salaries were not growing, making domestic demand even weaker. Falling prices were also making debts more difficult to pay as they were growing in in real terms. Because of the weak economy, the tax revenue of the government was low and the deficit was high, and the government had to increase its debt to pay its bills. With an ageing population, increasing spending to pay pensions and health care costs was making the fiscal situation even worse.

It was obvious that drastic changes were needed, and in December, the Liberal Democratic Party of Japan (LDP) won the lower house elections. Shinzō Abe became Prime Minister and started implementing drastic measures to revive the economy. These policies have come to be known as “Abenomics” and include three arrows. The first arrow is a huge monetary stimulus through quantitative easing, the second arrow is a fiscal stimulus by expanding public works, and the third is structural reform to achieve long term growth. The structural reforms include among others, business deregulation, labor market flexibilization, reduction of the corporate tax, stimulus for female labor participation, and promotion of trade and foreign investment by joining the Transpacific Partnership negotiations and creating new Special Economic Zones. The government is also trying to restart the nuclear plants, which have been stopped because of safety concerns after the
2011 disaster.

In the first six months, the new government has been able to change the expectations of the public, the stock market soared and consumer confidence recovered giving a boost to consumption and housing purchases. As government expenditure expanded, domestic demand was revived. The promised massive increase in the amount of money by the Bank of Japan would have the effect of keeping the interest rate very low, and investors could profit by sending their money to countries with higher interest rate. Gains would come from the interest rate differential and also due to capital gains, which would occur as the yen depreciates. As we explain in Section 3.3, the depreciation of the yen occurred in part due to the higher demand for foreign currency by these investors, but also due to the higher imports of fossil fuels and other products. The yen depreciation has helped sustain the volume of exports, which were being badly hurt by the weak global economy. Employment and the labor force started growing again, though real wages continued falling. As we explain in Section 3.4., though gains in employment in the manufacturing sector have been observed, the biggest improvements have been in industries related to services for the elderly, health and welfare, which may be more a consequence of the ongoing ageing population. Though falling interest rates and the higher inflation rate produced negative interest rates, capital spending by the enterprises has not been as responsive as expected. Some of the reasons are the existence of important stock of capital without being utilized, weak exports, the expectation of weak domestic demand due to the falling population, and probably also because of the remaining uncertainty about how the new policies would unfold.

In April 2014 the administration went ahead with a consumption tax hike, which had been agreed on during the previous administration. Postponing it would have meant the government had doubts of its own plan and might have undermined investor confidence. Japan’s experience with the consumption tax was not very good. The economy slowed down immediately after it was introduced in 1989 at a 3% rate, and contracted when it was raised for the first time in 1997 to 5%. The present conditions are quite different than those prevailing in the past, but just as in the case of these two occasions, the economy experienced an important contraction after April 2014. To compensate, the Bank of Japan announced an extension of the quantitative easing policy and the government also promised fresh stimulus. Now the attention is shifting to the structural reforms, which are needed to achieve long-term growth, increase the tax collection of the government and reduce
the public debt. Progress in the structural reform is slow because of the many interests that would be affected. However it is clear that a falling and ageing population will translate into labor shortages, and higher expenditures in pensions and health care costs that will make the debt even higher. Besides, as Japan has to import most of the energy and raw materials it needs, the yen depreciation made the costs of energy and other inputs much more expensive. With higher production costs, the enterprises profits suffered. Besides, increasing costs of energy meant a reduction in the purchasing power of the households. Therefore, the government has been trying to push for the resumption of nuclear power. Investors are nervous about whether the economy could continue growing and the government should show it is serious about the implementation of some of those reforms.

This paper is an attempt to describe the conditions under which Abenomics came to be and puts together the basic empirical evidence to see whether the policies are working and how. We try to answer some of the following questions: How is Abenomics supposed to work? How is the economy actually responding to the monetary and fiscal stimulus policies? Can Japan continue growing with a falling population? Can the debt be paid? Should Japan open up the economy to free trade? What are the prospects for the economy under these extreme policies?

We have organized this paper as follows. In Section 1 we describe how the many shocks the Japanese economy suffered since the 2008 global crisis made the economy very weak and led to the nomination of Mr. Abe as Prime Minister. In Section 2 we analyze the rationale of his policies and how they are supposed to work. Section 3 analyzes the empirical evidence to evaluate how the policies have actually been working so far. We describe the effects on production, employment, trade, money, interest rates, exchange rates, inflation, wages, stock prices, etc.. In Section 4 we study the internal restrictions that may prevent the economy from achieving strong growth. Section 5 puts together some of the criticism and support for Abenomics by many economists and other experts. Finally, we discuss about how the structural reforms could prevent a debt crisis from happening by putting the economy on the path towards sustained and stable long-term economic growth.
1. The Emergence of Abenomics

The Abenomics policies were designed to revive the Japanese economy in stagnation due to unfavorable international conditions and many internal constraints. From an economic point of view, one way to understand how public opinion embraced the Liberal Democratic Party (LDP) in the elections of the House of Representatives in December of 2012 and accepted the proposed policies is to look at the economic situation from a wider perspective. The recession of 2012 can be seen as inevitable result of four successive shocks that deeply weakened the economy. First, the global crisis in 2008, second, the Eurozone crisis since 2010, then, the big earthquake in Japan in 2011, and finally the slowdown in the Chinese economy since 2012.

The economic pain and uncertainty caused by the global economic crisis pushed the LDP out of power in the summer of 2009 and brought in the Democratic Party of Japan (DPJ). However, the inability of the DPJ to deal with the successive negative shocks made the electorate impatient and the LDP was brought to power again in December of 2012.

The “first shock” was the 2008 global economic crisis, which created great uncertainty and investors rushed to pull away their investments out of risky assets overseas and started purchasing safer currencies like the Japanese yen. The rising yen together with weak economic growth, especially in the developed economies, caused a big drop in Japan’s exports. In the first year just after the crisis erupted Japan exports fell 35%. However, because economists and world leaders had learned the lessons from the 1930s Great Depression, many countries cooperated by implementing big expansionary fiscal and monetary stimuli. As the world economy improved, by the second quarter of 2009 Japan’s exports were growing again.

One year later, a “second shock” occurred when high levels of debt and weak growth proved to be a lethal combination for several European countries like Iceland, Ireland and Greece, and later Portugal, Spain, Italy, and Cyprus. The response to the European Union was the adoption of austerity measures to give investors a clear signal that public finances were going to be repaired and there was no need to panic. The rational for the austerity policies was that those troubled countries should increase competitiveness by reducing costs and prices. However, the austerity measures have proven to be not the most appropriate policies in an environment of very slow global growth. As a result, many of those countries have been struggling to achieve proper growth and unemployment has remained very high since. Uncertainty among
investors about the fate of the euro currency continued, producing flows of capital to Japan and making the yen even higher. This has resulted in weaker exports and lower value in yen of the repatriated profits of Japanese multinationals.

The “third shock” came from within Japan on March 11, 2011, when a big earthquake in Northeast Japan, followed by a tsunami, produced a massive loss of life, destroyed important infrastructure and caused a nuclear plant accident. Important supply chain disruptions also occurred. Since then, nuclear plants have been gradually stopped for safety checks, and because 30% of the country’s energy was produced from nuclear power, Japan had to start importing larger amounts of fossil fuels.

The “fourth shock” comes from the gradual slowdown in the Chinese economy since 2012. The Chinese authorities have been well aware that high growth rates based on big infrastructure projects and growing exports had to be rebalanced by allowing for higher consumption and social welfare as well as improving environmental standards. As the country adjusted to the new growth pattern, growth rates have fallen to 7.5% from 10%. Being one of Japan’s most important trade partners, the volume of exports to China fell 16% in 2012. Territorial disputes between the two countries caused boycotts of Japanese products and this might have aggravated the situation.

These four shocks weakened the economy in such a way that by the summer of 2012, the Japanese economy was officially in recession, and the GDP fell in the last three quarters of that year. Job losses in the third quarter mounted to 360,000 workers, and the inflation rate was virtually 0%, but energy prices were rising and real wages were falling. Consumption and housing investment were almost paralyzed even with the support of stimulus measures like tax breaks for efficient cars and the purchase of new homes with borrowed money. The Japanese yen was rising and exports were falling. It is hard to find economic indicators showing any kind of positive outcome.

The weakness in the Japanese economy was not due exclusively to these four shocks. Internal restrictions like the falling and ageing population and high government debt are also very important. Prospects for a strong and sustained expansion in consumption or housing investment did not look so promising with a falling population. As capital spending by the enterprises depends on prospects for domestic and global growth, not much could be expected especially under the unfavorable international conditions prevailing at that time. Furthermore, as the fiscal deficit was 8% of the GDP and the gross debt was higher than 200% of the GDP, the government was reaching
its limits to continue stimulating the economy.

Abenomics shook public expectations by proposing very extreme policies – the “three arrows”. The first arrow is quantitative and qualitative easing (QQE) which aims at reflating the economy. The Bank of Japan (BOJ) announced that the monetary base would be doubled in two years to achieve an annual inflation rate of 2% by April 2015. The second arrow is a fiscal stimulus which includes public infrastructure and the revitalization of the regions affected by the disaster of 2011. The initial fiscal stimulus was ¥10 trillion in the 2013 fiscal year and additional stimuli were approved later.

Because Japan has one of the highest ratios of government debt to GDP in the world, to calm investors the new government went ahead with the planned increase of the consumption tax in April 2014 from 5% to 8%. The consumption tax hike was agreed upon under the previous administration, but the LDP had also voted in favor of it and postponing it would have meant the government was not confident that the new policies could succeed. To compensate the expected drop in economic activity after the tax hike, a ¥5 trillion fiscal stimulus was implemented. However, because of the bigger than expected slowdown in domestic demand after the consumption tax hike, the BOJ announced an expansion of the QQE and the government also said that additional fiscal stimulus will be implemented.

The third arrow is structural reform or “growth strategy” as the government calls it. These reforms include deregulation of many sectors of production like agriculture, energy and health, flexibilization of the labor market, support for women to join the labor force and relaxation of the immigration laws. As part of these measures, Japan decided to join the Trans Pacific Partnership (TPP) negotiations. Though very controversial among farmers, the government was somehow able to convince the public that some agricultural products will be protected, and in July 2013 joined the 18th round of negotiations in Malaysia.

2. How is Abenomics Supposed to Work?

Before analyzing the empirical evidence about how the Japanese economy is responding to the policies that started in 2013, we would like to answer the following key question: how are the policies expected to work? While the monetary and fiscal stimuli are designed to stimulate demand and growth in the short and medium-term, the growth strategy would prepare the road for
To achieve long-term growth, the reduction in the labor force should be reversed or compensated, by promoting the utilization of more advanced technologies, more efficient production processes, and also by an expansion in capital spending. Therefore, the third arrow, the “growth strategy”, would be the most important of the policies, but because big changes in the allocation of resources are expected, it is taking time to negotiate a compensation mechanism among players. In the meantime, the economy must be lifted using short and medium term macroeconomic policies like increasing the monetary base and expanding government expenditures in general.

The fiscal stimulus includes an expansion of public works and other government expenditures. Diagram B shows how the expansion in public infrastructure has the potential to quickly lift employment and production. Besides, the expansion of public infrastructure like the creation of useful and efficient transport and communications systems may also translate in higher productivity in the long run.
Furthermore, public works would give a boost to the construction machinery industry weakened by low foreign demand. Employment would start to expand and this would translate into higher consumption and housing purchases, which will spill over the economy creating new waves of higher production and higher spending. The fiscal stimulus also includes measures like tax breaks for efficient cars and tax credits for home mortgages that stimulate both consumption and housing investment. However, these measures are not original to Abenomics but ones that continue to be implemented from the past. How to pay for the increased government spending? As the government is running a deficit, it has to borrow, but this could push interest rates up, hurting businesses and housing purchases. Then the monetary stimulus, the QQE, is required to prevent interest rates from rising. Diagram C shows the many routes that the monetary policy could boost or hold back the economy.

**Diagram C: The expected effects of the monetary stimulus**

As domestic demand improves and gains steam, prices would start picking up. Companies would start hiring more workers and then wages would start rising too. Then, deflation could be defeated. With a big and persistent monetary stimulus, nominal interest rates would stay low and as inflation turns positive and higher, real interest rates would become negative, giving an additional boost to capital spending. Higher levels of capital would contribute to long-term growth of the economy, too. A positive inflation rate and negative interest rates would also stimulate consumption and housing.
purchases, as it makes saving less attractive. The QQE has another route by which it can boost the economy: the depreciation of the currency. The BOJ had made clear that it is not trying to depreciate the currency but reflate the economy. However, depreciation will occur as a consequence of the QQE. As investors see the monetary stimulus is for real and interest rates will stay low for a long time, they would start “yen carry trade operations”, that is, borrow at low interest rates from Japanese banks and send their money to countries with higher interest rate and profit from the margin. As yen carry trade operations continue, the value of the Japanese yen would depreciate, which makes those transactions even more profitable. As the yen depreciates, Japanese products become cheaper to foreign consumers and companies, and Japan exports would eventually pick up. This would give another stimulus to the economy, by creating jobs pushing up wages and stimulating capital spending. The depreciation of the yen also would make profits by Japanese multinationals abroad higher when computed into yen. This would give a boost to stock prices that in turn may have a positive impact on household spending. However, the fall in the value of the currency would have a negative impact on the economy by making more expensive all imported things, including energy, raw materials, machinery and food. This is “bad inflation”, which would reduce profits of non-export enterprises like service providers to the local market because their costs would be higher. Moreover, higher inflation would reduce the purchasing power of wages what would have a negative impact on consumption.

Because of the experience during the debt crisis in Greece in 2009 when investors doubted the government could pay its debt and government bond interest rates rose sharply, Japan had to give a clear signal to investors that public finances were to be repaired. Then, the consumption tax should be increased as planned. Because of this, domestic demand would fall, and the economy may have negative growth for a while but, as the world economy continues healing, a depreciated yen will start producing quicker growth in Japanese exports. As exports strengthens and the growth strategy starts being implemented, capital spending would pick up, then, growth would soon return to its potential. Furthermore, with positive inflation and low nominal interest rates, debts would start falling in real terms. This will stimulate both capital spending and the purchases of new homes. Also, because the tax revenue would be higher in nominal terms, the government debt would be paid more easily. Lastly, while the depreciation of the yen would make imported energy more expensive, if the government succeeds in restarting the nuclear plants,
it could keep the cost of electricity from rising too much.

Depreciation would also provide some boost to farmers and other industries oriented to the local market, because though the value of the yen may increase some costs, it also makes foreign goods more expensive. As the economy expands, employment, wages and consumption would grow. This will slowly push the inflation rate up, and this is the “good inflation” generated by an expansion of demand. Government expenditure would also rise with inflation, but tax revenue would rise faster as the economy gets stronger. Then, the deficit would fall and, later in the economic path, the debt could be reduced.

As we explain in the last section, in general we believe that the general strategy would work provided the structural reforms are quickly implemented. If not, it may become difficult to avoid currency instability, which could make economic growth stall again.

3. Is Abenomics Actually Working?

Abenomics started well, changing the public perception about the future, and both the stock market and consumer confidence soared immediately after the announcement of the new policies. An economic revival has been observed in the first year, and consumption, housing investment and employment also responded positively over this period. Both the labor force and employment improved, though most of the jobs are part-time and real wages are still falling. As we explain later, demographic factors are also behind the rise in employment because there has been an important job creation in health care and elderly-care related industries.

To show investors its commitment to repair its finances, in April of 2014, the government raised the consumption tax as planned from 5% to 8%. Because of the tax hike, the economy entered a recession, so the government decided to postpone the second consumption tax hike planned for October 2015. The government announced that the tax rate will instead be increased, without fail, in April 2017.

The sharp depreciation of the Japanese yen though has helped expand inbound tourism and has also made profits obtained overseas by Japanese higher when computed in JPY. However, export growth has not been as strong as expected, partially due to the weaknesses of the global economy. Capital spending, which usually follows the export trend, has not shown signs
of strong recovery.

There is also some skepticism about whether the country is moving forward with respect to the resolution to the key issues of an unfavorable demography and the future ability to repay the accumulated debt. Though in the first year the labor force reversed its downward trend and showed some signs of revival, the improvement cannot be sustained in the long run due to the falling population. This casts doubts about the ability of the economy to grow in the long run, if the proposed structural reforms do not materialize. For the moment, the authorities are taking very extreme policies and the economy is being kept afloat, but instability in the stock market shows that investors are becoming impatient, and that public support for the administration has weakened. Is it just that the public is expecting quick results? Is Abenomics just a dream that will turn into a nightmare?

The data we present in the following sections help sustain our view that the new policies have produced some positive results and are working in the sense that they are buying some time until the world economy picks up and Japan’s exports grow faster, and more importantly to give some time to implement the more difficult long term structural reforms. However, should some of these reforms not be implemented soon enough, the economy will stall. Important swings in the value of the currency may even cause important instability, and to avoid a crisis, the authorities may have to make important interventions in the foreign exchange market.

3.1. Public Expectations Have Changed

The new authorities have done a good job in changing the expectations of the public. Figure 1 show how the Nikkei stock index, the exchange rate and the consumer confidence index responded to the policies proposed. Investors have been buying stocks and foreign currencies that produced a sharp rise in stock prices and a quick drop in the value of the yen. Investors have been engaging in the “yen carry trade operations” explained in Session 2 by which they send money to countries with higher interest rates or countries with the prospect of a rise. The reward would be not only higher interest but also the capital gains obtained once the money is repatriated. It is in the anticipation of further depreciation of the JPY that more and more investors would join this type of transaction. It has been almost two years since the policies were announced and the JPY has fallen 42%. As we show
later in Section 3.3, the yen carry trade operations are not the sole cause of the fall in the currency, but the fall in exports has also translated into a reduced supply of foreign currency, putting pressure on the yen.

![Figure 1: Public expectations have changed](image)

\[ \text{Nikkei, exchange rate (1 USD: JPY) and Consumer Confidence} \]

Sources: Nikkei Stock Index: Nikkei Shinbun, exchange rate from BOJ and consumer confidence index from Cabinet office

At the same time, with the expectation that the depreciation of the yen would translate into higher dividends for Japanese multinationals, and a boom in exports, investors have rushed to purchase stocks. Though exports have not responded as expected, in part due to the weak global demand, there is still expectation of an export boom. In November 2014, the Nikkei Stock Index is 85% higher than just before the beginning of Abenomics. As the BOJ continues buying government bonds and other private financial assets in the market, investor funds are freed to continue canalizing into the stock and foreign exchange markets. Since the last months of 2013, investors have been nervous about the timing of the interest rate rise in the United States that could follow the withdrawal of the monetary stimulus by the Federal Reserve. Uncertainty has kept the market volatile but there is broad consensus among economic analysts (The Economist, 2014) that the interest rates in the United States will not start rising until the second half of 2015.

The consumer’s confidence index, which reflects the general household perceptions about the future of the economy, though showing signs of higher optimism in the first months of 2013, has been retreating in the last month of the year, mirroring what happened in the stock market. Also, because of the consumption tax hike, it has stayed at a subdued level. After all, Japan’s
experience with consumption tax is not very good. Both times, when it was introduced for the first time in April 1989 and when it was raised in April 1997, the Japanese economy remained very weak for a long time.

3.2. GDP, Domestic Demand and Exports

Figure 2 displays the graph of Japan’s GDP, domestic demand and exports in real terms. It tries to capture the situation before Abenomics, also showing the four bad shocks that affected the economy from 2008 to 2012. In 2013, domestic demand was improving but exports remained sluggish without completing its recovery, and in the first quarter of 2014 were still 12% below its peak which was reached in the first quarter of 2008. Domestic demand managed to achieve a more respectable performance because of the support received by stimulus measures. As a consequence, in the first quarter of 2014 the GDP reached levels very close to its peak.

Figure 2: The last four shocks to the Japanese economy and Abenomics
GDP, domestic demand and exports (real values in trillion yen, at 2013-QI prices)

Source: National Accounts Cabinet Office, Government of Japan

However, soon after the consumption tax hike in April 2014, the performance of the economy has turned downwards and fallen into recession. The observed fall in domestic demand is not a surprise, but the impact is worse than expected. The government had hoped that by the summer of 2014 the world economy would be growing faster and an exports revival would be able to compensate the short-term fall in domestic demand. However, as we will explain later, contrary to general expectations, global growth has slowed
down, and even with a very drastic fall in the Japanese yen, exports are still very weak. As a result, the GDP fell 1.8% in the second quarter, and 0.4% in the third quarter (preliminary estimations to be revised).

3.3. The Yen Depreciation

The JPY has depreciated against the currencies of its main trade partners (Chart 1) and also in real terms (dotted line in Figure 3). In the third quarter of 2014, the real exchange rate was 34% lower than the same period of 2012. The weaker yen helped exports grow in value terms 9.5% in 2013 but the volume index has fallen 1.5%.

![Figure 3: Japan exports (volume index), exchange rate and global growth](image)

**Figure 3:** Japan exports (volume index), exchange rate and global growth

**Sources:** Exchange rates BOJ; exports: National Accounts Cabinet Office; Global growth: IMF

There are two factors that may explain why exports remain relatively subdued in spite of such important yen depreciation: the weakness in the world economy and the shift abroad of some Japanese factories where costs of production are lower. The volume of Japanese exports is very responsive to the global level activity measured from for example, the global GDP growth rate. Japanese exports can rise even during periods of a rising yen if global growth is strong. Such occurred from 2002 to 2005, and also in 2009. On the reverse, a drop in the value of the currency is not a guarantee of increasing exports, such as what happened in 2013 because the world economy had been losing strength as global growth fell from 5.2% in 2010 to 2.9% in 2013. As long as the world economy returns to higher growth levels, Japan’s exports would pick up. Figure 4 shows that volumes of exports to its main trade partners in the third quarter of 2014 are still below the
peaks reached before the world financial crisis in 2008-2009. The recovery of exports to the United States and the ASEAN has been more persistent, while exports to China and the EU have retracted in 2012, and improved since 2013. Export trends are a reflection of the dynamism of those economies.

**Chart 1:** Exchange rate: JPY per value of foreign currency (annual average)

<table>
<thead>
<tr>
<th></th>
<th>EUR</th>
<th>CNY</th>
<th>HKD</th>
<th>USD</th>
<th>KRW(1)</th>
<th>SGD</th>
<th>TWD</th>
<th>THB</th>
<th>MYR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>102.6</td>
<td>12.7</td>
<td>10.3</td>
<td>79.8</td>
<td>7.1</td>
<td>63.9</td>
<td>2.7</td>
<td>2.6</td>
<td>25.9</td>
</tr>
<tr>
<td>2013</td>
<td>107.1</td>
<td>13.2</td>
<td>10.7</td>
<td>83.1</td>
<td>7.5</td>
<td>66.9</td>
<td>2.8</td>
<td>2.7</td>
<td>26.9</td>
</tr>
<tr>
<td>2014  (2)</td>
<td>113.6</td>
<td>14.1</td>
<td>11.3</td>
<td>87.7</td>
<td>7.9</td>
<td>70.8</td>
<td>3.0</td>
<td>2.9</td>
<td>28.5</td>
</tr>
</tbody>
</table>

**Source:** Federal Reserve, USA  (1) JPY per 100 KRW  (2) Average January to October

**Figure 4:** Volume of exports index (main trade partners)

Source: JETRO

Chart 2 displays the growth rate of the real GDP for Japan’s main trade partners. As growth rates in 2014 are not expected to improve substantially, we remain cautious about the probability of a rebound in exports in the coming months, even if the yen depreciates further.

**Chart 2:** Growth rate of Japan's main trade partners (% constant rate)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014*</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>5.7</td>
<td>3.0</td>
<td>0.0</td>
<td>5.4</td>
<td>4.1</td>
<td>3.4</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>USA</td>
<td>1.8</td>
<td>-0.3</td>
<td>-2.8</td>
<td>2.5</td>
<td>1.6</td>
<td>2.3</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>China</td>
<td>14.2</td>
<td>9.6</td>
<td>9.2</td>
<td>10.4</td>
<td>9.3</td>
<td>7.7</td>
<td>7.7</td>
<td>7.4</td>
</tr>
<tr>
<td>EU</td>
<td>3.0</td>
<td>0.4</td>
<td>-4.5</td>
<td>2.0</td>
<td>1.6</td>
<td>-0.7</td>
<td>-0.4</td>
<td>0.8</td>
</tr>
<tr>
<td>ASEAN</td>
<td>6.6</td>
<td>4.6</td>
<td>2.0</td>
<td>7.4</td>
<td>4.9</td>
<td>6.0</td>
<td>5.3</td>
<td>4.7</td>
</tr>
<tr>
<td>Japan</td>
<td>2.2</td>
<td>-1.0</td>
<td>-5.5</td>
<td>4.7</td>
<td>-0.5</td>
<td>1.5</td>
<td>1.5</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Source: IMF  (*) forecast, World Economic Outlook database, October 2014
The other two important questions to be answered are: what caused the yen depreciation in 2013? Can the sharp depreciation sustain in a longer term? To answer to the first question, we need to analyze the many forces operating the foreign exchange market. Empirical evidence of the overall picture can be obtained by looking at the data on balance of payments, which is a reflection of what had happened in that market. As we show below, though by the first months of 2013 an important volume of yen carry trade operations have been taking place, the basic cause of the yen depreciation is the drop in the supply of foreign currency due to a drop in exports. Chart 3 shows that although exports have slowly improved since the retraction in 2009, imports have increased more rapidly. Fast import growth is in part due to the increase in purchases of fossil fuels since Japan’s nuclear plants were shut down soon after the 2011 disaster. Because of this, the trade balance has remained in the red over the last three years. However, the current account managed to remain positive, albeit at lower values, because of the large amounts of income from Japan’s large stock of direct and financial investment overseas.

**Chart 3:** Japan Balance of Payments: Current Account and Capital transfers (in billion USD)

<table>
<thead>
<tr>
<th>Year</th>
<th>Current account</th>
<th>Trade balance</th>
<th>Exports</th>
<th>Imports</th>
<th>Service balance</th>
<th>Income balance</th>
<th>Capital transfers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>144</td>
<td>56</td>
<td>751</td>
<td>695</td>
<td>-38</td>
<td>126</td>
<td>-5</td>
</tr>
<tr>
<td>2009</td>
<td>145</td>
<td>58</td>
<td>547</td>
<td>489</td>
<td>-35</td>
<td>123</td>
<td>-5</td>
</tr>
<tr>
<td>2010</td>
<td>218</td>
<td>108</td>
<td>734</td>
<td>625</td>
<td>-34</td>
<td>143</td>
<td>-5</td>
</tr>
<tr>
<td>2011</td>
<td>127</td>
<td>-4</td>
<td>789</td>
<td>793</td>
<td>-38</td>
<td>169</td>
<td>0</td>
</tr>
<tr>
<td>2012</td>
<td>59</td>
<td>-54</td>
<td>777</td>
<td>830</td>
<td>-51</td>
<td>163</td>
<td>-1</td>
</tr>
<tr>
<td>2013</td>
<td>33</td>
<td>-90</td>
<td>695</td>
<td>785</td>
<td>-36</td>
<td>159</td>
<td>-8</td>
</tr>
</tbody>
</table>

From the “financial account” in the chart below, it is interesting to see that in 2013, a large inflow of capital, $261 billion, has been observed that was invested as portfolio, like stocks. This amount is twice the amount of direct investment abroad of $133 billion. As a consequence, and after counting other investments, the financial account resulted in an overall $17 billion capital inflow. However, this was compensated by an $8 billion outflow of “capital transfers” and the non-registered (“Net errors & omissions”) capital outflow of $42 billion, and thus the overall net capital outflow was relatively small at $33 billion, which is the same as the current account. This is
because according to the accounting rules, the following equation holds:

\[
\text{Current account} + \text{Capital Transfers} + \text{Financial Account} + \text{Net Errors \\& Omissions} = 0
\]

Therefore, the main cause of the yen depreciation in 2013 can be found in the trade accounts, that is, a reduction in the supply of foreign currency due to the drop in exports.

**Chart 3:** (continued) Japan Balance of Payments: Financial account (in billion USD)

<table>
<thead>
<tr>
<th>Financial account</th>
<th>Direct investment</th>
<th>Portfolio investment</th>
<th>Other investment</th>
<th>Reserve assets</th>
<th>Net errors \&amp; omissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>186</td>
<td>86</td>
<td>279</td>
<td>-210</td>
<td>31</td>
</tr>
<tr>
<td>2009</td>
<td>173</td>
<td>61</td>
<td>219</td>
<td>-134</td>
<td>27</td>
</tr>
<tr>
<td>2010</td>
<td>254</td>
<td>71</td>
<td>151</td>
<td>-12</td>
<td>43</td>
</tr>
<tr>
<td>2011</td>
<td>166</td>
<td>117</td>
<td>-162</td>
<td>38</td>
<td>173</td>
</tr>
<tr>
<td>2012</td>
<td>62</td>
<td>119</td>
<td>40</td>
<td>-60</td>
<td>-38</td>
</tr>
<tr>
<td>2013</td>
<td>-17</td>
<td>133</td>
<td>-261</td>
<td>72</td>
<td>39</td>
</tr>
</tbody>
</table>

*Source:* Ministry of Finance

With respect to the question of whether the depreciation of the JPY can sustain in a longer term, we think it is possible at least for a while. We expect investors to make larger yen carry trade operations by the end of 2014 and by the beginning of 2015, well before the interest rate in the United States materializes. In this way they will be able to achieve higher capital gains after the interest rate rises and the dollar appreciates further. However, in the longer run, the large stock of foreign direct and financial investment will result in large inflow of income from those investments, which may put pressure on the yen preventing it from falling further. Furthermore, as long as the world economy recovers later in the economic path, demand for Japanese products will rebound which will translate into a larger supply of foreign currency and compensate the effect of capital outflows due to the yen carry trade operations. Therefore, we expect the depreciation of the JPY to be limited, and there is some worry of instability in the medium term if funds are suddenly repatriated in the event of any crisis overseas.
3.4. Household Spending and the Stimulus Policy

Figure 5 shows that the different components of domestic demand, consumption, housing investment and government expenditures have been expanding until the first quarter of 2014 when the consumption tax hike occurred. However, it is clear that the upward trend in household spending and housing investment started in 2009-2010 well before Abenomics. The revival started in 2009 when the government at that time implemented a series of stimulus policies to domestic demand badly affected by the global financial crisis. Stimulus to consumption started with a program of a ¥12,000 lump sum subsidy to all residents (a higher subsidy, ¥20,000 was granted to the population below 19 years old and above 64 years old). The stimulus also included a system of subsidies for the purchases of low energy consumption electric appliances (refrigerators, digital televisions and energy efficient air conditioners), subsidies and tax credits for environmental friendly cars, tax credits for new home mortgages, free high-school, etc.. The expansionary monetary policy is not exclusive to Abenomics either. There was an important monetary stimulus by the authorities of the BOJ since 2009. The policy has been successful in reducing the interest rate, which has also had a positive impact on the demand for new homes.

Figure 5: Domestic Demand has been slowly improving since 2009
(quarterly index, at 2002-QI prices)

Source: National Accounts, Cabinet Office, government of Japan

Figure 6 helps sustain the hypothesis that government stimulus policies are behind consumption and housing recovery. We plot together consumption, housing investment, employment and real salaries. In the measure of salaries
we used, we include all components of workers income, including overtime pay and bonuses. Some of the stimulus polices have been phased out, others like the tax credits for efficient cars will continue until 2015 but might eventually be ended. The free high school tuition program is expected to continue in the foreseeable future though income restrictions have been imposed since April 2014. A patient look at the graphs in Figure 6 reveals that while both employment and real salaries were falling from 2008 to 2012, consumption and housing picked up over the same period. Only in 2013 did employment improve which is helping the upward trend go forward, though salaries are still falling.

Figure 6: Consumption, housing, employment and real salaries

Sources: BPJ and e-Stat: Monthly Workers Survey

One more factor has stimulated consumption and housing during 2013 – the prospects of the consumption tax hike of April 2014. Before the tax hike, consumers had been bringing forward future planned consumption and home purchases to avoid paying the increased tax. This gave a boost to spending during the last quarter of 2013 and in the first quarter of 2014. Also, the rise in stock prices in the first half of 2013 produced an increase in the value of household wealth and must have released the desire to expand spending.

The labor market picture becomes clearer if we take a look at Figures 7 and 8, which show that at least until 2013, the fall in the number of unemployed has come with a reduction in the labor force, and not with a visible increase in employment. In 2013 however, both employment and the labor force show signs of a recovery. This must be also helping households become more confident and spend more. However, as gains in employment are mostly due to irregular (part-time) work, the average wage rates cannot
improve much. The proportion of irregular workers among the total number of workers has surpassed 37% already.

The vacancy ratio, which is the ratio of job openings to job applications, stands at 1.08 in April 2014, indicating that the labor market is probably at equilibrium right now. Even if the economy is in recession and remains weak, the market will stay tight because the labor supply will struggle to grow. While a larger number of elder workers are retiring, previously discouraged workers returning to the labor market in pursuit of jobs has helped push up the labor supply, but we doubt the trend can continue unless enterprises increase capital spending, pay higher wages and hire more workers.

**Figure 7:** Labor force and working population (10 thousand people)

![Labor force and working population](image-url)

**Source:** e-Stat, Labor force survey
Figure 8: Employment by gender and irregular work (10 thousand people, %)

Notes: PT= part time, FT= full time, FTM= FT males, FTF=FT females

PT(%)= % of part time workers in the total of workers

Source: e-Stat, Labor force survey

Charts 4 and 5 give a more detailed picture of employment by sector of activity and shows an interesting positive side of the aging population because employment in health care, nursing homes and other services related to the elderly seems to be the brightest spot in the employment picture. It is also clear that employment growth in health care and welfare has been strong for many years, and it should not be counted as a success of the present policies. Employment in the manufacturing sector has also improved in 2013 and 2014, but gains remain dependent on a better performance of exports.

Chart 4: Gains in employment by sector of activity (10 thousand people)

<table>
<thead>
<tr>
<th></th>
<th>TOTAL</th>
<th>Agriculture &amp; forestry</th>
<th>Construction</th>
<th>Manufacturing</th>
<th>Services</th>
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<td>-18</td>
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<td>19</td>
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<td>2009</td>
<td>-95</td>
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<td>-19</td>
<td>-69</td>
<td>-4</td>
</tr>
<tr>
<td>2010</td>
<td>-17</td>
<td>-7</td>
<td>-17</td>
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<td>2011</td>
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<td>2012</td>
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<td>2014*</td>
<td>17</td>
<td>-16</td>
<td>4</td>
<td>8</td>
<td>20</td>
</tr>
</tbody>
</table>
Chart 5: Gains in employment in the Services sector

<table>
<thead>
<tr>
<th></th>
<th>SERVICES (TOTAL)</th>
<th>Information &amp; communication</th>
<th>Transport &amp; commerce</th>
<th>Banking, insurances &amp; real estate</th>
<th>research &amp; education</th>
<th>Tourism &amp; recreation</th>
<th>Health care &amp; welfare</th>
<th>other</th>
<th>Government</th>
</tr>
</thead>
<tbody>
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<td>36</td>
<td>12</td>
<td>6</td>
<td>6</td>
<td>-7</td>
<td>-4</td>
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<td>4</td>
<td>7</td>
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<td></td>
</tr>
<tr>
<td>2011</td>
<td>12</td>
<td>-7</td>
<td>-6</td>
<td>2</td>
<td>14</td>
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<td>21</td>
<td>-11</td>
<td>-0</td>
</tr>
<tr>
<td>2012</td>
<td>3</td>
<td>-3</td>
<td>-27</td>
<td>0</td>
<td>-2</td>
<td>-9</td>
<td>29</td>
<td>14</td>
<td>1</td>
</tr>
<tr>
<td>2013</td>
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<td>-10</td>
<td>-13</td>
<td>11</td>
<td>-3</td>
<td>20</td>
<td>1</td>
<td>6</td>
</tr>
</tbody>
</table>

(*) January-June average  
Source: e-Stat, Labor force survey

Capital spending, though showing signs of a revival, has not recovered as expected. Negative interest rates have not been able to stimulate investment in machinery and equipment. Enterprises may be waiting for a stronger global growth, and also to see how consumption and housing responds to the consumption tax hike. Furthermore, existing idle capacity is preventing enterprises from expanding their arsenal of equipment (Figure 9).

The capacity utilization rate, which measures the percentage of the equipment actually being used in the production process, improved in 2013, but has fallen in the last months of 2014 due to the uncertainty about both the global and domestic economy, in particular due to the consumption tax hike. The rate is at 82%, well below full capacity. However, if the expected global recovery materializes, capacity utilization will come close to 100% again. Until then, investment in equipment may not improve significantly.
Figure 9: The economy is operating below capacity and enterprises do not invest

Sources: Capital spending (right axis): real index from National Accounts.
Capacity utilization: Ministry of Economy Trade and Industry

3.5. The BOJ Tries to Reflate the Economy

Since April 2013, the BOJ started implementing an unprecedented expansion of the monetary base to achieve a 2% inflation rate by April 2015, that is, after the distortion of the consumption tax hike is eliminated. Through a program of quantitative and qualitative easing (QQE), long term government bonds and other assets are being purchased. The monetary base has increased to ¥256 trillion in October 2014 from ¥158 trillion at the end of 2012 (Figure 10). However, as voluntary reserves by the financial institutions at the BOJ have swallowed from ¥44 trillion to ¥165 trillion, the multiplier of money fell from 10 to 6, which means that the impact in the monetary aggregates as measured by the M3, the amount of money circulating in the economy, is less dramatic. This large amount of money is being kept as reserves and is ready to be used by the financial institutions and may become a source of instability, as will be explained later. A patient look at the monetary base graph shows that monetary easing had been underway since 2008 and what may characterize the expansion since 2013 is its larger scale.

Because of the weakness of the economy and also due to the QQE policy, interest rates remain very low. Inter-banking unsecured interest rates are below 0.1% and average lending rates by private banks to enterprises and individuals (“nominal interest rate” in Figure 11) have also fallen to levels close to 0.6%.
From the point of view of business plans or housing purchases, what matters is the real interest rate. We computed the forward looking real rates using the GDP deflator for the enterprises and the nominal wage rate for workers, which includes all remuneration including overtime and bonuses. Real interest rates were computed as follows.

\[
\text{real interest rate (enterprises)} = \text{nominal lending interest rate} - \text{GDP deflator change rate}
\]

\[
\text{real interest rate (workers)} = \text{nominal lending interest rate} - \text{wage change rate}
\]

The real interest rate faced by the enterprises has been falling since 2009, and more sharply since the last month of 2013. The real interest rates...
of working families have also been falling, though big swings are observed, which is mostly due to the oscillations in nominal wages.

The BOJ has made some “progress” coming closer to its goal of a 2% inflation rate. The inflation rate measured by the consumer price index has turned positive and reached 1.6% in March 2013, before the consumption tax hike is reflected (Figure 12). However it is too soon to say whether this can be counted as an achievement because rising costs of energy and other imported things, which is the result of the falling yen, are the main causes of the higher inflation rate. Besides, a measure of prices of Japanese products, the GDP deflator is barely above 0%. It will be necessary to have continuous real economic growth, higher employment and some wage increases to declare that it is mission accomplished.

**Figure 12:** Inflation rate: electricity, Consumer price index and GDP deflator

![Inflation rate chart](image)

**Sources:** Inflation rate: Ministry of Internal Affairs and Comm., GDP deflator: Cabinet Office

**Figure 13:** The exchange rate and price index of imported energy

![Exchange rate and price index chart](image)

**Source:** BOJ
Figure 13 clearly shows that the rise in energy prices in Japan in 2013 is not explained by rising international prices but by the depreciation of the Japanese yen. While the average price index of imported energy measured in USD has been stable in 2013, it has sharply increased when measured in JPY. Again, since the middle of 2014, international prices have been falling, so the index of the import prices by Japan measured in USD (dotted line) has been falling, but further depreciations of the JPY are keeping energy prices high when measured in JPY.

The return to positive inflation since 2013 has not produced substantial wage inflation. As can be observed from Figure 14, since the first months of 2013, the average nominal wage rate (which includes bonuses and overtime) has been rising, but the real wage rate has been steadily falling, showing that wage adjustments are falling behind price inflation. Again, this may indicate that reaching a positive inflation rate cannot be counted as a complete success, as cost inflations is the most important causes of price increases.

![Figure 14: Nominal and real wage indexes](source: Monthly Labor Survey)

3.6. The Consumption Tax Hike, April 2014

The experience with the consumption tax has never been good for Japan. The economy slowed down soon after a 3% tax was introduced in April 1989 and again in April 1997 when it was raised to 5%. Of course, international and internal conditions are quite different but it is worth noting that the drop in household consumption has been deeper in 2014 than from the previous two hikes. Figure 15, based on a representative household survey
of two or more members, compares the change rate of real consumption in each quarter in respect to the previous one, before and after the tax hike in 1989, 1997 and 2014. In general, consumers trying to avoid the higher tax bring forward future consumption to at least one quarter before the hike. In the quarter immediately after, consumption drops but improves by the third quarter. However, in 2014 (dark complete line) the drop in consumption in the second quarter is much higher and in the third quarter consumption was still falling, albeit at a lower rate.

**Figure 15:** Consumption before and after the consumption tax hike: 1989, 1997 and 2014

[Graph showing consumption changes]

**Source:** Household Survey, Statistics Bureau, Ministry of Internal Affairs and Communications

Looking at consumption by category in Chart 6, it can be seen that in the quarter immediately after the consumption tax hike, all components but “education” experience significant retractions. Compared with 1997, the drops in the second quarter are bigger for almost all categories. Like 1997, in 2014, the biggest drop (-35%) corresponds to “furniture and electric appliances” like refrigerators, air conditioners, microwaves, washing machines etc. “Transport and communications”, which also include car purchases, dropped 13%, what may be more than expected because the consumption tax increase was partially compensated with a reduction in the car purchase tax rate from 5% to 3%.
**Chart 6:** Consumption growth rate by category (% change respect previous quarter)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
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<td>food</td>
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<td>-0.2</td>
<td>-0.1</td>
<td>2.8</td>
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<td>0.4</td>
</tr>
<tr>
<td>housing</td>
<td>8.3</td>
<td>-5.1</td>
<td>-7.8</td>
<td>4.5</td>
<td>10.7</td>
<td>-14.6</td>
<td>-10.2</td>
</tr>
<tr>
<td>fuel, electricity &amp; water</td>
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<td>-4.2</td>
<td>2.1</td>
<td>0</td>
<td>2.2</td>
<td>-7.2</td>
<td>-0.4</td>
</tr>
<tr>
<td>furniture &amp; appliances</td>
<td>19.2</td>
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<td>-0.3</td>
<td>33.9</td>
<td>-35.8</td>
<td>4.8</td>
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<tr>
<td>clothing</td>
<td>7.7</td>
<td>-6.2</td>
<td>-3.5</td>
<td>-2</td>
<td>8</td>
<td>-9</td>
<td>-0.9</td>
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<tr>
<td>health care</td>
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<td>-9.3</td>
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<td>-4.1</td>
<td>6.1</td>
<td>-11.2</td>
<td>1.2</td>
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<td>transport &amp; communication</td>
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<td>-2.9</td>
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<td>2.1</td>
<td>-13</td>
<td>5.4</td>
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<tr>
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<td>7.9</td>
<td>4.6</td>
<td>-2</td>
<td>0.3</td>
<td>6.9</td>
<td>-2.2</td>
</tr>
<tr>
<td>culture &amp; recreation</td>
<td>6.4</td>
<td>-5.6</td>
<td>1.2</td>
<td>-3.2</td>
<td>4.9</td>
<td>-4.9</td>
<td>-3.2</td>
</tr>
<tr>
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<td>-7.6</td>
<td>4.5</td>
<td>1</td>
<td>8.5</td>
<td>-15.9</td>
<td>9.4</td>
</tr>
</tbody>
</table>

**Source:** Household Survey, Statistics Bureau, Ministry of Internal Affairs and Communications

Also, other necessary goods and services like “food” and “health care” that cannot be easily stored or intertemporally substituted like durable goods, experienced significant drops of 5.1% and 11.2%. Such big drops were not expected. “Housing”, which includes rent (exempted from the consumption tax) and home repairs also experienced a big drop of 14.6%, reflecting the effect of a reduction in home reparations and maintenance costs and partially a fall in the reduction of household purchasing power. In the third quarter, though a general improvement is observed, the performance is still below expectations.

Next, we take a look into the effects on the overall economy considering the performance of the GDP and the other components of domestic demand like housing investment, and capital spending. Figure 16 shows that unlike the other two occasions, in 2014, the economy fell for two consecutive quarters, which means that the economy has technically fallen into recession.
**Figure 16:** Real GDP growth rate (% change respect previous quarter)

**Chart 7:** Real GDP growth rate (% change respect previous quarter)

<table>
<thead>
<tr>
<th></th>
<th>GDP</th>
<th>Consumption</th>
<th>Housing investment</th>
<th>Capital Spending</th>
<th>Government expenses</th>
<th>Exports</th>
<th>Imports</th>
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<tr>
<td>2013 I</td>
<td>1.4</td>
<td>1.2</td>
<td>1</td>
<td>-2.0</td>
<td>1.6</td>
<td>4.2</td>
<td>1.1</td>
</tr>
<tr>
<td>II</td>
<td>0.8</td>
<td>0.9</td>
<td>2.4</td>
<td>1.8</td>
<td>1.6</td>
<td>3.1</td>
<td>2.4</td>
</tr>
<tr>
<td>III</td>
<td>0.6</td>
<td>0.3</td>
<td>4.3</td>
<td>0.7</td>
<td>1.1</td>
<td>-0.6</td>
<td>1.8</td>
</tr>
<tr>
<td>IV</td>
<td>-0.4</td>
<td>0</td>
<td>2.2</td>
<td>0.8</td>
<td>0.5</td>
<td>0.2</td>
<td>3.7</td>
</tr>
<tr>
<td>2014 I</td>
<td>1.6</td>
<td>2.2</td>
<td>2.3</td>
<td>7.5</td>
<td>-0.5</td>
<td>6.4</td>
<td>6.2</td>
</tr>
<tr>
<td>II</td>
<td>-1.9</td>
<td>-5.2</td>
<td>-10</td>
<td>-4.8</td>
<td>0.0</td>
<td>-0.5</td>
<td>-5.4</td>
</tr>
<tr>
<td>(*) III</td>
<td>-0.5</td>
<td>0.4</td>
<td>-6.8</td>
<td>-0.4</td>
<td>0.7</td>
<td>1.3</td>
<td>0.8</td>
</tr>
</tbody>
</table>

**Source:** National Accounts Cabinet Office  
**Note:** (*) preliminary results

Data on the third quarter are preliminary estimations, and will be revised in the future, so any conclusions must be taken with caution, but the trend is indicative of the weak economic conditions prevailing right now. Taking a look at Chart 7, it can be seen that although consumption has returned to a positive growth, housing and enterprise investment are still falling. Government spending has not grown as needed to lift the economy. External demand continues to be weak.

After taking a look at the empirical evidence, now let’s return to the main question: is Abenomics working? The first and second arrows of Abenomics have produced some positive results, especially by increasing employment and changing public expectations about the inflation rate. The depreciation of the currency, however, has made imported goods more expensive, helped tourism and increased the valuation in JPY of the
repatriation of income from overseas. It has also been keeping exports afloat under a weak global economy and better results may be observed if the recovery of the world economy continues. The first and second arrow are also buying some extra time to allow the economy to recover from the retraction in consumption and housing purchases caused by the consumption tax hike, and give some extra time to implement the more difficult structural reforms. Negotiations are underway but because these reforms affect many vested interests, more time is needed. The structural reforms are the best changes for Japan to overcome the important internal obstacles that the economy is facing: the scarcity of cheap energy sources, a falling population and a too high government debt. In the following section, we analyze these problems.

4. Internal Restrictions to Long Term Growth

There is general agreement that the monetary and fiscal stimuli are not enough to lift the growth rate of the economy because many internal restrictions will, sooner or later, put a break in the economic expansion. We identify three important restrictions: the lack of cheap energy sources, a falling and ageing population, and a high government debt. The debt and demographic problem are linked one to the other, and can also be seen as the manifestation of a progressive deterioration of the competitiveness of the Japanese economy. As we discuss in the following sections, the failure to unveil a plan to achieve the reforms necessary to find a resolution to those restrictions may cause a derailment of the economic expansion. Besides, the risks are higher now because the present policy setting is more extreme than in the past, in particular because of the monetary expansion, which may prove to be too excessive. We will discuss this issue later.

4.1. Higher Demand for Imported Fossil Fuels

Since the Fukushima nuclear plant accident on March 11, 2011, the energy mix of fossil fuels, nuclear, and renewable changed drastically from 60%, 31%, and 9% respectively in 2010 to 89%, 1%, and 10% in 2013. The Fukushima reactors were decommissioned and since then the remaining 48 nuclear plants have been shut down. In September 2012, the government
created a more independent organization in charge of regulating nuclear power, the Nuclear Regulation Authority (NRA). The NRA issued new safety standards for nuclear power, which were put into force in July 2013. Now, the government is pushing for restarting operations of those plants that can prove they comply with the new standards. However, a large proportion of the population is still reluctant to favor a return to nuclear power and it is not clear yet whether the plants will restart soon.

Without nuclear power and with very few energy resources, Japan has to import large amounts of fossil fuels. The share of imports of fossil fuels on the total imports has increased from 28% in 2010 to 34% in 2013. According to the Energy Information Agency of the United States, in 2012, Japan was the world’s largest importer of liquefied natural gas, and the third largest importer of oil. Still, Japan’s total consumption of electricity has been below the levels reached in 2007 before the 2008 crisis (Figure 17). This is a reflection of the weakness of the economy since then, as well as efforts in improving energy efficiency by the public. From Figure 18 we can also observe that the total volume of imports of energy (dark complete line) increased in 2012 as nuclear reactors shut down, but that overall demand has not increased too rapidly and it remains below the levels reached before the 2008 financial crisis. It is interesting that the higher demand of energy by Japan since the nuclear reactors have been stopped has been concentrated in liquefied natural gas.

**Figure 17:** Japan’s total consumption of electricity (billion Kwh)

![Figure 17: Japan’s total consumption of electricity (billion Kwh)](image)

**Source:** Agency for Natural Resources and Energy of the METI
On the other hand, as a result of the consumption tax hike in 2014 imports of fuels will most probably experience a short-term contraction, but as the economy starts moving again, demand for energy will become stronger. Also if the restart of the nuclear reactors is delayed, Japan will have to fill the increase in demand with higher purchases of energy in the international markets. Simulations by Bardas (2011) suggest that as the Japanese economy picks up, the volume of imports for fossil fuels would also rise putting pressure on the value of the Japanese currency again. Only if the international price of energy continues its most recent downward trend can this be avoided.

As suggested in Section 3.5 and Figure 14, the depreciation of the JPY that started in the beginning of 2013 has made energy more expensive. This has increased energy costs for enterprises and households. Export companies may be able to compensate the rising energy cost with higher demand from overseas, but profits of companies that are service providers without exports must have seen their profits reduced, and what is worrisome is that these enterprises represent an important part of the economy. The increase in the electricity bill of households means a reduction in their purchasing power, weakening purchases of other goods and services.

International prices of energy as measured by the import price by Japan (Figure 14) experienced an important drop soon after the 2008 financial crisis, but since then, prices have been rising again responding to the increased global demand of energy as the world economy has slowly improved. Most recently, in the last months of 2014, international prices have been falling again due to the increase in production by the United States and to weak demand reflection of the still fragile global economic recovery, however as...
the JPY has depreciated further, energy prices computed in yen remain high.

Different forces may affect the future of energy prices. The continuation of tensions in the Middle East and the disagreement between the West and Russia due to its conflict with Ukraine will continue adding upward pressure on prices. However, the increase in production by the United States, Canada and Brazil will release pressure in the market and we expect international prices to remain subdued even if the world economy continues healing and returns to a stronger growth in the near future. On the other hand, most recently the Organization of PetroleumExporting Countries (OPEC) has not agreed yet on cutting production to prop up prices. Although this strategy may result in lower prices in the short term, in the longer term it may make the technology of shale gas extraction by hydraulic fracturing unprofitable, at least, for the least efficient producers. This would force these shale gas producers out of the market and prices may rise again in the future. Thus, we expect lower and weak prices in the short and medium term, but rising prices in the longer term, soon after the world economy starts growing faster. If this trend materializes, lower energy prices will be a relief for Japan, though the depreciation of the JPY will mean that electricity and gasoline in Japan will remain elevated.

The development of shale gas in the United States has risen expectations of relief for Japan too if it manages to negotiate a stable supply of these resources. Reaching an agreement is not guaranteed as the United States exports natural gas only to countries with which it has an FTA. Though there is a bill in the United States Senate to allow exports of liquefied natural gas to NATO allies and Japan even without an FTA, it has not been approved yet. If Japan joins the Trans Pacific Partnership this hurdle might be cleared. For all of the above, we are not too pessimistic about the energy restrictions, and even if Japan delays the restart of the nuclear power plants, energy costs will remain rather moderate. The remaining risk is sudden and big depreciation of the currency caused by capital outflow that could mean higher energy costs measured in yen.

4.2. Ageing and Falling Population

Japan’s population reached its peak in 2010 (128 million) and has been falling for the last three years (2011-2013). According to the National Institute of Population and Social Security Research (IPSS, 2013) Japan’s
total population will continue falling, and by 2060 will be between 78 and 96 million depending on the different assumptions on birth rates, death rates and immigration. Figures 19 displays the high, central and low projections according to the IPSS. On the other hand, data from the Households Survey by the Ministry of Internal Affairs and Communications shows that both the total labor force and total employment (including self-employed) are already about 3% lower than their peaks reached in 1998. Even if the government is pushing to increase women’s labor force participation, in the long run, the level of the labor force will not be able to escape the drop caused by a falling population.

**Figure 19:** Projections by the IPSS

A reduction in the population level is not a bad phenomenon per se, but requires healthy public finances and a more dynamic and innovative economy, conditions that are not prevalent in the present. The debt of the government of Japan is one of the highest in the world as a proportion of the GDP and the growth rate of the economy is neither strong nor stable. Besides, the emergence of an ageing society has been relative quick and amplified by the retirement of the baby boom generation and although some progress has been seen in developing new medical treatments and robotic technologies which are improving the lifestyle of the elderly, the country is not ready for a society with 33% to 44% of its population above 65 years old (IPSS, 2013), figures which are well above its current level of 26%.

We believe a smoother and healthier transition to a lower level of population is still possible. In 2013 there were about 7 million women between 30 to 60 years old and more than 1 million men of the same age who were out of the labor force. They may be induced to enter the labor market if proper stimulus policies are implemented, and this would represent a 15% increase in the labor force. Discouraged workers who left the labor
force due to the difficulties of finding a proper job tend to return when it becomes easier to find a job or when salaries improve. Policies to reduce or subsidize the cost of university and technical education would be effective to raise the total fertility rate. Furthermore, as the life expectancy at birth continues increasing, optional programs of postponing the retirement age would also help the public burden on pensions. Selected immigration may even help in the transition until the total fertility rate (TFR) stabilizes at a higher level. In 2012 the TFR slightly improved to 1.41, but this is still very low.

An analysis of these reforms is out of the scope of this paper, but we argue that Japan is not ready yet to allow for a quick fall of its population, not even under the most optimistic path (high path of Figure 19). Most of the reforms are possible and implemented in a reasonable scale may produce positive results. The risks are high and more decisive action is needed. A fall in the population may reduce domestic demand, which would have a negative impact on sales and profits of the enterprises. Furthermore, a reduction in the working population would keep the potential growth rate of the economy low, which would make it more difficult to pay the government debt. Figure 19 (right) shows that the proportion of the young population (15 to 64 years old) to the old population (above 64 years old) will fall drastically from 2.8 to 1.3 in the forecasted period, which indicates the challenge that the social security fund will face in the coming years.

4.3. The Government Debt

The government debt has reached very high levels. The overall deficit of the government is also very high casting doubt on the possibility of a quick solution to the debt problem. Since April 1 2014, the consumption tax was raised to 8% from 5%, and though planned to be raised again in October 2015 to 10%, the hike has been postponed because of the worse than expected response of the economy in the two following quarters after the tax hike. The government has dissolved the Lower House and called for snap elections to be held in December 2014, and announced that the consumption tax will be raised without any further delay in April 2017. Because the debt continues rising, the government is trying to assure investors that public finances will be put in order. According to the IMF, Japan’s gross debt to GDP ratio is 2.45 (Figure 20), the largest in the world, and the net debt to GDP ratio,
after discounting financial assets owned by the government reached 1.38, the second largest after Greece.

![Diagram](image_url)

**Figure 20:** The rise of the public debt

Source: International Monetary Fund

The overall government deficit, which includes the central and regional government as well as the public pension fund, has been close to 9% of the GDP since 2009, much higher than the 3% in 2007 before the global financial crisis. Compared with the 2007 levels, the total tax collection (including social security contributions) is 5% lower but the overall current expenditures including social security transfers rose about 8% due to the aging population and the increase in other subsidies and transfers to the households. The rising government debt is not a recent phenomenon. The debt has accumulated over the last two decades and is the response of the government to the economic slowdown that Japan experienced with the collapse of the housing bubble in 1989. Since the 2008 global financial crisis the Japanese economy is still on life support, but this cannot continue much longer. While the government is still borrowing to stimulate the economy, the debt to GDP ratio can fall only if economic growth picks up and tax collection rises. The consumption tax hike may translate into higher income to the government, but the economy will struggle to recover without expanding exports. With weak growth, the debt to nominal GDP ratio may not fall. Besides, even if higher inflation may temporarily translate into higher nominal GDP, the debt may rise faster if the deficit does not fall or if the nominal interest rates increase. Furthermore, as inflation picks up, the government expenses (including social security) will adjust proportionally to rising prices.

For the moment, as the economy is not strong enough, interest rates are very low and the BOJ’s QQE is keeping things relatively calm. The average
nominal interest rate paid by the government bonds is at a historic low level of 1.2% (40 and 30 year bonds: 2.2%, 20 year bond: 2%, 10 year bond 1.4%, 5 year bond 0.5%). Most of the debt (92%) is owned by domestic agents, so the risk of sudden capital flight is lower than for many other countries. In just one year through the QE program the BOJ has increased its holding from 12% to 21% (Chart 8), which relieves pressure and keeps interest rates low.

Even with such large public debt, the risk of a financial crisis in the short run is believed to be low because the debt is largely owned domestically. A panic selloff of public debt by financial institutions may not occur until inflation surpasses the 2% target by the BOJ, and stays above it for a while. Only then can the BOJ start considering a reverse in the QQE. A sudden selloff of government bonds by the larger owners of the debt, the Japanese financial institutions would produce a huge drop in their value causing big losses to themselves. Since April 2013, an orderly selloff has been taking place as the BOJ continues buying debt. On the other hand, in October 2014 the Government Pension Investment Pension Fund (GPIF) announced a new policy of asset mix as it tries to diversify its assets reducing its holding of Japanese Government Bonds, and move to buy other assets. The old asset mix (domestic bonds (60%), domestic stocks (12%), international bonds (11%), international stocks (12%), and short-term assets (5%)) will be changed to a new mix (domestic bonds (35%), domestic stocks (25%), international bonds (15%), international stocks (25%)) with a clear adoption of a less conservative portfolio, reducing the holdings of government bonds and increasing substantially the holding of more risky but profitable assets like stocks. At the same time, the permissibility of deviation of the above target allocation has been widened from \{±8%,±6%,±5%,±5%,0%\} to \{±10%,±9%,±4%,±8%\} for each asset type, indicating a larger flexibility in the portfolio allocation by making it dependent on market conditions. At the same time, a reinforcement of the internal control and risk management capabilities has also been established.
On the other hand, the BOJ has also announced an expansion of the QQE program, by which assets are purchased in the secondary market to provide abundant liquidity, and keep interest rates and bonds' yields low. On October 31, 2014, the program was expanded from an annual pace of 60-70 trillion yen to about 80 trillion yen. Annual purchases of JGB will be increased from an annual pace of about 50 trillion yen to about 80 trillion. The outstanding of exchange traded funds (ETFs) and Japan real estate investment trusts (J-REITs) will be tripled so that their amounts outstanding will increase at an annual pace of about 3 trillion yen 90 billion yen respectively. We believe that although not eminent, the risk of a crisis could rise in the coming five years if structural reform is not advanced because, due to the above-mentioned restrictions, the economy would show very poor or even zero growth. With a large quantity of funds parked at the BOJ and ready to be moved, however, banks could send their assets abroad to achieve higher yields and cover from rising inflation.

When should the government debt be paid? Figure 21 displays the schedule of the relevant portion of the government bonds outstanding. Although about 40% of the debt must be paid in the coming four years, the government can still roll out the debt quite easily. The quantitative easing program by which the BOJ buys long term debt releases funds to allow private investors, mostly private Japanese banks, lend to the government at shorter maturity. For those banks, it’s a way to make short-term investment and keep their funds almost ready to be invested in more profitable and riskier foreign assets as the world economy picks up, probably in the first half of 2016.
The demographic and debt problems are interconnected and their origins can be interpreted as a result of the slow but continuous reduction of the international competitiveness of the Japanese economy especially after the housing bubble of 1985-1990. A less dynamic economy has caused real wages to go down, and less appetite for a high fertility rate among Japanese couples. The inability to produce higher efficiency in education services resulted in education costs rising above the rest of the prices of the economy, and also above wages. At the same time, a weak economy has pushed the government to borrow to increase spending and sustain growth, and this has resulted in the present very high debt.

A quick resolution of the energy problem is proving difficult because of the demographic and debt problems. The prospect of a falling population has made growth in foreign demand the quickest way to lift the economy. In the absence of strong global growth, the administration has chosen a depreciation of the currency as a way to boost exports. However, the scarcity of indigenous energy sources and the difficulty of restarting the nuclear plants mean that for the economic expansion to continue, more foreign fossil fuels would have to be imported, which has been proven onerous as the yen depreciates.

On the other hand, a falling and ageing population will translate into a tighter labor market and reduced consumer base. Furthermore, the tax burden per household will increase, which will cause weaker consumption and housing investment. In turn, slower growth and weak wages may not allow for an important increase in the birth rate.
4.4. Capital Stock

Long-term growth depends on the availability of abundant and skilled labor force, technological progress and expanding capital stock. In the figure below, we take a look at the most recent trend in the stock of capital used in the production process, which includes machinery, equipment, factories, offices, public infrastructure and housing (change in inventories not included). The figure includes measures of the change in the stock of capital (in real terms), of private capital (enterprises and housing) and public capital (government and public enterprises). It calculates differences between investment and depreciation in real terms. As a reaction to the world financial crisis in 2008, private capital started falling because investment in new equipment and housing could not keep pace with the volume of depreciation. The government tried to compensate the private drop by expanding its public works both in 2009 and 2010. Again, in 2012 public infrastructure expanded when reconstruction works started in areas affected by the 2011 disaster. Though figures are improving, at the beginning of 2014, private capital stock is lower than 2007. This is worrisome because it compromises the ability to expand production, just when the labor force struggles to expand.

The expectation of the government is that as the world economy picks up, private enterprises will increase investment. Also, the planned reductions in the corporate tax may also push enterprises to expand capital, especially if the negotiations of free trade agreements like the TPP are concluded successfully. Meanwhile, negative interest rates may act as some stimulant towards preventing investment from falling further.

Figure 22: Real change in the capital stock: Investment–Depreciation

Source: National Accounts Cabinet Office, Government of Japan
5. Supporters and Critics of Abenomics

Some economists like Paul Krugman and Joseph Stiglitz have praised Abenomics and showed optimism about its effectiveness to end deflation and put Japan on the path towards a stable growth. Krugman (2013) shows his agreement with the BOJ’s quantitative easing policy, noting that because Japan is in a liquidity trap traditional monetary policy by which the central bank buys short-term debt would have no effect in reducing the interest rate. However, the QE policy by which the central bank purchases long-term debt has the power to reduce real interest rates and boost investment. Stiglitz (2014) though in favor of the policies being implemented, expressed some reserve in respect to the consumption tax hike of April 2014, noting that the economy is still too fragile and that it may be too premature, like in 1997 when the tax rate was raised to 5% from 3%. He also doubts that companies will use their higher revenue to increase wages if the corporate tax is reduced as planned. Other supporters of Abenomics like Takenaka Heizo, who is also an economic adviser to the government indicates the necessity of moving forward on the structural reforms (April 2014), reducing the corporate tax rate, and deregulating the economy in general, but more quickly by establishing Special Economic Zones.

Critics of Abenomics who are raising their voice include Martin Feldstein, Seki Obata, Ryutaro Kono, Yukio Noguchi and Noriko Hama among others. Feldstein (2013) and Obata (2013) point out that the fall in the yen will push costs up and inflation could cause nominal interest rates to rises and the fiscal position would worsen. Besides, a higher interest rate would cause capital losses on the holding of government bonds, destroying household wealth. Kono (2013) show similar worries about the prospects of rising interest rates and also predicted that the 10-year bond yield would climb to 1.6% in 2014 and to 2.9% in 2015. Noguchi (2013) says the monetary policy is not effective because companies are not borrowing, and newly created money through the quantitative easing is ending up as reserves in the BOJ by private banks. The currency depreciation has not produced growing exports and real wages as expected. Noguchi, though in favor of the consumption tax hike to restore public finances and avoid an increase in the interest rate, predicts that it will only have marginal effect because of the huge social security expenses. On the other hand, contrary to the government proposed reduced corporate tax, he says that the tax should be raised and its revenue used to compensate consumers for the higher electricity fees. With respect to
the growth strategy of Abenomics, Noguchi thinks that too much attention is being put on the revival of the manufacturing sector. He sees the shrinking of manufacturing as inevitable because of the rise of new industrialized countries. More attention should be put on higher productivity of the service sector, which is the only way for Japan to achieve a higher average income.

Hama (2013) criticizes Abenomics noting that Japan's problem is not a lack of growth but a poverty problem. She indicates that unless the below poverty households which already counts as 16% of the total, are integrated into the working economy, deflation will not be defeated. She also criticizes the QE policy, indicating that it is just creating a bubble, and says that interest rates should be raised, as higher interest rates would also mean higher income for saving households.

According to our view, Abenomics has helped change expectations and revive the Japanese economy. First, the big monetary stimulus pushed down the value of the yen, helping big export companies with factories abroad to register higher overseas profits when computed in Japanese yen in their financial statement. Tourism also improved and investors who purchased stocks before 2013 increased their wealth. Costs of agricultural production like energy and other agricultural inputs have gone up, but the lower value of the yen protects Japanese farmers from foreign competition. Most important of all, mostly due to the stimulus policies for consumption and housing, employment has improved, though most of the gains are in part time jobs.

The stimulus policies have also been buying some time until the world economy picks up and Japan's exports grow and lift the economy. Again, structural reforms like freeing the economy and making a big investment in developing alternative energy sources and technological development towards cost reduction are unavoidable and time is running out. The government is pushing for the promotion of employing women, a reduction in the corporate tax, land ownership reform to increase the scale of agricultural production and is engaged in negotiations of important free trade agreements like the TPP and the ASEAN+6. It is also pushing for the establishment of Special Economic Zones with low taxes and regulation to revitalize the economy. In spite of the slow progress, and although time is running out, we are still hopeful that some of the structural reforms can be properly implemented. These changes can produce important gains to Japan as a whole, but some groups will have to be compensated and the government should disclose and negotiate how the compensations will be paid. The guarantee of a proper safety net with efficient retraining programs oriented to the affluent and less
favored by the free market society should be strengthened and started before the structural reforms are put in place. A failure or delay in this may derail the overall expansion of the economy.

In a previous work, Bardas (2013) tested the fiscal and monetary Abenomics polices on the long-term performance of the economy under the absence of structural reform and showed that without them, the economy would slowdown, growth would be zero, and that even a financial crisis might occur. In our work, we perform numerical simulations using a general equilibrium aggregate demand and aggregate supply model under moderately optimistic conditions in the international markets. Leaving the mathematical details of the model to be inspected by the reader, our simulations conclude that because of the consumption tax hike implemented in April 2014, the economy will experience a short-term retraction but will slowly return to positive growth. The consumption tax hike will help the government repair its finances once the economy starts recovering. In the medium term, the economy achieves faster growth derived from higher foreign demand. Higher tax collection also helps the government reduce its deficit. However, later in the path, the economy overheats, becomes unstable, and economic growth disappears. Instability is produced basically by the “yen carry trade operations” in which investors sell their financial domestic assets or even borrow cheaply in JPY to send their money abroad where rates of return are higher. Because the BOJ is buying those assets with the quantitative easing policy, the nominal interest rate remains very low and the real interest rate manages to stay negative for some time. This stimulates investment and consumption. However, as the economy overheats, the quantitative easing policy has to be suspended to keep inflation out of control, the yen carry trade operations are reversed and the Japanese currency appreciates and exports slowdown. Falling employment means a lower labor income and consumption growth becomes negative, pulling down the whole economy. According to our simulations, the monetary stimulus as designed by the present authorities is excessive, because keeping the economy stable and growing close its potential rate 2% requires an inflation rate closer to 1% rather than 2%. The BOJ has probably set a 2% inflation rate as a target to change the public expectations, but if actually implemented, instability through deeper depreciation of the currency followed by important appreciations may occur. We think that a quick implementation of some of the structural reforms would prevent the economy from returning to zero growth and is essential to create a wave of long run expansion by increasing the labor
supply, improving productivity, stimulating the adoption of new technologies, increasing energy consumption efficiency and opening up the economy to new markets.

6. Final Remarks

In general, the expansionary monetary and fiscal policies of Abenomics are having some positive effects, in particular an improvement in employment, although most of the gains are in part time jobs. The depreciation of the yen, though important, has not yet produced the expected rise in the volume of exports in part due to still weak international conditions, but as global growth picks up, Japanese exports could start rising faster again. The yen depreciation has also favored inbound tourism and helped improve the balance sheet of big multinational Japanese corporations by increasing the value of profits from their overseas businesses computed in Japanese yen. Rising stock prices reflect the higher confidence investors have in the economic plan, though the pause and instability observed during the first semester of 2014 may be indicating that investors are impatient about the implementation of the “growth strategy” which is regarded as a necessary condition to achieve sustained long term growth.

On the other hand, the yen depreciation has caused an increase in the cost of imported things, in particular fossil fuels and raw materials, which in turn are the main cause of price rises and the return of positive inflation. Higher inflation and the consumption tax hike resulted in a reduction in the purchasing power of wages. We expect consumption and housing purchases to struggle to pick up again, but they will eventually return to positive growth, though probably remaining relatively subdued, also as a result of the falling population. The demand for workers is a downward curve of the real wage, and in the absence of higher capital spending that shifts the demand curve to the right, higher employment can be achieved only by lowering the real wage rate.

In general, the monetary and fiscal policy has succeeded in buying some time for the long awaited structural reforms to be implemented. However, we have some reservations on the scale of the monetary policy. We think the quantitative easing program is excessive and that a 2% inflation rate is too high under the current slow pace of the implementation of the structural reforms. Some of these reforms are essential to increase the labor force
participation, expand capital spending and generate technological innovation. If these reforms do not come quick enough, the potential growth rate of the economy will remain in the range of 1.5% to 1.8%. In that case, the BOJ will not be able to keep the interest rate too low for a long time. As the yen carry trade operations go on, funds are transferred overseas where higher returns can be obtained, and this reduces the value of the Japanese currency. The yen carry trade operations may pick up again in late 2015 or 2016 when the United States is expected to raise the interest rate. In general, the depreciation of the currency should generate an expansion of the volume of exports and the economy would grow. However, it is interesting that the labor market in Japan is believed to be at full employment, and the wage rate will start rising at some point. This may stimulate workers out of the labor force to enter the labor market, which may help in the expansion process. Some kind of adjustment is also expected within the existent enterprises: low-profit businesses should restructure and their resources should be redirected to more efficient export-oriented businesses.

Though this process may play well, we think there are some risks to this adjustment. First, with an ageing labor force, the restructure will become more difficult. Yes, with the proper incentives, women out of the labor force may enter the labor supply, which would ease the labor market and favor economic expansion. However, those potential workers who had been out of the labor force for a long time require training, which also takes time. Action should be quick because as time goes, these potential workers age and their insertion into the labor market will become more difficult or impossible. If the labor force struggles to expand, then rising productivity and capital becomes essential, and here we have a second risk, which is related to the effect of instability in the value of the currency on capital spending and the introduction of new technologies in the production process. The yen carry trade operations could reverse in the future when conditions change. The more significant the volume of capital goes out in the present, the higher the risk of a sudden and large rise in the yen in the future. Export-oriented enterprises may be reluctant to increase capital spending or invest in research and development if the value of the currency is expected to rise in the future, reducing the value in yen of sales overseas. If big swings in the value of the yen occur, the authorities may have to make important interventions in the foreign exchange market to stabilize the value of the currency.

A third important risk is that if structural reforms are delayed, the supply side of the economy will be tight, and as depreciation pushes the
inflation rate up, the central bank may have no choice but to allow nominal interest rates to rise to contain the cost inflation. The BOJ can assure the rise in the nominal interest rate is lower than the rise in the inflation rate, but if rises in nominal wages are small, real interest rates could rise too much for working families with home mortgages. This may weaken household purchases, slowing down economic growth.

A more optimistic possible scenario could be developed if the global economy returns to its historical average growth, which is close to 3.5% or even higher. In this case we believe the Japanese economy could return to a stable and stronger long-term growth. How would this scenario unfold? Higher global growth would translate into an increase in the volume of demand for Japanese products. As exports grow faster, the economy gets stronger, imports of energy, raw materials and machinery will pick up to sustain the increased production. At the same time, the higher supply of foreign currency from expanded exports will keep the value of the currency stable without further depreciation. This will make the cost of imported things less onerous when computed in yen. A strong demand from overseas is compatible with an expansion of capital spending and the introduction of more efficient equipment, helping compensate the lack of workers. At the same time, an expansion of production will mean an increase in full-time personnel, and even higher real wages. This could bring a wave of higher consumption and housing, prices will pick up and a virtuous circle of inflation will make private and public debts more easily paid. Lenders could try to avoid a loss of capital by demanding higher nominal interest rates, but, for a while, a proper monetary stimulus would prevent real interest rates from rising too much. As tax collection improves, money used by the government to stimulate consumption and housing can be phased out. Lower expenses and higher tax revenue would translate into lower deficits and eventually the government will achieve a global surplus. The debt could start falling both as a proportion of the GDP and also in nominal terms.

The realization of the above scenario is quite possible, but it will not come automatically because while Japan moves forward, the rest of the world also progresses and improves efficiency and productivity. The developing world has and continues to rise by the adoption of new technologies, increased education levels, more infrastructure and sound macroeconomic practices. Unless the proper structural reforms are implemented, Japan’s competitiveness will not rise as fast as the developing world. The competitiveness of Japanese products may stay strong in some segments of the automobile and machinery
industry, but it may get weaker in others inside and outside these industries.

Japan should not wait passively for the world economy to pick up, nor to base its growth strategy solely on currency depreciation. Because of the many external risks and the important internal restrictions analyzed in Section 4, the economy will not return to stable growth unless collective choices are made in respect to how to smoothen the adjustment process. The present administration is very aware of this situation and has proposed a “growth strategy”. Some of the proactive policies like those proposed so far are essential to lift the competitiveness of Japanese goods and services. Because the necessary changes affect the lifestyle and income of many groups, its implementation is proving to be difficult. Concessions will have to be made and those groups benefiting in the process must help compensate the groups affected by it.

As discussed in Section 4.3, the falling population, increase of the public debt and weaker economy are all interrelated. Although a falling population is nothing bad per se, it is desirable to defer the adjustment to lower levels for a period of stronger economic growth and once the government debt is reduced to lower levels. Some of the necessary changes to achieve a smoother demographic transition include the promotion of female employment, opening the country to qualified and selected immigration, better financed tax credits for worker retraining programs, more generous child allowances, and free university tuition for students with low income level. Furthermore, policies to retrain workers, though costly, could be very productive. We estimate that if discouraged workers and women who are not in the labor force were trained and adapt to the higher levels of capabilities required by advanced technologies, the GDP could be boosted by 10%. Furthermore, a well-implemented immigration policy may partially compensate a reduction in the lower labor supply and consumer base in the short and medium term. Clever and selective immigration policies can prevent disruption in the labor market, by allowing workers with the skills that match the market needs. Programs for social and cultural integration, include language skills, are not cheap, but these costs and other social security costs involved can be surpassed by the expansion in production and income that productive immigrants can bring. However, we are skeptical of some of the proposed guest immigration programs, by which foreign “maids” would replace Japanese women in the housekeeping to boost Japanese female labor force participation. Most Japanese households are reluctant to receive a stranger in the home, much less a foreign one. We think the program will not show
great acceptance. Opening the country to immigration must be balanced, diversified in the origin of incomers and also diversified in their geographical allocation. Programs must be implemented in phases and considered very carefully to make sure that the benefits of expanded production and income outweigh the increased social security costs for such immigrants.

As there is not enough public support to a large-scale opening of the labor market to foreign immigration, companies must be stimulated to advance in the mechanization and robotization of the production process as well as discover cost reducing technologies. A reduction of the corporate tax rate to stimulate companies to invest in new capital spending is being proposed. Japan’s effective corporate tax rate of big enterprises is almost 36%, one of the highest among the developed economies and it is argued that a reduction of the tax rate would promote a repatriation of capital or even a wave of foreign direct investment form overseas. Any move in this respect would be less controversial if they were conditioned to the adoption of more efficient technologies, the implementation of worker training programs, and the promotion of female labor.

We believe that an important boost to enterprise investment in equipment and infrastructure may come from the conclusion of the free trade agreements under negotiation like the TPP and the ASEAN+6. Even if the positive effects of free trade are usually observed in the long run, companies will most probably receive a clear sign of where to invest. Investment also takes time, so in preparation for future businesses a wave of increased capital spending could materialize as the negotiations are concluded. Though expectations of a prompt conclusion of the negotiations has been diminished by successive failures in low level negotiations about Japan’s insistence of keeping protections for several agricultural products, we believe the TPP will be concluded and Japan will succeed in keeping at least some of those protections. If achieved, this agreement could become a first step towards further liberalizing negotiations later. The most controversial issues are the reduction in agricultural product tariffs and the elimination of non-tariff barriers in several sectors of the economy like the automobile industry, as well as the health and insurance service industries. A free trade agreement like the TPP will expose Japanese farmers to competition from more efficient farmers in other members of the block, but most free trade agreements give a period of adjustment before the protection of local industries is completely withdrawn, so we believe that Japanese farmers would be able to adjust. Besides, the population engaged in farming is relatively old and will
continue to fall in the coming years. Furthermore, the introduction of more efficient larger scale farming businesses is already underway. The drop in the real value of the currency during 2013 may not be permanent but it is a non-tariff protection to Japanese agricultural production. The conclusion of free trade agreements will allow Japan to cover its energy needs more smoothly, and reduce the cost of food, which may compensate for the lack of strength in real wages. Some other non-agricultural manufactures will face tougher competition too, but compensation and adjustment programs to allow for workers to shift to companies with high capacity to compete are possible solutions. This would require the implementation of clear compensation schemes among the different Japanese groups affected by the trade deal. Also, special credit schemes should be created for farmers and other businesses so they can adapt. It is also necessary to create a publicly-funded worker retraining program, because foreign competition will produce a reallocation of resources from some industries to others.

Japan should not wait for the world economy to start growing faster, and neither should it expect the 2020 Tokyo Olympics to give a big or permanent lift to the economy. Furthermore, there are too many risks factors, such as the increase in the tensions in Iraq and Syria, the possibility of further escalation of the Ukraine-Russia conflict, the West-Iran nuclear disagreement, an the escalation in the territorial disputes between Japan and China. If the country decides to remain closed to foreign immigration, an expansion of trade by both competitiveness promoting policies and by embracing free trade is, in our view, the most realistic way for the Japanese economy to achieve moderate but continuous growth.

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Residency Trends among People from Burma Living in Japan

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Abstract

An inquiry into the trend of residency among the people from Burma living in Japan is the aim of this study. The inquiry finds that new ties between the majority Burmese and the minority non-Burmese Ethnics have emerged while residing in Japan for several decades, leading to the birth of “Burmese-Japanese” for the first time in Japanese society. The significance of this development is unraveled by its implications on their ethnic self-identity. Japan, it is suggested, should introduce a system of dual citizenship that would allow the Burmese citizens in Japan to retain their original national identity as well as their newly acquired Japanese identity. This will fit into their new lives in Japan as the “Burmese-Japanese,” the emergence of which is already a reality in Japan today. Sources utilized in this study include the statistics published by the Japanese government, the survey data collected by a labor union organized by and for people from Burma living in Japan, and the interviews conducted by the author.

*Keyword:* Burmese citizen in Japan, Burmese-Japanese, Japanese society, dual citizenship

Introduction

Burma is a multi-ethnic society composed of a Burmese majority and 135 officially recognized ethnic minority groups (hereafter referred to as “Bama” and “Ethnics”). Since Burma’s independence in 1948, the Ethnics under the Bama-dominated government have invariably found themselves at a disadvantage in comparison with the majority (Ino, 1992:114-138; Smith, 1999).
Ironically, the reality of this situation has left them clinging even more to their ethnicity while shunning away from a new Burmese national identity. This is particularly true for those living in their own states, as people who had traditionally identified themselves according to their ethnicity rather than with the state of Burma (Kajimura, 2014:74-97).

Despite this tendency, however, a new trend in self-perception of ethnic identity has emerged among people from Burma living in Japan over the last several decades, ushering in historic new Bama-Ethnics ties among them. The aim of this paper is to delineate the process through which these new Bama-Ethnics ties have emerged, which in turn may lead to the birth of “Burmese-Japanese” in Japanese society. This paper also purports to unravel the significance of this development, especially in terms of its implications on the ethnic self-identity of people from Burma living in Japan.

Focus of Study

Before dwelling on the main subject of this paper, an attempt is made here to explain the approach to be taken in this study. The first point of this approach concerns the question of ethnic self-identity as treated in this paper. Although this study deals with the subjectively perceived ethnic self-identity of the Burmese citizen in Japan (“BCJ”), its focus will be not so much on the nominal identification of the BCJ’s ethnicity, as is for example used in one’s passport, but on the question of how the BCJ’s self-perceived ethnic identity is used to serve a specific purpose set by the Ethnics themselves. In other words, the study will deal mainly with how one presents one’s self-formulated ethnic identity to others from one’s personal perspective.

On the broader question of race and nationality, the two common rules governing the acquisition of nationality under today’s nation-state system are those of “Jus Sanguinis”¹ and “Jus Soli”.² Japan as a rule follows the former, not the latter. Accordingly, under Japanese law, one acquires Japanese nationality when one or both of one’s parents are of Japanese nationality. Under ordinary circumstances, this, needless to say, is the most common way to acquire Japanese nationality. However, one can also acquire it through naturalization by meeting certain legally required preconditions.

¹ Under this principle, a child’s nationality is that of his/her parent.
² Under this principle, a child’s nationality is defined by the country of his/her birth.
It is true that the recent worldwide increase in border crossings has accelerated the growth in the number of persons possessing dual citizenship, making it harder to draw a sharp line in the definition of nationality. Nevertheless, under Japan’s “Jus Sanguinis” rule, it is still not possible for those possessing plural citizenship to obtain Japanese citizenship without giving up their other citizenship(s). Other hurdles in obtaining Japanese nationality are the prerequisites stipulated for a stable financial situation, as well as a relatively long period of residency in Japan prior to acquisition. Notwithstanding, or perhaps because of, such prerequisites, Koreans in Japan top all other ethnic groups in terms of the number of non-Japanese people acquiring Japanese nationality. Despite the “turncoat” stigma often attached to naturalized Korean-Japanese in their community in Japan, a survey of Korean-Japanese citizens conducted in the year 2000 surprisingly found that 53% of those surveyed considered themselves simply as “Japanese” and another 28.3% claimed the plural identity of “Korean-Japanese for themselves” (Sasaki, 2006:100-103). This means that a total of almost 80% of those surveyed just thought of themselves as Japanese citizens, regardless of actual ethnic identity. Further, this self-perception has tended to become firmer with time.

Vietnamese refugees in Japan, though residing under quite different politico-historical circumstances, present another interesting picture in this respect. Even after their acquisition of Japanese nationality, they persist in their use of Vietnamese names when among themselves, seldom invoking their newly acquired Japanese legal name (Kawakami, 2005:191-193). Unlike the situation for the Korean community in Japan, such persistent use of their original ethnic names is remarkable in that usually no stigma is attached in the Vietnamese community in Japan to their use of their Japanese names. Interestingly, because of their obvious resemblance to the BCJ’s situation, Vietnamese refugees in Japan are suggestive of how the BCJ would eventually conduct themselves in this respect. It is quite conceivable, therefore, that the BCJ, even after formally acquiring Japanese nationality, would also still retain their original ethnic self-identity. If so, the issue would then boil down to how today’s newcomers like the BCJ are be treated in Japanese society as a whole even when they persist in retaining this ethnic identity—perhaps, even as a sign of their ethnic pride in the culture of their old homeland.3

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3 This issue has been often discussed in connection with the retainability of Korean ethnic and cultural pride by 3rd and 4th generation Korean residents in Japan.
Migration from Burma

Since 1990, Burma has been ruled by the military although its junta leaders shed off their uniforms in 2011, declaring a set of political reforms and economic development plans they would carry out under its fresh civilian regime. Despite this initial political relaxation, little in real democratization and economic progress has been noted as their accomplishments, not to mention any true, meaningful reconciliation with the ever-popular opposition party. Nor has there been any anticipated rush of foreign investments with big money. As a result, Burma’s economy still remains one of the poorest in the world today. Furthermore, no end is in sight as far as Burma’s socio-political situation is concerned. The same can be said for the perennial disputes with Burma’s major Ethnics, as evident in the frequent, continuous armed clashes with the Kachin or Shan rebel troops in the resource-rich northeastern border regions—not to speak of the recent growth in religious tension between the Buddhist majority and the Muslim minority in the western border frontiers. One by-product of all this is a seemingly endless outpouring of Burma’s Ethnics into the safer neighboring countries.

In addition, there are estimates of more than 120,000 migrants in refugee camps in the Burma-Thailand border area alone, who have little or no desire for immediate return to their homeland. A survey conducted in 2013 in one of the camps shows that no less than 90% of those surveyed prefer either to go to a third country or to continue living in the camp (Saw Yan Naing/The Irrawaddy, 2013). Behind such widespread disillusion of their homeland is a sad reality that the homes and livelihoods they left behind have all long since disappeared. On top of all this, there is the real possibility of political reprisal against those condemned to be enemies of the regime, should they return home any time soon. Roughly three to five million people, nearly one tenth of Burma’s entire population, are thought to have made the exodus to the outside world\(^5\), seeking an economically better and/or politically safer life. Ironically, the remittance of their hard-earned cash from abroad to relatives in Burma is openly acknowledged even by government sources as being indispensable to the health of the nation’s economy today.

In all of these developments, the people from Burma living in Japan are

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4 This paper was written before the new political development that has unfolded since the most recent general election held on November 8, 2015.

5 Countries such as Thailand, Malaysia, Singapore, and Indonesia.
no exception, just as all of their compatriots in other parts of the world, too, are affected. Yet, little scholarly attention has been paid to the question of their prolonged stay in Japan—including its implication on their ethnic self-identity—not to speak of the significance of the novel “Burmese-Japanese” citizen in Japanese society today.

The Ethnic Self-identity of Burmese Citizens in Japan

The people from Burma currently living in Japan initially came mostly in the 1990’s as refugees on short-term temporary stay, but after their visas expired, soon became undocumented low-wage laborers. Furthermore, because of the unexpected influx of refugees from Burma, which was then under harsh military rule, the Japanese authorities selectively accorded preferential treatment to many of them on humanitarian grounds. In the early 2000’s, the Japanese immigration authorities also granted a legal refugee status, issuing many others from Burma a temporary visa to accommodate their prolonged stay in Japan. By the end of 2014, all these measures together had resulted in a total of nearly 11,000 registered residents from Burma living in Japan.

It should be noted that, quite aside from a subjectively perceived ethnic identity, migrants from Burma upon their initial arrival in a recipient country are commonly given an ethnic classification, just as those from Latin America and Asia are labeled “Hispanic-” or “Asian-American” by the U.S. immigration authorities or by its national census takers in the multi-racial society of the United States (Torpey, 1999). Likewise, BCJ, while retaining their original ethnic self-identity, have eventually acquired an additional ethnic label during their formal stay in the host country.

It is also interesting to note that early Japanese immigrants to the U.S. have gone through a similar experience (Minamikawa, 2007). In the initial decades following their arrival, they continued among themselves to identify their compatriots by their former Japanese prefectural “ken” affiliations, which was in turn based mostly on each person’s pre-Meiji feudal “han” affiliation. Thus, just as they did during a good part of Meiji Japan, they identified each other as “a person of such and such ‘ken’ (‘nani nani ken-jin’)”–and not by their Meiji Japan-based nationwide identity as “Nihon-jin” as a whole, regardless of their former “han” origin. Accordingly, even as immigrants to the U.S., they did not identify themself initially by their new U.S. identification as “American” or, in the case of Japanese immigrants to
the U.S. west coast, as “Kaliforunia-jin”. Even in Japan, it took more than a generation before people began using “Nihon-jin” as their Japanese national identity. Understandably enough, it naturally took an even longer time before Japanese immigrants in the U.S. started using “America-jin” as their new U.S. identity, instead of their former Japanese “ken” identity. Their descendants today, with virtually no exception, refer to themselves always as “American,” just as they would “Japanese-American” (“Nik-kei America-jin”) if needed. This transition, as a part of their usual acculturation process, is a quite common phenomenon as a natural consequence of generational change while living as citizens in the U.S.

Analysis of the data

The principal data to be analyzed in this study are: (1) statistics on foreign residents in Japan published by the Japanese immigration office; (2) survey data of a BCJ labor union in Japan; and (3) data from the author’s interviews of the BCJ. In general, findings from the analysis of the statistics on the BCJ available in group (1) will be further supplemented by data drawn from groups (2) and (3). It should be pointed out that the present study follows the method of analysis advanced by Chen Tien-shi, et al. in their recent study in Japanese entitled “Border-Crossing and Identification—Nationality, Passport, and ID cards” in translation (Chen et al., eds. 2012).

In their study of migrant identification, Chen, et al. introduce an approach that deploys findings from data obtained through a personal perspective. By noting the fact that such a deployment has been absent in the analysis of data secured through a non-personal perspective, they stress, in contradistinction, the significance of a personal perspective, especially when choices are made through the latter with respect to border crossing, nationality, ID cards, and the likes in a real life situation. The identity conceived from such a personal perspective, all in all, needs to be differentiated from that produced by the government agency through a non-personal perspective, as is usually the case, for example, with the identification found in a more formal document like the passport or in a nation’s population census.

In other words, a more nuanced interpretation of identity may help to reduce, if not completely eliminate, the tendency in the old method of analysis that often overlooks findings obtainable from a personal perspective. This being the case, by separating the two perspectives, as done by Chen,
et al. under their newly coined labels, respectively, of “mieru koodo (visible code)” and “mienai koodo (invisible code),” it is expected that a fresh, more wholesome method of analysis would emerge shedding a new light on the subject under study (Chen et al., eds. 2012).

When the mode of identification is predicated on the “visible code,” this study should be able to deduce, from the statistics in group (1) above, the number of the BCJ who have acquired Japanese nationality and also that of those who possess such a potential through the acquisition of some other kind of status in Japan. On the other hand, when predicated on the “invisible code,” the study would attempt, this time through an analysis of the data in groups (2) and (3), an estimate for portions of the BCJ who have a desire to go back to their homeland permanently.

(1) Statistics

Needless to say, obtaining Japanese nationality is one way of securing a status of permanent residency in Japan. Since Japan follows the “Jus Sanguinis” principle for its nationality, the acquisition procedure in Japan requires an unusual amount of paperwork by the government agency for a meticulous screening that usually takes a much longer time than it would take to screen, for example, a permanent resident (“PR”) application.

A survey conducted in 1991 of refugees from Indo-China living in Japan revealed that 74.7% of the PR applicants surveyed hoped to stay indefinitely in Japan (Refugee Assistance Headquarters, 1993). Nearly half of them wished to obtain Japanese nationality while another 35%, just PR status. Of all those who were surveyed, 20% said that they already held Japanese nationality or PR status. Many respondents also expressed their wish for a much greater simplification of the application procedures for both Japanese nationality and PR status. Their wish also included for nationality to be granted to their children born in Japan.

Table 1 below lists the total number of new Japanese nationality granted to the BCJ in each of the last ten years from 2003 to 2013, together with those of the grantees from three Indo-Chinese states as well as that of all the grantees in Japan, regardless of nationality. In the absence of the total number of applicants each year, it is admittedly difficult to ascertain the BCJ’s overall trend in the acquisition of Japanese nationality. However, in the last ten years, a total of 338 BCJ, which is an average of 31 per year, have obtained...
Japanese nationality. Though this number is less than the number of those
who have acquired PR status in the same period, the number is still quite
noteworthy. As it is not so unusual for refugees from Indo-China to acquire
Japanese nationality after several decades of residence in Japan, the future
trend for the BCJ may also lean toward a status of more stable residence like
PR or Japanese nationality. If so, their numbers in this respect would increase
in the future, as shown by the appearance of such an embryonic sign already.

Table 1: The number of Japanese nationality granted to BCJ and people from Indo-China

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>17,633</td>
<td>16,336</td>
<td>15,251</td>
<td>14,108</td>
<td>14,680</td>
<td>13,218</td>
<td>14,785</td>
<td>13,072</td>
<td>10,359</td>
<td>10,622</td>
<td>8,646</td>
<td>148,750</td>
</tr>
<tr>
<td>BCJ</td>
<td>10</td>
<td>31</td>
<td>25</td>
<td>31</td>
<td>38</td>
<td>16</td>
<td>36</td>
<td>32</td>
<td>23</td>
<td>42</td>
<td>28</td>
<td>338</td>
</tr>
<tr>
<td>VN</td>
<td>167</td>
<td>192</td>
<td>112</td>
<td>125</td>
<td>162</td>
<td>179</td>
<td>138</td>
<td>192</td>
<td>132</td>
<td>86</td>
<td>139</td>
<td>1,624</td>
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<td>Laos</td>
<td>30</td>
<td>8</td>
<td>8</td>
<td>15</td>
<td>13</td>
<td>17</td>
<td>26</td>
<td>25</td>
<td>19</td>
<td>21</td>
<td>6</td>
<td>514</td>
</tr>
<tr>
<td>CMB</td>
<td>50</td>
<td>54</td>
<td>61</td>
<td>48</td>
<td>18</td>
<td>43</td>
<td>70</td>
<td>45</td>
<td>39</td>
<td>26</td>
<td>60</td>
<td>188</td>
</tr>
</tbody>
</table>

Sources: Japanese Ministry of Justice, April 4, 2013

All foreigners pursuing a career in Japan are required to obtain a valid
visa for their stay, and the more popular statuses pursued include engineer,
student, and spouse of a Japanese citizen. Among all the 27 statuses legally
recognized in Japan, PR is used for an indefinite time of residence and is the
foremost among the most stable resident statuses for foreigners in Japan.

As of the end of 2012, PR status holders numbered more than six
hundred thousand out of over two million registered foreigners in Japan,
and this number then has been on a steady increase. A PR holder is of
course free to engage in any kind of activity legally permitted in Japan –the
most common of which are employment, education, marriage, and the likes–
for an unlimited duration. PR status, together with an employment visa, is
considered to fulfill the requisite residency, which is a necessary prerequisite
in a nationality application. Thus, for example, the Designated Activity Visa,
possessed by many settled resident BCJs, should permit its holder to be
eligible for PR status, when kept for three consecutive years.

As of the end of 2013, among Japan’s long-term foreign residents, the
statistics show that more than half of the total of 8,946 BCJs in Japan are
holding a stable visa.6 When broken down into specific categories, they are
as follows: 1,371 PR holders, 2,000 “Long-term Residents”, 90 Spouses of PR,

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6 This number includes 185 short-term visitors, such as tourists, who hold visas valid for
less than three months.
401 Spouses of Japanese, 1,179 Designated Activity Visa holders, 502 “Family Stay,” etc. Since 2005, PR has increased by about 100 each year (see below for figures cited).

**Figure 1**: Figures of the BCJ’s acquisition of stable visas

![Graph showing the acquisition of stable visas](image)

Sources: Japanese Ministry of Justice.

The statistics in Figure 1 above indicate a general tendency of the BCJ toward stable permanent residency in Japan. At the end of 2013, out of the total number of registered BCJ of 8,946, the number of PR status holders was 1,371, more than 15% of the total. When added to this number those who held the potential eligibility for PR status, such as holders of the Designated Activity Visa and the likes, together they amounted to almost half of the total number of registered BCJ. Given the recent increasing trend, the number of the BCJ acquiring all sorts of PR status, as mentioned already, would undoubtedly go up.
(2) Survey

The Federation of Workers’ Union of the Burmese Citizens–Japan (“FWUBC”) is a union organized by the BCJ with the support of a Japanese labor union. The FWUBC conducted a survey of the repatriation trend in the two consecutive years of 2012 and 2013. In the 2012 survey, 148 union members, 4% of the total membership, comprising of both Ethnics and Bama, participated. In spite of their residency of more than ten years by then, 92% said that they did not wish to go back to Burma even if the country became fully democratized. Their main reasons were: Many of them already had a family in Japan and thought that they were already too old to start what would amount to a new life in Burma. In addition, they wanted no interruption of their children’s education in Japan, especially, when the quality of education in Burma was not yet at the same level as that in Japan. Also, many felt that the on-going reform in Burma was still superficial, with any real progress in political and economic developments still a long way away. Most of the respondents, nevertheless, hoped to make a short return visit to their homeland someday.

In the 2013 survey, out of the total of 128 respondents, which included both members and non-members of the union, 70 had been in Japan less than ten years while 58 had been living there longer. On the other hand, only 12% of the respondents held PR status while 33% were “Long-Term Residents,” another 26% fell under the “Designated Activities” category, and the rest held the status of either “Provisional Stay” or so-called “Provisional Release.” Surprisingly, a whopping 84% of all the respondents wished to live in Japan permanently whereas the remainder preferred to go back to Burma between one and fifteen years later. Interestingly, the rate of their preference to remain in Japan was slightly lower than the one from the survey conducted a year earlier, although the overall result proved little change in the BCJ’s preference to stay in Japan in the future. The responses to the survey regarding job conditions were also interesting in that a mere 10% of the respondents rated them as “good,” while 73% rated them “fair” and the remaining 17%, “bad.” Thus, as far as the general conditions of the jobs they held in Japan was concerned, their replies could be taken to render support toward their continuous stay in Japan.

7 Those who came just to participate in a traditional Burmese water festival held then in Tokyo were included.
From the two surveys described above, it may be safe to conclude that the BCJ’s strong desires in general tend to lean toward their permanent stay in Japan. Such desires at their base, no doubt, rest on both the personal and non-personal reasons of the respondents. Apparently, the most important among their personal reasons is their children’s education in Japan, particularly the parents’ wish for the continuation of their children’s education in Japan without interruption. Also, noteworthy among their non-personal reasons are the many pessimistic assessments of the on-going reforms in Burma, and this in turn promises not much of a future as far as their job opportunities are concerned. For them, the lack in likelihood of landing decent employment in Burma in the future apparently stands in sharp contrast to the job opportunities seemingly available in Japan today, even if such availability is evidently more likely found in the lower wage labor market with less bearable working conditions. Such is, surprisingly or not, the reality of life they must face in Japan today.

(3) Interviews

Between July 2005 and June 2014, the author conducted a series of interviews with the BCJ, together with a number of Ethnics, to collect data to probe the “invisible code” aspects. Those interviewed were mostly ones who had come to Japan in 1980’s and 1990’s as refugees.\(^8\) Regardless of their family situation\(^9\) most thought of themselves as being in no position to go back to their homeland, even for a temporary short visit, because of their status as persona non grata there. This was particularly true for those who were acknowledged political refugees abroad. Compounding their situation is that many of them, as long-time Burmese exiles abroad, no longer possessed valid passports.

The total number of the BCJ’s children born in Japan is not known, but the number is believed to be on the increase every year. The older ones among them, already reaching their thirties in age, in some cases have a professionally viable occupation in Japan. Interestingly though, those who already went through the application process for PR status or nationality in Japan often said that their decision to do so was for the sake of their

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\(^8\) Some came a bit earlier or even at later times for various reasons.

\(^9\) Some lived with their family in Japan while others left their family in Burma.
children’s future in Japan. A strong interest in the education of their children is evident. It was in fact this strong interest that saw them bear the high cost of their children’s education at a private school even when they were back in Burma, instead of sending them to the less expensive public school, indeed, all for the purpose of giving them a better education.

A former civil servant in Yangon believed that education in Japan is much better than in Burma.¹⁰ For instance, public schools in Japan always offer far more variety in subjects including arts, music, or physical education, which public schools in Burma do not. In fact, according to her, children in Burma are sent to a specialized private school at an extra cost to study such subjects. Also, an Ethnic interviewee professed: “In Burma, no one trusts our public school system, and we, the Ethnics, in particular, find no decent schools in our rural area. So, we have no choice but to send our children to an urban school usually far away from home for no reason but to have a decent education, especially, in higher education.”¹¹

A number of the BCJ interviewed also mentioned a problem quite different from the ones described above. One such problem explained by a BCJ mother interviewed was a dilemma created by her two children who went to a public school in Japan.¹² The dilemma arose because her children always speak in Japanese, whether in school or not. Even when their elders at home talk to them in their native tongue, they invariably answer back in Japanese. Though the children understand most of what their first-generation-immigrant parents say in their native tongue, they seldom reply back in the same language. The mother’s worry is that should her children grow up regarding themselves as Japanese, as they seem to do now, someday, when they really discover in shock their true ethnic background, it by then may be too late for them to avoid confusion known as identity crisis. To prevent such tragedy from happening, their children are frequently reminded of their true ethnicity and are even sent to their ethnic language school on weekends, but at home when the children open their mouths, no ethnic language comes out.

The truth is that because of Burma’s formidable diversity in ethnic languages and cultures, a well-trained teacher in any ethnic language and culture is very hard to find in even in Burma and, of course, much less

¹⁰ Interview with Ms. T in March, 2013 in Tokyo.
¹¹ Interview with Mr. B on April 30, 2014 in Tokyo.
¹² Interview with Ms. O on May 15, 2014 in Tokyo.
in Japan. Even in Burma, where the propagation of all ethnic traditions, at least in theory, is permissible, well-qualified instructors, as well as all good instructional materials, are very rare commodities. One knowledgeable Ethnic interviewee pointed out, “Here in Japan when classes are held to demonstrate Burma’s cultural traditions to a general audience, they seldom include any of the over 135 minority ethnic cultural traditions. Ironically, it is too often the majority Bama’s culture and tradition, and perhaps, one or two major ethnic minorities’ cultures reinforcing a widely-held, but erroneous, notion that Burma’s cultural tradition consists of only that of the majority Bama, plus one or two major ethnic minorities. Thus, with no inklings of the more obscure ethnic cultural traditions in such demonstrations, Burma’s true cultural variance gets lost too frequently. Even if, on a rare occasion, such obscure minority cultures receive public exposure, the ironic truth is that too often they, seemingly obsessed by the presumed grandeur of their unique cultural tradition, often vie to edge each other out for greater recognition in a blind competition among themselves.

Generally speaking, the more nostalgic, older first-generation BCJ are still reluctant to give up their Burmese nationality in spite of their realization that such nationality helps them little in real life. Nevertheless they wish to hold on to it because they think it is the only proof they have of their real national origin. Not everybody is this nostalgic, the point of which is well illustrated by the story of Ms. A who has obtained Japanese nationality after living in Japan for ten years.13 Since her arrival with her family in the early 2000s, she obtained a “Long-Term” resident visa in Japan at first, and then, a student visa, and finally Japanese nationality. Her reason for changing status from long-term resident to student was her discovery of a “weakness” inherent in the Burmese passport. What she believes this to be stems from her disappointment in failing to secure a U.S. visa for a foreign visitor, which she applied for through a travel agency, attaching all the necessary documents prepared with professional help, and yet only she, a Burmese passport holder, was denied the visa.

This experience has made her pay more attention to the nominal status identity, especially as it relates to her residence status in Japan. Her change to a student visa consequently was not so much on account of her status as a student then, but because of her belief in view of her bitter experience above that a student visa is somehow “stronger” than a long-term resident

13 Interview with Ms. A on July 5, 2014 in Tokyo.
visa in Japan. Yet, her long-term need for an indefinite stay in Japan would have necessitated her to secure Japanese nationality in the end. Further, when her father said to her, “Even though you have altered your identity on paper, this does not mean you’ve changed the true identity of your real-self. Unless you retain an unmistakably certifiable status identification, you would maintain no identity of yours for yourself.” Although she was tormented by the choice she had to make, her decision has ultimately led her to acquire Japanese nationality as a means to overcome “the weakness” of her Burmese passport and keep her own self-identity. Since acquiring nationality, she has made a conscious effort to maintain her Burmese way of life lest her fluency in Japanese might easily lead her to become more and more like a Japanese person in Japanese society. In fact, she even throws her undisguised displeasure at herself when she finds herself acting and thinking, though unconsciously, like a Japanese.

One Japanese immigration lawyer, Mr. K, expects more and more BCJ to apply, as they meet the eligibility requirements, for PR status and/or Japanese nationality in the future. These eligibility requirements are: First, five years of residence in Japan after obtaining a Long-term Resident visa or formal recognition as a refugee; second, a stable job with a decent salary for the three consecutive years prior to the time that acquisition is desired; and third, no record of crimes in any country. On the first condition, he points out that for those BCJ who were granted refugee status in 2006-08, they will soon be eligible to apply for PR status, and that for most BCJ to meet the remaining two requirements will not be so hard as their generally commendable past records indicate. As discussed above, the information obtained through the interviews clearly unveils the BCJ’s desire to stay in Japan permanently and this would propel them to seek a more stable status once they are able to meet the eligibility requirements mentioned above. So long as they keep maintaining a commendably clean record as they have in the past, the future of the BCJ in Japan could certainly become brighter once they obtain the PR status and/or the Japanese nationality that they desire.

**CONCLUSION**

All the pertinent data above, when analyzed through the applications

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14 Interview with Mr. K on May, 2014 in Tokyo.
of the two separate perspectives explicated by Chen, et al., reveal support for the following findings: First, as already pointed out more than once in the paper, most of the BCJ, despite the ongoing reforms in Burma, hope to stay permanently in Japan, instead of returning to their homeland. Second, the consequences of their long-term stay in Japan, importantly affecting the life and identity of the BCJ in their host society, should be viewed at two different levels, the legal and the personal. Even though the Japanese legal system provides the way for the BCJ to become a Japanese citizen, the actual number of the BCJ who have taken advantage of it thus far seems to amount to not very many. Actually, the number looks rather small, particularly in comparison with the relatively large number of the BCJ who currently hold PR status. The number may however grow rapidly in the near future, just as it happened with refugees from the Indo-Chinese states, which in fact was in a matter of a few decades after their resettlement in Japan.

Even without acquiring Japanese nationality, the BCJ still could live indefinitely in Japan by obtaining PR status. In fact, many BCJ up to now have understandably chosen this. This may be due to their circumstances, in that most BCJ came to Japan with no thought of ever becoming permanent residents in their host country. But, as it has turned out, the unexpected continuation of harsh military rule in Burma has eventually diminished any prospect of their immediate return to their homeland. Faced with a life of aimless drift, they consequently found themselves in an unenviable situation that has left them with little choice but to acquire PR status, especially when they see an ever-diminishing probability of return to their homeland in the foreseeable future.

Once settled as PR status holders, even without legally becoming Japanese citizens, many BCJ found themselves leading, even if still nominally, the life of “Burmese-Japanese” in their host society. That is, they had jobs, homes, and families, often with children, whose education was becoming all important for them even though it was all in Japanese and mostly at Japanese schools. In Burma, in an ironic contradistinction, many of them no longer had homes or families. An impending question for them accordingly was: How would what was once a novice life of the BCJ in their host country, now living more and more like Japanese in Japanese society, impact them and their children—particularly, those born and educated in Japan—in molding their self-identity in the future?

In terms of their point of contact with the Japanese, the most immediate and indispensable environment for the majority of the BCJ is their work
Thus, it is to their working environments that we should turn to seek the implicit, if not explicit, underlying causes that would importantly contribute to the formulation of the BCJ’s self-identity. Despite their higher education in Burma, many BCJ work in the irregular, low-wage labor market, mostly in the service industry such as restaurants or hotels in Japan. Despite long hours of unrewarding hard work, they seem to have somehow managed to maintain a relatively good relationship with their employers, who are often Japanese. Unfortunately, not much in the way of concrete information is available on their Japanese employers or even on their Japanese co-workers. The existence of an amiable relationship between them nevertheless seems to be apparent, as some BCJ are known to invite their Japanese boss and co-workers to special occasions, like a wedding in the family or occasionally to go out together for a drink after the day’s work. Also, when their relationship grows into some sort of mutual trust, the Japanese employer has in some cases shown his/her willingness to comply to their request to write to the immigration office a petition on behalf of their BCJ employee for an application to obtain a more stable status of residence in Japan.

Needless-to-say, most BCJ employees would understandably try hard to win their Japanese employer’s confidence, especially, when they have favors to ask. However, it should also be noted that the kinds of work many BCJ get are often the ones that most Japanese workers generally shun away from because of the low pay and/or hardship involved. Of course, behind such bearing of hardship on the part of the BCJ is dire economic necessity, which often leaves them with little other choice than to take on even the least rewarding jobs. All hardships notwithstanding, an obvious fact is that there is room for the BCJ, as a labor force, to fill in today’s labor market in Japan, and that they have now been accepted as an indispensable work force in certain sectors of their host country.

And the last finding of this study is on the all-important question of how the BCJ as well as the “Burmese-Japanese” should find their place as new members of Japanese society, where their basic civil rights, just as those of the “Japanese-Japanese,” are supposed to be protected. As stated already, the emergence of the “Burmese-Japanese” is already a reality in Japan today. In fact, there is already a sizable number of such people with a legally recognized resident status in Japan and there will be even more in the near future. As we have seen in the case of Ms. A, however, what has already become her primary concern, as might soon be the case for certain BCJ, is no longer the passport as proof of her nationality, but her visa in Japan as a
student. In other words, the international situation that Burma currently finds itself in impacted Ms. A’s immediate choice to hold a student visa in Japan. This was no doubt a choice of expediency but also part of her ultimate goal to secure a “stronger” identification, like that of a Japanese identity as a student over the “weaker” Burmese nationality of hers.

Japan could respond to this new twist of national identification by introducing a system of dual citizenship that would allow the BCJ to retain their original nationality for their self-identity to fit into their new lives as “Burmese-Japanese” in their host society. Although most BCJ have yet to hold Japanese nationality, their life in Japanese society as newcomers – especially the young BCJ generation born and educated in Japan – will eventually become more and more like that of the “Japanese-Japanese” in society. Therefore it would make sense if Japan recognizes dual citizenship by letting those BCJ who wish to keep their Burmese nationality as a mark of their national origin. Such a policy may compel Japan to adopt a partial “Jus Soli” system. Should Japan adapt itself to this system, it would surely not be contrary to the current trend worldwide toward an increasingly globalized society.

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Abstract

The core premise of the new model of great-power relationship is that structural conflict between China and the US is not inevitable. East Asia has become a test ground for these two countries to explore the possibility of building a new type of great-power relationship. Is Obama’s strategic rebalance undermining the already flimsy strategic trust between the two countries? Is it possible for China and the United States to build a new type of great-power relationship to help avoid confrontation and conflict? Seeking answers to these important questions, this article argues that China’s rise has forced Beijing and Washington to make a strategic choice to avoid the structural conflict between a rising power and incumbent superpower. The US strategic rebalance to address the rapidly shifting balance of power in the region where China has emerged as an ever-more influential power has inevitably caused China’s suspicion about the US containment of China’s rise. A containment, nevertheless, is not a viable objective because the attempt has unsettling consequences not only for China but also for the US and regional security and prosperity. As a result, these two countries have to find a realist approach to work together and construct a regional order to manage the structural confrontation between a rising power and incumbent power.

President Xi Jinping has called for building a new model of great-power relationship with the US since he came to power in 2013. The core premise of such relationship is that China’s rise would not be accompanied by the
conflict and war that has marred many moments in history when rising powers rub up against the incumbent power. The Obama administration has responded positively to President Xi’s call as it resonates with the long-standing US efforts to integrate a rising China into the established international system. A new type of great-power relationship, however, cannot be built simply on the good will of leaders, given the intensification of competition between the two giants. In particular, the Obama administration’s strategic rebalance toward the Asia-Pacific has aroused a great deal of suspicion in China that the strategic rebalance was an attempt to contain China’s rise. The Asia-Pacific region, therefore, has become a test ground to see if China and the US could build a new model of great-power relationship. Is Obama’s strategic rebalance undermining the flimsy strategic trust between the two countries, and is it possible for China and the United States to build a new model of great-power relationship in the Asia Pacific? These are the questions that this article seeks answers for. The article is divided into four parts: first, what is the concept of a new model of major power relations; second, how has Obama’s strategic rebalance made the Asia-Pacific a test ground for the new model; third, is containment a viable option for the US; and finally, what is a realist approach toward building a new model of US-China relations?

Keyword: China-US relations, balance of power in the Asia-Pacific, containment, China’s core national interests, US Strategic rebalance toward the Asia Pacific

How new is the New Sino-US Relationship Model?

Placing the Sino-US relationship as an example of a new model of great-power relations, the Chinese government for the first time officially acknowledged China as a “great power” and viewed itself as one among equals in relations with the US and other great powers. This is certainly new and significant because while Chinese leaders have viewed China as inherently a great power by virtue of its history, culture, and population and cherish its rising power status, they had emphasized that China was still a developing country and tried to lay down their great power aspirations for many years after the end of the Cold War. The notion, however, is not a new organizing principle, or a new vision. First, peaceful forms of power transition
have existed in history, notably between the US and Great Britain in the
early 20th century. Second, a great power is defined by the traditional realist
conception of national power. Although China has talked about a new type of
great-power relations in a multipolar world to include its ties with the new
poles such as Russia, India, Japan, Brazil and South Africa,¹ these relations do
not rise to the level of the Sino-US relationship. Only the US and China are,
as the two largest economies, qualified as great powers that have to work
together to “blaze a new trail that is different from the traditional path of
conflict and confrontation between great powers, and work together to build
a new model of major-country relationship based on mutual respect and win-
win cooperation” (Yang, 2013:13). Third, this is just another façade on the old
rhetoric of peaceful coexistence: China and the US could coexist peacefully if
they respect each other’s core interests and make their strategic aspirations
compatible. Chinese leaders have always hoped to maintain a friendly and
cooperative relationship with the US because the Sino-U.S. relationship is the
most important bilateral relationship, as well as the most frustrating foreign
policy challenge for China as the two countries have a complicated mix of
cooperative and competitive elements. Since the end of the Cold War, the
three administrations of Chinese leadership, from Jiang Zemin to Hu Jintao
and to Xi Jinping, have used different phrases to express the same intention
of building a cooperative and constructive relationship with the US.

“Chinese leaders are in essence realists. Their making of Chinese foreign
policy often starts from a careful assessment of China’s relative power in the
world” (Zhao, 2012:377). Conditioned by China’s circumscribed capabilities
and constrained geostrategic position immediately after the end of the Cold
War, Jiang Zeming followed a taoguang yanghui policy set by Deng Xiaoping
to keep a low profile and concentrate on building up its national strength.
In relations with the US, China tried “learning to live with the hegemon,”
making adaptation and policy adjustment to the reality of US dominance in
the international system (Jia, 2005:395). Chinese leaders, therefore, avoided
taking confrontational postures in response to US sanctions after Tiananmen
in 1989, the inadvertent US bombing of the Chinese embassy in 1999, and
the mid-air collision between a Chinese jet fighter and a US EP-3 surveillance

When Hu Jintao came to office in 2012, China had made great progress

¹ The center for the study of socialist theory with Chinese characteristics, the Chinese
to build its comprehensive national strength and improve its geopolitical position. The prospect of China's rise as a great power sparked anxiety and hot debate about China's great power aspirations in many world capitals. The Hu leadership, however, continued to play down its pretense to being a great power to cope with the many complex problems coming together with China's rising power status, such as the suspicions of China's intentions, extensive international scrutiny of China's domestic and foreign policy performance, intensive competition for resources, and environmental threats. Trying to build the image of a rising China as a peace-loving and responsible power, the Hu leadership proposed the new concepts of “China's peaceful rise/development” and “harmonious world.” The concept of “China's peaceful rise” was put forward first by Hu's aid, Zheng Bijian, at the 2003 Boao Forum, an annual high level gathering of political and business leaders from Asia-Pacific countries on China’s Hainan Island. Premier Wen Jiabao endorsed this concept in his New York City speech in December 2003. After some Chinese scholars and officials expressed their concerns about whether using the word “rise” might intimidate some of China's Asian neighbors it might imply attaining superpower status, Hu Jintao used the words “peaceful development” in his speech at the 2004 Boao Forum. To reconcile “rise” and “development”, Zheng Bijian in his 2005 Boao Forum speech elaborated: “China has chosen a strategy to develop by taking advantage of the peaceful international environment, and at the same time to maintain world peace through its development. This is a strategy of peaceful rise, namely, a strategy of peaceful development” (Zheng, 2005:3).

The concept of a harmonious world was presented by President Hu Jintao in his September 15, 2005 speech at the UN General Assembly (Liu, 2009:479). According to a discussion among Chinese foreign affairs specialists, the concept signified first of all the importance of the co-existence of diversified civilizations. Tolerance, which is free of restrictions by any ideologies and social systems, played a role of paramount importance in bringing about the peaceful co-existence of different civilizations. Applying this concept to international affairs meant consultation among all countries involved, not unilateralism driven by hegemonic ambitions. Big powers could play a key role in building the world of harmony because the nature of relations between the leading global powers would determine war and peace on the world stage and the smooth running of world affairs and upheavals (Lun, 2005:4).

Cherishing China’s rising power status, its leaders were very cautious
to hide their great power aspirations. Interestingly, while many Chinese were initially flattered by the G-2 idea that China was recognized as a global power, they came to criticize the notion as “a potential trap for China that could expose it on the world stage” (Parello-Plesner, 2009). Concealing the great power aspirations, Premier Wen Jiabao rejected the G-2 idea as “not appropriate” and reiterated that “China remains a developing country despite remarkable achievements and its modernization will take a long time and the efforts of several generations” (Xinhua, 2009).

In the wake of the Xi Jinping administration, China further narrowed the gap with the US. Weathering the global slowdown better than many Western countries, more and more Chinese began to see a shift in the world balance of power in China’s favor. Chinese policy makers and scholars, therefore, started to debate if China should abandon the passive “tiaoguang yanghui” policy. With the US in financial turmoil and seemingly desperate for cash-rich China to come to its aid, the perception of a troubled US still attempting to keep China down makes Chinese leaders less willing to make adaptations. Although far from a full reversal of what had long been a mixed practice, the center of gravity in Chinese statements and actions has shifted toward less accommodation.

Facing rumblings of discontent from those who saw the global downturn as a chance for China to reclaim its great power status, while the Xi Jinping leadership displayed an unusually hawkish position in responses to the U.S. strategic rebalancing toward Asia, President Xi remained [MI3] maintained a realist position to assess China’s relationship with the US. Affirming the continuing validity of the strategic judgment that the first 20 years of the 21st century as a “period of strategic opportunity” in which a benign external environment would allow China to eventually achieve the “Great Revitalization of the Chinese Nation” and the “Chinese Dream,” the Xi Leadership found that the “period of strategic opportunity” was under unprecedented stress and that the U.S. rebalance was one source of the stress. Therefore, Xi Jinping started calling for a dialogue to build a new type of great power relations. Beijing promises not to challenge US global dominance and, in return, the US respects China’s core interests (Chan, 2013). The primary goal of the new model of Sino-US relationship, as Chinese Foreign Minister Wang Yi said, is to free the two countries “from the so-called Thucydides trap with the established power and the emerging power colliding inexorably” and to “deliver non-conflict and non-confrontation by both sides” (Zhang, 2014).

Some people in the US have been reluctant to go along with such lofty rhetoric and preferred to work with China on concrete issue-areas
because it may lead to an implicit acceptance of China’s conception of core interests. But the Obama administration made positive response to Xi’s call because “it is an obvious statement that war between the U.S. and China would be catastrophic, wasteful, and a colossal failure of both countries’ grand strategies. The consequences would be difficult to quantify — massive repercussions to the global economy, loss of life, and possible escalation to nuclear war. Neither the U.S. nor China could possibly ‘win’ from such a war, at least using any rational definition of victory” (Yale, 2013). In a March 2012 speech celebrating the 40th anniversary of Nixon’s historical China visit, then Secretary Hillary Clinton urged Beijing and Washington “to find an answer, a new answer to the ancient question of what happens when an established power and a rising power meet” (Clinton, 2012). Tom Donilon, Obama’s national security adviser at the time, made it clear that the Obama administration joined Beijing in rejecting the premise “that a rising power and an established power are somehow destined for conflict” and would work with China “to build a new model of relations between an existing power and an emerging one. Xi Jinping and President Obama have both endorsed this goal” (Donilon, 2013). At a background briefing before the June 2013 California summit between Obama and Xi, a White House Senior official also recognized that because a rising power and an established power could come into conflict at some point [MI4], both leaders agreed on the importance of putting in place patterns of interaction that allow them to “deal with the greatest sources of instability and competition that could take this relationship down the pathway toward rivalry” (Senior Administration Officials, USA, 2013). Making her first major speech on the US Asian policy in November 2013, Susan E. Rice, the successor to Tom Donilon as Obama’s national security adviser, also confirmed that the United States was seeking “a new model of major power relations. That means managing inevitable competition while forging deeper cooperation on issues where our interests converge” (Rice, 2013).

Asia-Pacific as a Test Ground for Building a New Model of Sino-US Relationship

In spite of the good will and endorsement of leaders in both Beijing and Washington, the nature of the US–China relationship has always been characterized by various degrees of friction and no amount of sophisticated
diplomacy may be able to easily remove these frictions. In particular, President Obama’s strategic rebalance toward the Asia-Pacific has made the region a test ground for building a new model of US-China relationship. While Washington claims that the aim of the rebalance is to pursue broader US economic and security interests in the part of the world that will be of growing strategic and economic importance in the 21st century and that the renewal of its alliances is a positive factor in maintaining regional peace, many in Beijing believe that as part of a containment strategy aimed at hindering China’s rise, the rebalance is to ensure the security of the US and its allies at the expense of China and that it is therefore a threat to regional security. Convincing Beijing that the aim of the rebalance is not to contain China while simultaneously demonstrating Washington’s commitment to its allies is inherently a huge challenge to the Obama administration. Although President Obama has repeatedly assured Beijing that “we welcome China’s peaceful rise and a strong and prosperous China is one that can help bring stability and prosperity to the region and the world” (Obama and Xi, 2012), Beijing has never been convinced and is still skeptical about the US rationale behind the policy to prevent China from rising to its rightful place.

The US has been a Pacific power with significant economic, political, and security interests in the region since the 19th century. US involvement in the Asia-Pacific, however, has not been consistent, with frequent shifts in focus and fickle commitments, depending on its ability and will to set policy priorities and define US interests. The US has regularly rebalanced and adjusted its involvement in the region. At least three rebalances can be identified since the end of the Cold War.

First, while America invested heavily in the regional security to contain the Soviet expansion even at the cost of military intervention during the Cold War, the end of the Cold War ushered in an era of precarious peace, which sustained a region-wide economic growth and prosperity, compelling the US to rebalance its policy priorities and reduce the security involvement and military deployment. One significant example is the US decision to withdraw altogether from its bases in the Philippines in 1991. Downplaying military commitments, the US tried to pursue multiple, often contradictory, policy objectives, resulting in unusually public disputes with many countries in the region, including with China over most-favored-nation trade status, human rights, weapons proliferation, and the Taiwan issue, with Japan over trade, and with Myanmar over political legitimacy. Many Southeast Asian countries had a bitter experience with the US during the devastating financial crisis
of 1997-98. As the US helped Mexico overcome a similar crisis three years earlier but did not come to their aid, many Southeast Asian countries became ambivalent about to continuing to rely on help from Washington.

Second, when President George W. Bush came to office in 2000, he promised a reinvigorated engagement with Asian allies. The terrorist attack on September 11, 2001, however, forced the US to rebalance its priorities because the wars in Afghanistan and Iraq turned its attention almost exclusively toward the Middle East. As a result, the Asia-Pacific never found its place of pride on the Bush agenda. As Richard Armitage, deputy secretary of state in the first term of the Bush administration, reflected, “It’s not that we’re ignoring Asia a little bit; we’re ignoring it totally.” The evidence included the disastrous decision by secretary of state Condoleezza Rice to miss two ASEAN regional forums in 2005 and 2007 (Sheridan, 2007). Although all major powers in the region, including China, Japan, Korea, India, Australia, and New Zealand, held summits with ASEAN, Washington resisted a US-ASEAN summit in part because it was difficult to get President Bush to travel to Asia just to attend what was perceived as a talk shop. The attendance and summit meeting issue was not trivial because showing up signalled commitment and interest and absence not only showed inattention but also generated negative criticism rather than affection.

The Asia-Pacific continued to command US attention, but it was only because Washington regarded Southeast Asia, home to 250 million Muslims, as the second front of the Global War on Terror and because North Korea posed a direct and growing challenge to the administration’s non-proliferation policy. The Bush administration had a better chance of winning the hearts and minds of Muslims in Southeast Asia than in any other region of the world because Islam in Southeast Asia is historically practiced in a more syncretic and tolerant manner than in the Middle East. As a matter of fact, there were relatively few acts of terror against American interests in the region during the Bush years. The US, however, was in danger of losing the contest for the hearts and minds of the Muslims in Southeast Asia due to the perceived US bias against Islam. Although most governments in Southeast Asia denounced violence and terrorism, they were not convinced that the war on terror was their fight and adamant about what the US was going to do in their region. The war on terror, therefore, created substantial problems for the US image and produced unease about a clash of civilizations between Islam and the West. In addition, the Bush administration took an essentially one-dimensional approach to focus on the counter-terrorism agenda almost
to the exclusion of anything else, detracting the US from other strategic objectives. Although the US had extensive trade and investment ties with Southeast Asian countries and maintained a strong military presence, the Bush administration never articulated a comprehensive strategy and vision for Asia in general, or for ASEAN in particular. Many regional leaders were concerned that the war on terror became a substitute for a broad strategy of engagement to address the region’s emerging challenges.

The US also ran into serious problems with its traditional allies of Japan and South Korea on the North Korean nuclear issue. While the Bush administration denounced Pyongyang a member of the “axis of evil,” South Korea continued to expand economic ties with the North as few South Koreans shared US alarm about North Korea’s nuclear programs. Ironically, opinion polls showed that many South Koreans viewed the US as a greater threat to peace than North Korea (Mallet, 2005). After President Bush succeeded in pushing negotiations with North Korea into a multilateral framework of Six-Party Talks, the US was weary of North Korean prevarication and demanded up-front concessions. Its negotiating partners, particularly China, South Korea, and Russia, however, all pressured Washington to adopt a more conciliatory and flexible posture. Only Japan took a hard line, mainly because the Japanese were incensed by North Korea’s past kidnapings of Japanese citizens. The Bush administration had, in effect, outsourced its North Korea issue to China, although Beijing’s agenda was significantly different from Washington’s (Hathaway, 2005). The six party talks came to a dead end without establishing any mechanisms to prevent Pyongyang from the further production of the fissile material necessary for nuclear weapons. North Korea’s nuclear weapon capabilities at the end of the Bush administration were greater than when Bush entered office. The situation on the Korean peninsula illustrated how Washington’s influence in Asia was waning as the divergences of interests between the US and its various allies became increasingly evident.

The Obama administration’s coming to office started the third rebalance. Claiming to be the first US Pacific President because of his childhood years in Indonesia and his upbringing in Hawaii, the Obama administration came to office and wielded American leadership in the region, which had been in doubt due to the Bush administration’s focus on counter-terrorism in the Middle East. The first foreign leader that President Obama hosted in the White House was the Japanese prime minister. Secretary of State Hillary Clinton’s inaugural overseas trip was to Asia. Taking a “forward-deployed”
diplomacy, the Obama administration pursued US interests along multiple lines of action: strengthening bilateral security alliances; deepening working relationships with emerging powers, including with China; engaging with regional multilateral institutions; expanding trade and investment; forging a broad-based military presence; and advancing democracy and human rights (Clinton, 2011). Recognizing that the wars in Afghanistan and Iraq had led Washington to under-invest in Asia, an emerging economic hub and a geo-strategic center critical to U.S. national security and the health of the US economy, the Obama administration decided to “pivot” toward the Asia-Pacific after winding down the wars in the Middle East. In this case, “This reshuffling of priorities represents an acknowledgment of the changing geopolitical realities of the twenty-first century – not simply a response to China” (Brimley, 2013).

Although the renewed American interest in the region is not all about China, China holds a central place in the rebalance because one of major rationales behind the rebalance is a response to the call by many Asian Pacific countries to provide a constructive counterweight to China’s rising influence, which has altered the power balance in the region.

In the late 1980s, China designed a mulin zhengce (good neighboring policy) and improved relations with many of the periphery countries previously in tension. The success of China’s good neighboring policy was coincided with the era of American relative inattention to the region during the Bush administration. In light of US failure, Elizabeth Economy made a prediction of three possible power reconfigurations in the region in her article published in 2005. The best-case scenario is that China will share leadership with the United States and Japan, helping forge consensus within the region to address its political, security and economic challenges. The second scenario, less attractive from the US perspective, suggests a traditional balancing act, in which the nations of Asia use China to ignore the US on selective issues, developing alternative approaches to security, political and economic affairs in ways that more directly serve their domestic interests. The worst case scenario is that as China assumes a more dominant role in the region, the US will confront an Asia that is less likely to respond favorably to its security initiatives, less dependent on its economic leadership and US-run financial institutions, and potentially less open to the full range of US diplomatic initiatives on issues such as human rights and terrorism (Economy, 2005:424).

None of the three scenarios, however, came true because China embarked
on a new pattern of asserting its sovereignty claims in the territorial disputes with its neighbors in the wake of the global financial crisis in 2009. China’s core national interests suddenly became a fashionable term, appearing more and more frequently in Chinese publications. Chosen obviously with intent to signal the resolve in China’s sovereignty and territorial claims that it deems important enough to go to war over, this term is defined as “the bottom-line of national survival” and “essentially nonnegotiable in nature” (Chen, 2011). While China’s official statements on sovereignty and territorial integrity used to refer almost exclusively to the Taiwan, Tibet and Xinjiang issues (Wu, 2012:393), Chinese leaders in 2009 expanded the core interest issues to include territorial claims in the South and East China Seas, making strong reactions to a chain of incidents, including repeated attempts to prevent Vietnamese and Philippine vessels from exploring oil and gas in disputed waters and punitive actions during the standoff over Japan’s detention of a Chinese trawler captain and the Japanese government’s decision to nationalize the disputed Senkaku/Diaoyu Islands. These incidents provoked diplomatic crises during which China deployed warships to support its sovereignty claims.

Confronting a changing geopolitical environment in Asia, the US posture of strategic rebalance was welcomed by and came at the invitation of many countries that were either worried about China’s muscle flexing or trying to exacerbate regional tensions in order to stoke fears of a rising China. Asians used to ask, “what we could get from the Americans in return for their military personnel and basing rights. The new question is, what will we have to give them to get them to stay? And it’s all because of China” (Gordon, 2011). The rebalance is thus easily interpreted as a US attempt to resist China’s challenge to US leadership in Asia. From Beijing’s perspective, deeply embedded in the rebalancing is Washington’s profound concern about China’s rise and a determination to curtail its expanding influence.

While the US rebalance is a multi-dimensional endeavor, Beijing is particularly alarmed by the highly visible US military force redeployment to the region. President Obama’s announcement in November 2011 of deploying of 2,500 US marines on a rotational basis [M15]to Darwin in northern Australia garnered a lot of attention because the deployment could help the US military, traditionally concentrated in Northeast Asia, to increase its influence west and south to contribute to the security of sea lines in the South China Sea. Following the announcement, the US Defense Secretary Leon E. Panetta stated in June 2012 that the US Navy would redeploy its
forces from a roughly 50-50 split between the Atlantic and the Pacific to about 60 percent of the Navy’s assets assigned to the Pacific Ocean (Panetta, 2012). In the meantime, the US started to station several new coastal combat ships in Singapore and the Philippines, close to the disputed reefs and islands in the South China Sea. In addition, the US military developed a new military strategy, known as Air-Sea Battle (ASB), to punch through the increasingly formidable defenses of nations like China’s anti-access/area denial (A2/AD) capacities. Although the ASB concept did not specifically target China as an adversary, a very concrete part of this concept was put into place in the Pacific and predominantly focused on mitigating the strategic and military effectiveness of the PLA’s asymmetric military capabilities (US Department of Defense, 2012).

China is also concerned about the US forcefully reasserting itself in the regional disputes and renewing bilateral ties with the allies and partners. Opening a new US Mission and signing the Treaty of Amity and Cooperation, President Obama held the inaugural annual US-ASEAN Summit in Singapore in November 2009. According to one account, “Long diverted by imbroglios in Iraq and Afghanistan, the summit meeting reflects a reawakening of US interest in the southern neighbors of a rising China” (Bowring, 2010). Wading into the territorial disputes in the South China Sea, Secretary of State Clinton declared in July 2010 that freedom of navigation, open access to Asia’s maritime commons and respect for international law in the South China Sea were in US national interests and offered to help foster multilateral negotiations as a US leading diplomatic priority. China was very upset that the remarks were made in Vietnam, a country that has a territorial dispute with China over the Spratly and Paracel archipelagoes and that was seeking to exploit its turn as ASEAN chairman to keep the South China Sea dispute on the boil. From this perspective, a reporter suggested that, “the US ambushed China in its backyard” (Torode, 2010). Whether or not the US ambushed China, the US boosted its relations with Vietnam and other ASEAN states in the face of shared concerns over China’s willingness to demonstrate its enhanced military capabilities in the disputed waters.

To show their appreciation, the ASEAN formally invited the US to participate in the Sixth Annual East Asia Summit in October 2010. Accepting the invitation and taking a results-oriented approach, the US set an ambitious goal for the EAS to develop “into a foundational security and political institution for the region, capable of resolving disputes and preventing them before they arise” (Acharya, 2010). Attending the EAS for the first time in
November 2011, President Obama brought up the contentious issues of the South China Sea and North Korea. While most Asian countries aligned with Washington at the summit, Chinese Premier Wen Jiabao was grouchy and responded that “outside forces” had no excuse to meddle in the complex maritime dispute, a veiled warning to the United States and other countries to keep out of the sensitive issue at multilateral venues because it doesn’t want its territorial disputes with some Southeast Asian countries to turn into a multilateral issue (Freise, 2012).

China’s suspicion has only been enhanced to witness the Obama administration’s efforts to reenergize America’s bilateral ties with allies, particularly Japan. In response to repeated calls by the Japanese government, Secretary Clinton reconfirmed that although the US does not take a position on the sovereignty dispute, the Diaoyu/Senkaku Islands under the effective administration of the Japanese government are covered by Article 5 of the US-Japan Treaty of Mutual Cooperation and Security, which authorizes the US to protect Japan in the event of an armed attack “in the territories under the administration of Japan” (No author, 2010). For Beijing, the US alliance with Japan gave Japanese nationalists the gumption to defy a rising China. As one Global Times editorial suggested, “China has set its biggest goal of development as realizing a peaceful rise. But this single goal has been countered and contained by other powers, such as Japan and the US. The Diaoyu Islands have already become the outlet where these powers voice their hostility and resentment against China. China has managed to control this outlet, and respond with effective action” (2013). Regarding Japan as a proxy for US power in the Asia-Pacific, “when China attempts to gain control over disputed islands in the China seas, it does not only target at those claimants, but also sends a signal of disapproval to the US” (Pan, 2013).

Is Containment a Viable Option?

While the US efforts to strengthen its diplomatic and military relations with its allies and partners in the region fueled China’s fears about the US attempt to cozy up to its Asian allies and contain China’s rise, containment is not a viable option for the US in response to China’s rise. The US engaged China after Nixon’s historical visit in the early 1970s to balance the Soviet Union, but never took China as a true competitor because China was unable to pose serious threats to the US. With China’s rapidly rising economic, political,
and military power, the US, for the first time, has to deal with China as a true competitor for its own sake. The relationship has thus become increasingly complicated. In addition to often-sharp differences over many bilateral issues, such as trade, human rights and Taiwan, a strategic distrust, i.e., the suspicions of each other’s long-term intentions, has come to be at the core of the relationship. While many Chinese are suspicious of US intentions to keep China down by dividing the country, destroying its political system, and encircling it with enemies, many Americans are anxious about the implications of China’s great power aspirations on US dominance in the international system.

As the hegemonic state, the US has vested interests to maintain the established international system as its values and interests are universalized to the point where they largely conform to the rules, values, and institutions of the international system. As rising powers often demand change in the power hierarchy and, historically, the change was often associated with disruptive conflicts and even large-scale wars, American strategists have debated whether to view China as a threat and contain it or see it as an opportunity and engage it. Containment is only one extreme view in the debate. Reflecting on this debate, the US policy toward China has swung toward one extreme or the other but always returned to a central position to strike a balance between conciliation and confrontation. With an intellectual root in realism, the centralist position is a pragmatic approach to cooperate with China on issues of mutual interest and incorporate it into the international system while taking a realpolitik position to hedge against strategic uncertainly, i.e., the possibility that China behaves as more of a typical, muscle-flexing rising power (Zhao, 2012:386).

As part of the hedge strategy, in 2009, the very first year of the Obama administration, then US deputy secretary of state James Steinberg proposed a vision of “strategic reassurance,” in which while the US must make clear

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2 According to one account, “In 11 of 15 cases since 1500 in which a rising power rivaled a ruling power, the outcome was war” (Allison, 2013).
3 A survey of opinions across 65 countries by pollster Win/Gallup International at the end of 2013 found that Chinese and Americans do not have mutual feelings of antagonism. While 49% of Chinese respondents put the United States as the leading threat to world peace, American respondents put China 7th at only 5%. Obviously, anti-Americanism or at least anti-American foreign policy in China is stronger than anti-Chinese sentiments in the US, and the Chinese may have regularly overestimated the degree to which everyday Americans think about or worry about China. Patrick Goodenough, “And The Country Posing The Greatest Threat to Peace as 2013 Ends is ...” (Goodenough, 2013).
that it is prepared to welcome China’s arrival as a prosperous and successful power, China must reassure the rest of the world that its development and growing global role will not come at the expense of the security and well-being of others (Steinberg, 2009). The challenge to the leaders in both Washington and Beijing was how to move from strategic distrust to strategic reassurance. Although the concept of “strategic reassurance” was dropped quickly in Washington because it caused confusion about if the US policy toward China was changed toward one-sided engagement at the time (Rogin, 2009), Washington has continued to look for “a comprehensive vision of the two nation’s respective regional and global roles in the era of interdependence and growing Chinese strength, a vision that hopefully can advance cooperation” (Lampton, 2013).

In this case, although China looms large over the new geopolitics of the region, Washington cannot define its interests in terms of zero-sum containment. Given the increasing interdependence between the two countries, any unilateral US attempts to contain China are likely to be sporadic at best due to the following considerations. First, containment as a US policy during the Cold War was to “isolate Moscow economically; undermine its ideology; and contain its military power with a robust US nuclear arsenal, alliances such as NATO to its West and Japan to its East, and an integrated global trade and financial system. Containment meant minimal social or economic interaction with Russians” (Manning, 2013a). Although the US successfully carried out a containment strategy against the Soviet Union, China is not the Soviet Union. The US-China relationship is much more complicated than was the US-Soviet relationship. As Henry Kissinger indicates, “The economy of the Soviet Union was weak (except for military production) and did not affect the global economy. China, by contrast, is a dynamic factor in the world economy. It is a principal trading partner of all its neighbors and most of the Western industrial powers, including the United States. A prolonged confrontation between China and the United States would alter the world economy with unsettling consequences for all” (Kissinger, 2012). Indeed, economically, China and the US are deeply interdependent with each other. The US has become China’s largest trading partner, with bilateral trade in 2013 reaching US$600 billion, while the trade between the US and the former Soviet Union at the best of times was only about US$4 billion. China held more than $1 trillion in US treasury bonds. Chinese students are the largest international student source—about 200,000 students—in US universities. The Obama administration launched a program of sending 100,000 American students to China. Due to
the interdependence, it is impossible for the US to contain China by minimal social or economic interactions. This is all very different than the landscape that confronted the architects of a strategy to contain the Soviet Union in the 1950s. As China’s economy grows, so does its interest in fostering international stability and globalization. The US strategic interest, therefore, lies in establishing a cooperative partnership with China as a regional great power and prospective superpower.

Second, while none of China’s neighbors want to live under China’s shadow and most regional powers have been publicly or privately pleased to see the stronger U.S. commitment to the Asia-Pacific region, very few of them can afford to antagonize a rising power and major market and make China an enemy, or are ready to put all their eggs in one basket and choose between the two potential antagonists. Therefore, the US cannot contain China by forging an anti-China coalition in concert with Asian countries. Among China’s neighbors, there are certain countries that believe it is in their best interest to make the US a rival to China, such as the Philippines and Japan, which have been engaged in protracted, intense disputes with China over maritime and territorial claims, with China exerting extraordinary coercive diplomatic, economic, and military power in both cases. But most East Asian countries see their interests better protected by maintaining good relationships with both powers and enmity with neither. Favoring the US presence to help push back China’s assertiveness, most of China’s neighbors strongly support engagement with China and want to embed China in regional cooperative frameworks so that they can continue to trade freely with a booming China while benefiting from the US security umbrella. In the case of the ASEAN states, for example, while most of them “have welcomed America as a hedge against growing Chinese power, their economies have become increasingly dependent upon China and they don’t want to be a party to any potential conflict between these two giants” (Yahuda, 2013:446). Many ASEAN countries, including Indonesia, Thailand, and Malaysia, have avoided any public sign of tilting toward either the United States or China. With a show of unity, these countries hope to see China’s disruptive instincts curtailed while the Asian boom continues apace. None of this, however, adds up to an alliance against China because an escalation of the geopolitical rivalry between the US and China would destroy the regional stability and prosperity. As a result, most East Asian countries “reject the false choice of trying to determine whether to side with the United States or China” (Long, et al., 2011).

Third, facing a world that is becoming increasingly diffused in power
distribution, with competitive rising powers emerging, America’s competitive power position ultimately depends on the health of its domestic political and economic performance. The US has yet to overcome the seemingly intractable political gridlock that has prevented meaningful governmental action and to get its fiscal house in order to sustain its focus on Asia over the long run. The major economic component of the rebalance – the Transpacific Partnership (TPP) – is complicated by a Democrat caucus in the House that is overwhelmingly and demonstrably protectionist. It is still unclear whether President Obama will have the commitment and political capital to get the TPP ratified even if an agreement is reached. While the impact of sequestration, which has fallen disproportionately on defense spending, has already affected regional views of American credibility, the budget battle that led to government shutdown in early October 2013 forced President Obama to cancel his Asia trip to attend the three most important regional summits in Indonesia and Brunei: the APEC Leaders Meeting, US-ASEAN and East Asia Summit and the US-ASEAN Summit. President Obama had to stay at home because hundreds of thousands of government employees were furloughed, federal departments were shuttered, and spin politicians from the opposition were salivating for pictures of him landing in Bali.

The cancelation because of political paralysis at home, however, became an indication of a United States incapable of sustaining high-level engagement in the region, diminishing US credibility and reinforcing the image of US decline. As a one commentator indicated, “The real problem is not Obama’s no-show in Asia itself but what it says about the state of American governance. If the foundations of a functioning government are compromised at home, as they are so obviously now, America’s allies, friends and opponents alike must naturally question the credibility of its commitments around the world... The interests of the United States and its friends have been so seriously damaged by the lack of respect that has emerged in American politics for the core institutions and principles of its great democratic state (Drysdale, 2013). This was not the first time President Obama had to cancel Asia-Pacific trips. He cancelled trips twice to Asia in 2010 because of domestic political distractions - once, to ensure passage of his healthcare bill, and another, to attend to the Gulf of Mexico oil spill. In spite of the sincerity of the commitment to a strong presence in Asia, failure to solve these titanic challenges facing the US would mean that Washington—whatever its intentions—would not be able to maintain its position in the region. As a commentator suggested, “The last-minute cancellation of the American
president’s participation in the APEC Economic Leaders’ Meeting in Bali, in
the ASEAN–US Summit and East Asia Summit in Bandar Seri Begawan, and
of his bilateral visits to Malaysia and the Philippines not only highlights the
long-predicted limitations of Washington’s ‘re-balancing’ or ‘pivot’ to East Asia.
It gives China, amid its insecurities about the continuing American presence
in China’s ‘backyard’, a golden, perhaps unwanted, opportunity for further
assertiveness in its region and in the world at large” (Severino, 2013).

In addition, the strategic rebalance is under-resourced on the military
side. Having fought two wars in the first decade of the 21st century that
diminished its national power and led to sharply contracting defense budgets,
the US was hardly ready to step into another major conflict. In spite of
China’s concerns, US strategic rebalance cannot rest on growing military
deployments to the region because the rebalance was under-resourced on the
military side and it is far from clear whether the Obama administration could
afford the cost of its forward naval and air deployment in the region for
the long term to deliver on its promises of strengthening the US presence.
Assessing the budgetary constraints, a Congressional Research Service
report cautioned that an increased US military emphasis on the Asia-Pacific
region might result in a reduction in US military capacity in other parts of
the world. In addition, plans to restructure US military deployment in Asia
and minimize cuts in the Navy may run up against more restrictive funding
constrains than plans yet assume (Manyin, et al., 2013:12). One observer in
Singapore, therefore, suggests that, “the United States’ regional commitment
in the longer-term is hostage to fiscal realities and to future changes of
Administration…. Like it or not, America’s role in the Asia-Pacific (not to
mention globally) is in long-term relative decline” (Huxley, 2012). As a result,
skepticism toward the sustainability of the rebalance broadly, and high-level
military engagement specifically, has been widely held in the region. There
has been a growing consensus in Asia that despite all the American talk,
there is not going to be a significant shift of US forces to this part of the
world. “Some sceptics in Asia and the US viewed the whole idea of the
“pivot” as mostly a marketing job by Washington that is intended to change
the story line of a post-financial crisis America in terminal decline — and a
China that was unstoppably ascendant” (Jones, 2013).

Fourth, trying to focus on the Asia-Pacific, the Obama administration
in its second term is sucked back into Middle Eastern and North African
conflicts, which remain the center of potential unrest. That is why some
officials in the Obama administration preferred to use “rebalance” over
“pivot” because of the unintended consequence of the initial use of the word “pivot,” which suggested “a complete movement away” from the Middle East and other parts of the world and therefore caused concerns (Kato, 2013)\(^4\). Although the administration may not want the Middle East to continue dominating American foreign policy to the extent it did over the past decade, the Middle East could still keep the administration fully occupied. Interestingly, when President Obama started his second term in early 2013, many observers in Washington began to wonder if the administration was going into “rebalancing” the “rebalance.” Testifying before Congress regarding his nomination to be Secretary of State, Senator John Kerry indicated that he was uncomfortable with the Administration’s “pivot to Asia” and, noting the negative reaction from China, in his view, this it was neither necessary nor wise. While it was not clear at the time whether then-Senator Kerry was enunciating a new position (Cheng, 2013), Secretary of State John Kerry’s first overseas trip was to Europe and the Middle East to reassure its European allies and powers in the Middle East that the rebalance did not mean US disengagement from these regions. Despite his military service in Vietnam, Secretary Kerry’s foreign policy interests and personal networks run more through the Middle East than Asia, which was reinforced by his early efforts to jump-start a peace process between Israel and the Palestinians. Secretary Kerry has gone to extraordinary lengths to demonstrate deep American involvement in Middle East issues, including Israeli-Palestinian peace talks, nuclear negotiations with Iran, and the Syrian civil war. He visited the Middle East three times before visiting Japan, Korea, and China in April 2013 and cancelled scheduled stops in Indonesia and Vietnam before going to Brunei to attend the ARF for the first time in June 2013 because he needed to travel to the Middle East for Syria-related consultations.

The US secretary of state’s participation in the ARF has become a key benchmark for countries across the Asia Pacific to assess levels of US engagement. Although Secretary Kerry attempted to sustain the perfect attendance record established by his predecessor Hillary Clinton, regional

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\(^4\) The change in the use of terminology to an extent reflected the confusion of the Obama administration over how to pursue the renewed Asia focus. A first suggestion, “forward-deployed diplomacy,” was jettisoned as too militaristic, especially when it comes to the prickly superpower China. Then came “the Asia pivot,” which rankled Middle Eastern and European allies, who thought it suggested abandonment of their regions. The White House now prefers “the rebalancing,” while some policymakers are starting to use the blunter “return to Asia” (Allam, 2013).
partners have questions about the sustainability and level of commitment of the rebalance as Kerry has seemingly prioritized the Syrian conflict and restarting the Israeli-Palestinian peace process since taking office on February 1, 2013 (Bower and Arbis, 2013). Soon after the second term of Obama’s presidency started, there has been a sense that Washington’s rebalancing strategy is losing its momentum. Although Secretary John Kerry hasn’t neglected the region, his primary focus is on the Mideast. A Washington conservative think tanker scholar compared Secretaries Clinton and Kerry and pointed out that “Secretary of State Hilary Clinton did not enunciate a “pivot to Asia” during her first years in office, but there was little doubt that she fulfilled such a policy, making a point of regularly visiting the region and interacting with the various leaders. Secretary of State John Kerry, by contrast, appears to be pursuing a policy of neglect. If the Asia pivot is to have any meaning, there needs to be explicit high-level interest, including a consistent pace of visits and consultations by the Secretaries of State, Defense, and Treasury” (Cheng, 2014).

In this context, a Chinese observer found that the US was overstretched because the attempt to maintain its global hegemon while its moment has passed in the 21st century could “very well bankrupt the country, economically and socially.” As a result, “it has fallen deeply in debt; its middle class is crumbling; its industries have been hollowed out; its infrastructure is in disrepair, its education system is badly underfunded; its social contract is in shambles and its political governance is paralyzed… the fortunes of Americans have irreversibly declined and their future has been mortgaged. But it is a matter of when, not if, the American people will ask for their country back.” He pointed out that “The pivot the American people want and need and are now demanding is a pivot to Ohio” (Li, E. X., 2014).

A Delicate Sino-US Balance of Power in the Asia-Pacific Region

Because it is unrealistic to contain China’s rise, former deputy Secretary of State Steinberg suggested that “History shows that actions by established powers to resist or contain rising powers often contradict their stated purpose of preventing conflict, and cause what they are trying to avert.” Therefore, “we have an especially compelling need to work with China” (Steinberg, 2009). The nature of the US–China relationship, however, is always characterized
by various degrees of friction. Leaders in both Washington and Beijing have to take a realist approach to maintain a balance of power that opposes the attempt of any single power at domination of the region.

Looking back at history, peace in the Asia-Pacific was maintained for a relatively long period during the Cold War when the balance of power between the continental powers of the Soviet Union and China on the one side and the offshore power of the United States and its maritime allies on the other was relatively stable. The maritime-continental balance, however, began to change in the 1990s when China, with its expanded economic resources and military capacities, began to move into the Western Pacific, causing concerns of some smaller maritime states. As a result, the balance of power that provided the stability and fueled the Asian economic miracle for several decades was to be undermined (McDevit, 2012). The renewed American engagement is thus to restore the balance of power in areas that might otherwise become flashpoints for security concerns. “The United States’ regional strategy is predicated on the belief that a favorable military balance deters attempts to change the status quo by force, thus reassuring allies and upholding strategic stability” (Mirski, 2013). The Obama administration has to demonstrate that the US is willing to lay down markers when China infringes on US interest and causes regional instability and construct a regional order based on rules and norms, such as the adoption of a Code of Conduct, which could be capable of allowing China to grow and be secured but not use its new might to force neighbors’ hands. “A US policy that favours a rules-based approach backed by the capacity to counterbalance efforts to ignore, violate or unilaterally rewrite existing arrangements is the right way to proceed” (Limaye, 2013).

The balance of power, however, is very delicate. On the one hand, the US must play a vital role to prevent China from seeking regional hegemony. If China sees the Asia-Pacific as properly subordinate and compliant to Chinese direction and the South China Sea, not as international waters but as China’s sovereign space, the US must be able to acquiesce to this ambition, including preserving strong alliances with allies and partners, to construct a peaceful regional order and balance Chinese power and influence China’s behavior in the way it fits into the emerging international and regional system. Under its aegis, the US has not only ramped up military deployments to the region, but also sought enhanced defense relations with a host of regional partners. Notably, the administration has adopted a more robust position in the ongoing maritime dispute between China and several of its
neighbors in the South and East China Seas. This effort is facilitated by the exploration of the region’s complexity. “As a theoretical proposition, systemic complexity with multiple diverse actors is, other things being equal, a source of stability. In Southeast Asia the most effective brake on Chinese ambitions will be the presence of multiple actors all defending their own interests. For a Chinese strategist, a binary face-off between China and the US in the South China Sea is far more promising than one that also involves several ASEAN countries and non-Southeast Asian regional actors. The more numerous the players and the more complex and dense the interactions, the less China will be able to determine outcomes. A central task of US strategy will be to cultivate and utilize that complexity” (Ott, 2013).

On the other hand, the balance of power approach requires the US to share leadership and responsibility with a rising China. This is very difficult for many Americans who are afraid of being pushed out of Asia by a hostile power. The United States fought the Pacific War against Japan and the Cold War against the Soviet Union to prevent such an outcome. They therefore see the rise of Chinese power as threatening a fundamental American interest in the world’s most dynamic region (Kissinger, 2012). These Americans, therefore, would be willing to do whatever to main US global as well as regional primacy, in spite of the fact that, as Mearsheimer’s The Tragedy of Great Power Politics argues, the result of this great power rivalry is a tragedy for both the established power and rising power. The Americans, however, have to understand that rising great powers always seek to maximize their security by expanding their influence and control over their immediate neighborhoods, and in many cases, far beyond. Even in the absence of the rebalance, it is almost certain that China would have still exhibited considerable insecurity, rising to great power status in a region that is not only militarily dominated by the US, but is also replete with US allies and strategic partners. The rebalance will only compound such anxieties. Although the military balance of power in East Asia strongly favors the US, the balance of interests in the region strongly favors China. On the one hand, the US continues to field the most lavishly funded, highly trained, and technologically advanced fighting force in the world, one that dominates East Asia’s skies, sea-lanes, and even its outer space. On the other hand, the various diplomatic and territorial quarrels roiling East Asia are of much greater salience and concern to China than to the US, as their outcomes more profoundly affect the national security of the much closer China than the more distant US (Resnick, 2014).

In this case, “Obama’s pivot to Asia has been all about careful diplomacy
about refurbishing old Pacific alliances and building new ones. It offers engagement with a collaborative China alongside the hedge against a belligerent Beijing. The aim is to constrain rather than contain China” (Stephens, 2012). To an extent, the US may have to demonstrate a strategic restraint and work with China eventually to adopt the strategy of Mutually Assured Restraint (MAR), which means that “both powers adopt measures that would allow China to take the steps it holds necessary for self-defense, without extending them to the point that they threaten other nations or the international commons. It allows for the United States to take the steps it holds necessary for self-defense, while living up to its obligations to its allies in the region and maintaining the international order. If the US and China could build MAR, it “would help them to move away from the current distrust both sides exhibit in their dealings with each other, cap the military build-up, reduce the risks of unintended conflagrations, allow both nations to dedicate more resources to urgent domestic needs, and increase collaborations in many matters that concern both powers” (Etzioni, 2013).

No longer the dominant, all-inclusive presence that it used to be, the US has to find viable ways to engage China as a peer power in the region. Although China’s rise does not necessarily mean that “America settles for a more modest role,” it does make a sense that “a peaceful new order in Asia to accommodate China’s growing power can only be built if America is willing to allow China some political and strategic space” (White, 2010). Through constructive engagement with China, the Obama administration may demonstrate the long-term benefits Beijing would enjoy from a Chinese regional posture that “eschews egregious pressure, intimidation, and zero-sum competition and embraces existing world norms that hold promise for uninterrupted Chinese development” (Sutter, et al., 2013). China is not likely to develop a capacity to project force anywhere in the world as the US has done for some time to come. China is first and foremost an Asia-Pacific power. The two largest Asia-Pacific powers have to develop a clearer understanding and a greater mutual acceptance or at least acknowledgement of each other’s legitimate interests and role in the region and manage their relationships with their regional partners in mind.

This does not necessarily mean that the US has to accept all of China’s core interest issues; but the US has to respect China’s reasonable concerns involving its core interests in light of established international norms. Beijing has made it clear that respecting each other’s core interests is the bottom line as China seeks to build a new type of relationship between great powers.
As Li Jingtian, executive vice president of the Chinese Communist Party Central Committee’s Party School stated, for China and the US to build a new type of great power relations, these two countries “need to understand and respect each other’s bottom line and not challenge or break through the bottom line of the other side” (Li, J., 2013). As a response to China’s concerns, the Obama administration’s rebalance toward the Asia-Pacific region has evolved over time and gone through two distinct phases. “When the policy was first rolled out in 2011-12, much of the emphasis was placed on military initiatives in the region. China disapproved of these initiatives, and Beijing took steps to demonstrate its power in maritime territorial disputes with US allies. The Obama administration adjusted its approach in late 2012, playing down the significance of military initiatives, emphasizing economic and diplomatic elements, and calling for closer US engagement with China” (Sutter, 2013).

From this position, “A delicate balance must be struck between being unyielding to more unilateral efforts to change the status quo and getting trapped in escalatory behavior that might otherwise be avoided” (Paal, 2013). Although it might be somehow exaggerated, John Mearsheimer cautioned that a US-China rivalry in the Asia-Pacific would be more dangerous than the previous American-Soviet Cold War in Europe. The center of gravity of the US-Soviet competition was the central European landmass and all involved understood that conflict there would quickly turn nuclear. This gave both sides a powerful incentive to avoid a general conflict in Central Europe as a nuclear war would make it very likely that both the US and Soviet Union would be “vaporized.” The US-China strategic rivalry lacks this singular center of gravity and features more hotspots than the US-Soviet conflict. Mearsheimer identified four potential hotspots over which he believes the US and China might find themselves at war: the Korean Peninsula, the Taiwan Strait and the South and East China Seas. In this case, decision-makers in Beijing and Washington might be more confident that they could engage in a shooting war over one of these areas without it escalating to the nuclear threshold (Keck, 2014).

In this case, US involvement in regional conflicts must fall within certain limits to allow tensions between China and its neighbors to subside. The US has to discourage not just China but also China’s neighbors from adopting provocative acts so as to invite a hostile response. While it is impossible for the US to referee the welter of legal, historical and emotional arguments that accompany each of these disputes, the US has to be careful to avoid
being entrapped by regional allies in their territorial disputes with China. As existing US security commitments to its regional allies could embolden those allies to harden their bargaining positions toward Beijing, the US should not encourage its regional allies such as Japan and the Philippines to pursue their territorial claims to the extent of increasing the risk of conflict with China and escalating into larger international conflicts. China is rapidly becoming too strong for the US to maintain an unquestionable capacity to intervene successfully. America has to decide if it can afford the cost of taking on China in an effort to back its Asian allies in any fight they pick. Although it is difficult for the US and China to find a modus vivendi, enabling them to collaborate to maintain security in the region, they may maintain a relationship of cooperation and friction. In other words, despite ongoing frictions in their relationship, the United States and China will continue engaging each other on points of mutual interest while they “work separately to secure their interests through multilateral institutions such as the East Asia Summit, the ASEAN Defense Ministers’ Meeting Plus and the Enlarged ASEAN Maritime Forum” (Thayer, 2013).

The South China Sea is a complicated issue for the United States. As Jeff Bader, former Asian policy advisor to President Obama, pointed out, “The US does not wish to see China gain control over the area through coercion. But at the same time the US does not have an interest in making the South China Sea a venue of confrontation or conflict between the US and China” (Bader, 2014). Apparently reaching the conclusion that preserving US interests in the region alongside a rising China needs not be tantamount to conflict, the Obama administration has rightfully taken a position of neutrality on territorial disputes in the South China Sea and encouraged all countries concerned to adhere to international law.

In response to growing concern among China’s neighbors that China was advancing its claims through political and military means and in the absence of any diplomatic process to reduce tensions, Secretary of State Hillary Clinton laid out principles governing US policy in the South China Sea at the ASEAN Regional Forum in Hanoi in July 2010: respect for freedom of navigation, peaceful resolution of disputes, freedom of commerce, negotiation of a Code of Conduct for dispute resolution and, most relevant here, the view that claims to water could only be based on legitimate land-based claims (Clinton, 2010). Assistant Secretary of State for East Asian and Pacific Affairs Danny Russell, in testimony before the House Committee on Foreign Affairs in 2014, criticized “an incremental effort by China to assert control over the
area contained in the so-called ‘nine-dash line,’ despite the objections of its neighbors and despite the lack of any explanation or apparent basis under international law regarding the scope of the claim itself.” He made it clear that “Under international law, maritime claims in the South China Sea must be derived from land features. Any use of the ‘nine-dash line’ by China to claim maritime rights not based on claimed land features would be inconsistent with international law. The international community would welcome China to clarify or adjust its nine-dash line claim to bring it in accordance with the international law of the sea” (Russel, 2014). According to Jeffrey Bader, “For the first time, the United States government has come out publicly with an explicit statement that the so-called “nine-dash line,” which the People’s Republic of China (PRC) and Taiwan assert delineates their claims in the South China Sea, is contrary to international law... By explicitly rejecting the nine-dash line, Assistant Secretary Russel and the administration have drawn our own line in the right place. They have made clear that our objection is a principled one, based on international law, not a mere rejection of a claim simply because it is China’s” (Bader, 2014).

Emphasizing on the desirability of the parties resorting to international law, the US is ill-positioned because of its own failure to ratify UNCLOS and to take the International Court of Justice seriously enough historically. From this awkward position, Washington has pushed ASEAN to take a united position to oppose Beijing’s insistence that it only discuss territorial disputes on a bilateral basis while urged China to “work collaboratively” with the ten ASEAN states and warned against the use of “coercion, intimidation and threats.” [MI7]In particular, the US has supported the drafting of a broad and robust code of conduct for the claimants in order to “establish the rules of the road and clear procedures for peacefully addressing disagreements” (Bland, 2012). To find a balance between putting pressure on China to use diplomacy to resolve maritime disputes while remaining neutral on specific claims, the Obama administration walks a fine line between bolstering its alliances and maintaining neutrality in the sovereignty dispute. As an example, although Philippine leaders have publicly claimed that the US is obliged to provide protection to the disputed Scarborough Shoal by virtue of the 1951 Mutual Defense Treaty (MDT), the Obama administration has been careful not to release any official statement confirming or denying this. Offering no indication as to whether or not the US fully and officially recognizes the Shoal as part of Philippine territory, the US pledge to honor the MDT does not specify if the shoal is covered.
The management of the alliance with Japan is also a challenge for Washington. The United States expects Japan to support its efforts in East Asia and to help ensure that China’s rise is peaceful. But “Abe’s aggressive remarks, coupled with Japan’s waning military power, could undermine US interests. Japanese defense officials now publicly fret about the threats posed by China’s improving maritime capabilities, while vessels from both countries patrol the waters around the disputed islands on a daily basis, raising the likelihood of unintended escalation. The United States, as Tokyo’s principal ally, risks being drawn into a military confrontation” (de Kining and Lipsy, 2013). Washington certainly does not want to see the tail of the alliance to wag the dog of American national interests, and are concerned about the entrapment in a war over uninhabited islets between two Asian powers that have not been freed of historical burden. In the Diaoyu/Senkaku disputes, the military conflict between China and Japan has increased after the China started regular patrol within the 12 nautical miles of the disputed waters, given the nationalist atmosphere in both countries.

The Japanese have the strong incentive to drag Americans into the conflict with China although this is a big gamble, risking the possibility of starting a war with China without the US involvement. This situation has posed a serious challenge to the Obama administration. After Shinzo Abe came to office, the Japanese government has risked alienating not just China but also the US by “foreign policy gaffes that seem designed to give maximum offence to its Asian neighbors while causing maximum embarrassment to its western allies. The current arrangement places strains on both Japan and America. It makes Japan neurotic and resentful about the extent of its reliance on the US. And it makes the Americans anxious that a government in Tokyo could drag them into a war with China” (Rachman, 2013).

While many in Tokyo may be disappointed at the lack of enthusiastic support from Washington and may even worry about abandonment, for some in Beijing, the Japanese-American alliance is like a noose around the neck of China that is jerked occasionally by Washington. In this case, whereas the US would want to deter China from taking aggressive actions against Japan, it also cannot afford to blindly endorse everything that Tokyo does and, if necessary, should restrain Japan from taking provocative actions. The US strategic rebalance could turn into a death spiral for US credibility and influence in the region if Japan decides to seize control of its security destiny by turning its back on its pacifist constitution, staking out a position as an
independent military power, and turning its full spectrum of nuclear weapons capability into a declared nuclear arsenal. The Obama administration, however, has not been very successful in working out the fine line between China and Japan. It is from this perspective that, after Prime Minister Abe’s visit to the controversial Yasukuni Shrine on December 26, 2013 in spite of the strong reaction from China, South Korea as well as the US, a New York Times Editorial Board article suggested that Japan’s military adventures are only possible with American support; the United States needs to make it clear that Mr. Abe’s agenda is not in the region’s interest. Surely what is needed in Asia is trust among states, and his actions undermine that trust” (The New-York Times Editorial Board, 2013).

On the China side, the strategic choices are clear too. They may seek regional hegemony and drive the US out of the Asia-Pacific as some Chinese hawkish military commentators advocated, or work with the US and maintain a balance of power to prevent unwanted strategic rivalry and ensure competition between them is peaceful. The first choice is unrealistic at least in foreseeable future. Achieving dominance in the region may be an ultimate objective in the long run, it is not considered a serious Chinese objective in the early 21st century because of the presence and influence of the US and other powers in the dynamic region. [MI8] The strategic rebalance may have lost steam, but the US is still substantially present in the region. While China is rising, many surrounding states are also on the rise and may not be keen to accept a Chinese-dominated regional order. China’s rising power itself, therefore, has motivated some of its neighbors to pursue balancing related activities, including realignment with the US. It doesn’t serve Chinese interests to have tensions with so many neighbors simultaneously. China has to find ways to win over its East Asian neighbors to balance the US influence in the region or at least preempt the balancing motives of other countries by continuing to pursue strategic restraint in various aspects of China’s foreign and security policies, including territorial disputes with other countries.

In addition, China has benefited immensely from the international system created under the US leadership after WWII and the security role that the United States has played in the Asia-Pacific, underpinning stability and economic globalization, even if Beijing may not like some of the rules and wants to have more of a say in the making and remaking of the rules. As one Chinese commentator suggested, although “China did not participate in setting the rules of international economic engagement,… China became the largest beneficiary by taking maximum advantage of globalization.” According
to him, “A large part of the world has prospered under such an arrangement (American global leadership). The relative peace around the globe and the systems that govern international trade and finance have facilitated rapid economic growth in many developing nations and the sustenance of welfare states in more developed ones. These nations are essentially free riders, of which China is the biggest and most successful one” (Li, E. X., 2014).

Beijing has also benefited from the regional stability of the US presence over decades although it is uncomfortable with the United States becoming more militarily and strategically engaged in Asia, its home region. Residing in a neighborhood with complicated power competition and historical animosities, Chinese leaders have to be measured and judicious and also need the US to help keep the environment conducive to peace and prosperity for themselves. China often expresses concern over the US–Japan alliance as part of a strategy to contain China. Yet the US–Japan alliance as part of the regional security architecture has underpinned stability in an East Asia that facilitated China’s peaceful rise. It is from this perspective that one observer asked the Chinese leaders to “imagine what the regional security picture would look like to China if Japan were strategically independent from the United States.” His suggestion is that “Viewed against the alternatives, the US-Japan alliance is better seen as a stabilising factor in the US-Japan-China triangle” (Manning, 2013b).

As realists, Chinese leaders ultimately have to come to the power reality, i.e., neither the US nor China can be the single power of domination and a balance of power is the only way to maintain peace and prosperity in the region. While it is increasingly difficult for the US to maintain the hegemonic role in the region, China still faces immense internal and external challenges in rising to become a global power, not alone taking up an expansionist path in Asia. China’s biggest challenges do not come from the United States. Rather, they are domestic. It is not difficult for the Chinese leaders to realize that while the US has overextended itself, the Chinese government faces too many internal challenges, and self-preservation and stability are its primary concerns. As a leading scholar of China-US relations stated, “The true challenge to China is not from abroad but domestic system reform and social ecology… China must transform the traditional way of thinking and strategic outlook and shift the national security defense priority from partial external military conflict risk to overall internal system reform. This is the key for China once again to successfully meet the current strategic challenges” (Yuan, 2013).
Facing widespread bad loans, huge local government debt, rapidly growing income inequality, corruption and environmental challenges, including food safety and air pollution, which have been a source of deep frustration for many people, and looming demographic challenges that are worsened by the fact that it will be the first country to get old before it gets rich, China is a fragile rising power with profound internal causes of concerns to derail its rise. After Xi Jinping came to office, China’s economy remains fragile and the difference between rich and poor remains more a gulf than a gap. Its growth is slowing, which will place further pressure on policy makers in Beijing who are aware that resentment among China’s have-nots has the potential to evolve into a concerted challenge to the regime’s legitimacy. Pan Wei, a professor at Beijing University, suggested that “Nobody can destroy China if China does not destroy itself (中华不自乱，无人可乱华)” (Wei, 2013). To ensure its further rise, China must put its own house in order first. Until China can resolve these internal problems, its future rise faces uncertainties.

Conclusion

The Asia-Pacific region has become a test field for China and the United States to explore the possibility of building a new model of great-power relationship. Unfortunately, talking about a new model of great power relations, each country believes that the other has to make substantial changes, as if the burden falls primarily on the shoulders of the other. While many Americans have been concerned that a rising China will become increasingly assertive and urged China to avoid following the expansionist road of old imperialist powers, many Chinese believe that building this new relationship depends overwhelmingly on the United States changing the way it works with China and adapting to the new reality of China’s rise as a peer power. In particular, China has stated explicitly that for the US and China to achieve this new model would require only changes on the US side because “China has never done anything to undermine the US core interests and major concerns.” In contrast, “what the United States has done in matters concerning China’s core and important interests and major concerns is unsatisfactory. China is not the maker of these problems, and still less the perpetrator of the harm. Rather, it is a victim on which harm has been imposed” (Cui and Pang, 2012). Therefore, regarding “the principal barrier in
building a new type of great power relationship between China and the US, the problem is on the US side. The ball is entirely in the US’s court. So long as the US can make efforts in the same direction as China does, there is hope. Otherwise, the same situation of ‘you are either with us or against us’ will remain. Twists and turns or even tension might emerge in Sino-US relationship from time to time. This is the last thing China would like to see. What would such a consequence mean for the US, which has all along been seeking the maximization of its own interests” (Wang, 2013)? It is very dangerous if this type of strategic mistrust continues to worsen, given the fact that the US and China have failed to elaborate an array of implicit and explicit norms and rules of the geopolitical game that would lead to mutual restraint and help moderate their geopolitical competition and prevent the power rivalry from boiling over into war, as the US and Soviet Union developed during the Cold War.

Although strategic mistrust is unavoidable (Friedman, 2013:368-378), a significant convergence of strategic interests between the US and China has developed as “power is more equally distributed between them and each needs to cooperate with the other to address problems it deems critical to its own future” (Lampton, 2009:727). The concept of the G-2 amounting to strategic bipolarity or a Sino-US condominium is a fantasy; but it is an acknowledgement of the central importance of Sino-US relations and the need for these two countries to manage their relations cooperatively. The interests of both the US and China would be best served when and if these two countries work together to seriously dedicate their power and wealth to create an enduring regional balance of power rather than to win diplomatic or military contests with each other. As Secretary of State Clinton indicates, “China and the United States cannot solve all the problems of the world together. But without China and the United States, I doubt that any of our global problems can be resolved... There is no intrinsic contradiction between supporting a rising China and advancing America’s interests. A thriving China is good for America, and a thriving America is good for China” (Clinton, 2012). President Xi also said that “There is ample space for both the US and China between the two sides of the Pacific Ocean” (Xi, 2012).

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Abstract

Hawkish Japanese Prime Minister Shinzo Abe began to pave the way for Japan to “escape from the postwar regime” when he took the helm for the first time on September 26, 2006, including revising the Fundamental Law of Education, upgrading the Defense Agency to Defense Ministry, and promoting the revision of the National Vote Act. Since forming a new government for the second time on December 26, 2012, Abe has sped up the pace of breaking the postwar regime, including revising the pacifist constitution and seeking to lift the ban on collective self-defense, relaxing control on arms exports, sticking to a misleading historical view and even further transforming it into government political action, shaking up the Japanese postwar education system and so on. To get rid of the postwar regime, the Abe cabinet has taken a series of strategic steps, including rhetorically advocating the further consolidation of the U.S.-Japanese alliance, highlighting the “threat” from China, implementing a policy of “positive pacifism”, composing a hard-line position both at home and abroad, combining the “renaissance of Japan” with outside disputes and so on. The departures from the postwar regime that the Abe cabinet has taken in an unusual way makes for East Asia becoming increasingly unsafe. On December 24, 2014, Abe was reelected for a third time and became the 97th prime minister of Japan. With the long existence of his government, Abe will be continuously seeking to make breakthroughs in breaking the postwar system. As this development is closely related to East Asian security, it is worth an in-depth study.

Keyword: Abe cabinet, Departure from the postwar regime, East Asian security
Introduction

Japan’s “postwar regime” that Abe wants to “cast off” was created in conjunction with the United States after World War II, when much of the world blamed the brutal war in the Asian theater on Japanese military aggression under a political system led by the emperor. Political, economic and security issues were considerations in creating the postwar regime, which reformed Japan democratically and aimed to settle the problem of Japanese militarism. The three different facets involved were: a democratic political system based on the American and British models; a pacifist constitution that renounced war; and a national development roadmap focused on the economy rather than military armament (Wang, 2014:114-115). Since the end of WWII, Japan has always tried to reconstruct a “postwar state” (Li, 2010:25). Unlike other postwar cabinets, getting rid of the postwar regime is the distinct political goal of the Abe cabinet. During his first term as prime minister in 2006, Shinzo Abe openly advocated to “get rid of the postwar regime” in a governmental report entitled “To Our Beautiful Country—Japan”. When he became prime minister for the second time in 2012, Abe put forward a political slogan advocating to “break the postwar regime” and to “rebuild a powerful Japan”. On November 21, 2014, taking advantage of the general downturn of the opposition forces, Abe dissolved the House of Representatives ahead of schedule and held a general election, so as to seek a long-term rule (Meng, 2014b:30-32). On December 24, 2014, Abe was reelected for the third time and became the 97th prime minister of Japan. The Abe regime is expected to last until September 2018 and Abe is likely to become one of the three longest-serving prime ministers in Japan in the postwar era. Abe’s path towards Japan’s “normalization” has been opposed by domestic pacifists. With the long existence of his government, Abe will be continuously seeking to make a breakthrough in breaking the postwar system. As this development is closely related to East Asian security, it is worth an in-depth study.

Departure from the Postwar Regime in Abe’s First Term

After the cold war, Japan sped up its pace of departure from the “postwar regime”. Former Japanese Prime Minister Yasuhiro Nakasone offered to get rid of the postwar system in the 1980s, but due to the constraints at home and abroad, little progress was made. When Abe formed a government
in 2006, he took a series of steps and measures that have shaken the cornerstone of the postwar regime.

1. Revising the “Fundamental Law of Education”. The Fundamental Law of Education, as the name suggests, is a law concerning the foundation of Japanese education. Because it acts as the basis for the interpretation and application of various laws and ordinances regarding education, it is also known as “The Education Constitution” and “The Charter of Education” in the postwar era in Japan. According to the law, the purpose of education is “the full development of personality”. After coming to power, Abe held a series of meetings on “Regeneration of Education” and sought to revise the “Fundamental Law of Education”. Those basic ideas on the value of “personal dignity” and “individual value” were given up. The government stressed that the basic task of education is to “educate students to love their homeland and the state” and to promote nationalist “patriotism”, thus shaking the postwar education system.

2. Making the upgrade from Defense Agency to Defense Ministry, which enhanced the position of military institutions in the country. The creation of a Ministry of Defense was in conjunction with Prime Minister Abe’s continued efforts to ensure a stronger image of the Japanese military. The bill to upgrade the Defense Agency to Defense Ministry was approved by the Lower House in November 2007 and the Upper House in mid-December 2007. After 52 years of efforts, the Defense Agency was eventually elevated to a full-fledged cabinet-level Ministry of Defense during Abe’s tenure. In light of the Defense Agency being transformed into the Ministry of Defense, the Self-Defense Force (SDF) was given the responsibilities of international operations, disaster relief and peacekeeping within overseas locations. Abe stressed that the defense agency being transformed into a full-fledged ministry was an important step in getting rid of the postwar regime and building a new country (XinhuaShe, January 9, 2007).

3. Promoting the revision of the National Vote Act in order to pave the way for the revision of the Japanese Constitution. In 2007, the draft of the “National Vote Act” was successively approved in the House of Representatives and the Senate. According to the Act, if a constitutional amendment is approved by two-thirds of the House of Representatives and the Senate, it shall be submitted for national vote within 60 to 180 days; all Japanese citizens over the age of 18 have the right to participate in the vote and there is no minimum turnout limit; the constitutional amendments shall be adopted if more than half the voters vote in favor of them. Therefore, The
National Vote Act has legally solved the procedural problems in constitutional revision.

Departure from the Postwar Regime in Abe’s Second Term

In 2012, Abe, as the Chairman of the Liberal Democratic Party (LDP), put forward a guideline for the election of the House of Representatives, which included approving the “Rising Sun Flag” as the Japanese flag and “Kimigayo” as the national anthem. The guideline stressed that giving up the use of force does not impede implementing self-defense and that Japan should officially establish its national defense forces and establish emergency provisions to cope with foreign armed attacks and large-scale natural disasters, etc. After the election, the Abe administration inherited the spirit of this guideline and sought to make a breakthrough in departing from the postwar regime, including by:

1. Revising the pacifist constitution and seeking to lift the ban on collective self-defense by endorsing a cabinet resolution, and then revising the relevant laws in order to provide the basis for overseas military operations. The Japanese Constitution definitely stipulates that Japan shall give up all wars launched by the state and oppose settling international disputes by threat of force or violence. Since the constitution came into force in 1947, many ambitious Japanese politicians have advocated revising it in order to break the postwar system in Japan. After restructuring his cabinet, Abe stressed that amending the constitution should be an “important issue to be solved”. In a speech to his supporters in August 2013, Abe said that amending the constitution is his “historical mission”. In his 2014 New Year’s speech, Abe declared that constitutional revision might be complete before 2020. On May 6, 2014, while addressing at the headquarters of the North Atlantic Treaty Organization (NATO), Abe said that the Japanese government was intending to lift the ban on collective self-defense by revising the constitutional interpretation. He also attempted to approve a separate legislation to allow exercising collective self-defense, but this eventually ended in failure. Then Abe ordered the cabinet office of legislative affairs to formulate a new “constitutional interpretation” to replace the old one. The previous official interpretation ruled that the exercise of collective self-defense “violated the constitution”, an interpretation that had been confirmed by all previous Japanese cabinets since 1981. In 2014, the Abe regime forcefully
approved a cabinet resolution to lift the ban on collective self-defense, and vetoed the “three conditions for implementing self-defense,” which all previous cabinets had abided by. The Abe cabinet put forward a new set of “three conditions for the use of military force”: (1) When Japan is attacked, or a closely associated country is attacked that is composing a threat to Japan’s survival and may endanger the Japanese people’s life, liberty and right to pursue happiness; (2) There are no other appropriate methods that can be used to eliminate the above attacks and protect the nation and its nationals; (3) The use of military forces should be limited at the minimum level. The resolution also allows Japanese self-defense forces to provide rear support to the military operations of other countries in non-combatant areas. The resolution also stressed that Japan should enhance its capabilities to cope with the developments in those “grey areas” of neither military conflict nor peace, and simplify the procedure of sending self-defense forces abroad, etc. As the existing laws and regulations were made in accordance with the previous cabinets’ interpretation of not exercising the right of collective self-defense, the Abe administration planned to modify the relevant laws in order to adapt to the new situation. On July 2, 2014, the Japanese government announced that it would set up a legal group consisting of 30 specialists and experts, and accelerate modifying and perfecting the relevant laws and regulations on exercising the right of collective self-defense. About 10 laws, such as the “Self-Defense Forces Act” and the “Perimeter Situation Law”, would be revised. The essence of these revisions is to abandon the principle of “purely defensive defense” and allow the SDF to go abroad.

2. Relaxing control on arms exports and advocating establishing a “national defense force”. On April 1, 2014, Japan endorsed the “Three Principles on the Transfer of Defense Equipment” and greatly eased the conditions for Japanese exports of weapons and military technologies. This shows that the arms export policy of 40-odd years that has reflected the spirit of the Japanese pacifist constitution has undergone great changes. In April, Japan and India held inter-governmental consultations on airship exports. On May 10, Japan and Australia held vice-minister level talks on the transfer of submarine technology. On June 16, Japanese military enterprises appeared at the European Exhibition of Weapons and Equipment, which was regarded as their first international appearance. Obviously, Japan’s postwar pacifist philosophy has undergone drastic changes. As the *Tokyo Shimbun* notes, the core of the previous “three principles for arms exports” was to “ban arms exports”, whereas the essence of the “three new principles” is
to “allow arms exports”. In order to speed up arms deals, Japan decided to set up an agency of defense equipment in the summer of 2015, which will be responsible for arms imports/exports management and coordinating arms developments with foreign counterparts. On February 1, 2013, while attending a senate plenary meeting, Abe said he hoped that Japan should set up formal national defense forces by amending the constitution. Abe said: “although the self-defense forces are not known as the army, they are treated as an army in terms of international law. I think it is necessary to combine it with the actual situation to solve this contradiction”.

3. Sticking to a misleading historical view and even further transforming it into the government’s political action. Abe has made lots of misleading speeches on history, mainly including the following three aspects (Zhu, H., 2014:53). (1) Those Class-A war criminals “were not real criminals”. While replying to questions before the House Budget Committee in 2013, Abe repeatedly expressed his doubts on the justice of the trial of the Japanese war criminals made by the Far East International Military Tribunal. (2) “There is no evidence” of the Japanese forcefully drafting “comfort women”. Abe said that the “Kawano Conversation”, which apologized for the Japanese government’s forceful recruitment of comfort women during the war, should be corrected. (3) The “aggression definition has yet to be decided”. Abe sought to justify his cabinet members’ visiting the Yasukuni Shrine. He stressed: “as the aggression definition has not been made yet in the international academic circles, it can be defined differently according to the different positions of the various countries”. In a speech at the Japanese parliament, Abe argued that there are various discussions on the definition of aggression in academic circles and that politicians should not intervene in them. He even proposed correcting the “Murayama Statement” which apologized for Japanese war aggression. On December 26, 2012, Abe himself visited the Yasukuni Shrine. This was the first time he officially visited the shrine since he was reelected, and it was also the first time for a Japanese prime minister to visit since Junichiro Koizumi’s visit 7 years before. During the spring memorial ceremonies at the Yasukuni Shrine in April 2013, more than 160 parliament members and several cabinet officials headed by Deputy Prime Minister Taro Aso paid homage to the shrine. On the “Day of the End of War” in 2013, more than 190 parliament members and some cabinet members visited the shrine. On August 15, 2012, the Democratic Noda cabinet stressed that the Japanese should continue to reflect on the disastrous damage caused by Japan to other Asian countries. On August
15, 2013, however, the Abe regime’s chief cabinet secretary Yoshihide Suga openly demanded that the Japanese people mourn the “fallen soldiers” in the war. When interviewed by the U.S. magazine *Foreign Affairs*, Abe even said that his visiting the Yasukuni Shrine was similar to U.S. officials going to Arlington National Cemetery to mourn American fallen soldiers. This suggests that the Abe regime has substantially transformed the “original-sin theory” (which sees militarist aggression as criminal behavior and disgrace) into a theory of “national sacrifice” and “patriotism”. Japan does not even allow its neighbors to show the historical truth to the world. In 2014, when China was prepared to send the U.N. some precious historical archives regarding the Nanjing Massacre and the forcefully recruited “comfort women” that were to be inscribed in UNESCO’s world heritage list, Yoshihide Suga said “it is extremely regrettable” and accused China of “making political use of the UNESCO forum and to unnecessarily play up the negative legacy of ties from a period of the past”. He also stated that the Japanese side had protested to China’s foreign ministry. On August 15, 2014, the 69th anniversary of Japan’s unconditional surrender, Abe made a speech at the “national war-dead memorial ceremony” at the Nippon Budokan in Tokyo. In the speech, he did not mention a word about the huge damage caused to some Asian countries by the Japanese aggression wars, which was in stark contrast to the attitude of the previous cabinet. Moreover, Abe has spared no effort to glorify the aggression history and distort the related understanding of the international community in his political activities and state visits abroad.

4. Further shaking the Japanese postwar education system. In his opinion, historic view should be based on government instruction and combined with nationalism and patriotism, regardless of historical facts and relations with neighboring countries. During the House of Representatives election in 2012, the LDP’s guideline stressed that “the textbook should be standardized and the terms relating the neighboring countries should be reassessed”. Shinzo Abe said: “although the “Fundamental Law of Education” underwent some changes during the first tenure of the Abe cabinet, the verification benchmark did not reflect the spirit of further revising the law”. In 2013, Shimomura, Minister of Education, Culture, Sports, Science and Technology, stressed, “It is very important to maintain the accomplishment and the pride of the identity of the Japanese people”. In an interview with the media on New Year’s Day in 2014, Shimomura also mentioned the following: Abe hopes to completely transform the postwar education system, including revising the Fundamental Law of Education and textbooks; the government’s interpretation should be
included in the textbooks, including those territorial and historical issues, etc. The Ministry of Education and Culture has also discussed how to set up the “ethics” course in Japanese schools and define it as a “special subject”. Eventually, the Ministry of Education and Culture has revised the verification standards of the textbooks, which provides that “undetermined matters should not be overemphasized; to avoid young students’ misunderstanding, those undetermined issues in modern history must be specified; the government’s official opinion or the judgments of the superior courts should also be treated in a similar way”. It is worried that according to the new rule, “aggression” may be redefined as “entering in or going out” in future Japanese history textbooks.

The Strategy of Getting Rid of the Postwar Regime

To get rid of the postwar system, it should firstly break the basis of its existence—by denying the history of Japanese aggression in WWII. This is the main feature of the Abe regime’s move in breaking the postwar regime. To eliminate obstacles and successfully reach its goal of “disconnecting the postwar regime”, the Abe cabinet has taken a series of strategic steps.

1. Rhetorically advocating further consolidating the U.S.-Japanese alliance. Since the end of the cold war, the United States has been encouraging Japan to rebuild its army and openly supporting Japan to amend Article 9 of its constitution. At the same time, it has also maintained a cautious attitude towards Japan’s intentions. The legitimacy of the entire American military position in the Far East is built around the U.S. exercising Japan’s sovereign function of self-defense. Japan’s unilateral revision of Article 9, viewed against the backdrop of its new nationalism, would isolate Japan from virtually the whole of Asia (Fukuyama, 2007). To offset Washington’s suspicion of lifting the ban on the Japanese right of exercising collective self-defense, Abe and his staff proposed to focus on strengthening the U.S.-Japan alliance in order to consult with the U.S. on lifting the ban. In his talks with George W. Bush during his visit to America in spring 2007, Abe focused on the issues of the U.S.-Japanese alliance, such as whether Japan could use its missile-defense system to intercept missiles flying over Japan to the United States, or whether the nearby Japanese maritime self-defense force can fight back if U.S. warships are attacked on the high seas. During his second visit to the U.S. in the autumn of 2013, Abe again tried to convince Washington that lifting
the ban on collective self-defense was in line with the needs of the U.S.-Japan alliance. Obviously, such explanation could persuade the U.S. to be more willing to support the Abe regime to go further in lifting the ban, because the U.S. was planning to shift its strategic focus to the east and needed Japan’s support in East Asia in order to jointly contain the rising China. As Abe had well grasped the Americans’ mentality, the U.S. and Japan quickly reached a consensus on the issue.

2. Highlighting the “threat” from China. At a news conference in 2014, Shinzo Abe said: “to have real strength is the true deterrent”. In his mind, China is the target to defend against. This has been clearly reflected in the Japanese defense white papers of recent years. In Defense of Japan 2014 (Annual White Paper), 21 pages are related to China, surpassing the 8 pages on the U.S. and the 17 pages on the Korean Peninsula. The Abe regime has been trying to intensify the China-Japan contradictions and is continuously making use of the Diaoyu Islands dispute to exaggerate the “invasion” and “threat” of Chinese warships and aircraft. Some Japanese think tanks on foreign affairs and security have also played an important role in exaggerating “Chinese threat” (Meng, 2014a:230-231). Under such circumstances, even the New Komeito, which had originally stuck to the peace constitution, started to support the Abe government to exercise “limited” collective self-defense. While exaggerating the Chinese threat, the Abe regime has also tried to internationalize the Sino-Japanese islands disputes and greatly exaggerated China’s responsibility in disputes with neighboring countries. To this end, the Abe government has also implemented an “around the globe diplomacy”, which is combined with democratic values. Thus, on the pretext of guarding against “the Chinese threat”, Abe is openly seeking to establish an anti-China international encirclement to serve his goal of getting rid of the postwar system.

3. Seeking to attract public support by promising long-term economic growth. Abe has been advocating building a “powerful Japan” and has implemented a policy of “positive pacifism” to expand Japanese influences in Asia and the world. He has also tried to woo the public to support his regime by offering potential economic growth. Actually, Abe is seeking to win time to implement his economic programs and to achieve his goal of getting rid of the postwar system. Former Japanese Finance Minister Hirohisa Fujii pointed out: “If former Japanese prime minister Ikeda Hayato sought to turn the economy for better, for Mr. Abe, however, the economy is only a tool to be used to serve his ultimate goal—to ensure the collective self-defense
and other security policies being smoothly implemented” (Zhu, L., August 14, 2014). Abe has also tried to enhance cohesion in the faculty by publicizing, “Japan is resuming its powerful position”. To justify his policy and behavior of breaking the postwar system, Abe has repeatedly advocated his so-called “active pacifism” on many important occasions both at home and abroad, and from time to time put forward new arguments, such as “to safeguard peace and stability in the Asia-Pacific”, “to exercise collective security to ensure safe operation of sea lanes”, etc., in this way praising himself to “have made great contribution to the security and welfare of the world”. For example: Addressing the UN general assembly in September 2013, Abe set an unapologetically expansive global agenda for a newly assertive Japan. Whether the issue was Syria, nuclear proliferation, UN peacekeeping, Somali piracy, development assistance or women’s rights, Tokyo would have its say. “I will make Japan a force for peace and stability,” Abe said. “Japan will newly bear the flag of ‘proactive contribution to peace’ [his policy slogan]” (Tisdall, November 27, 2013).

4. Composing a hard-line position both at home and abroad. Externally, the Abe regime has always taken a tough position in response to the protests made by China, South Korea and other neighboring countries. On the territorial disputes with China, Abe has said, “There is no room for negotiation” and claimed that Japan is prepared to counterweigh China in Asia. In a speech at the Parliament, Abe declared he would take a tough position towards China and South Korea, a stance that caused continuous applause. Internally, the Japanese National Security Council forcefully endorsed the “Special Secret Protection Law”. The cabinet has also approved a resolution to lift the ban on collective self-defense and other bills. Such authoritarian image and action have been severely criticized by the public. The Abe regime has also intensified its control over the mass media. For example, it has successfully appointed some conservative members in the NHK committee in order to better control and guide public opinion. In order to enhance publicizing Japanese sovereignty claims over the Diaoyu Islands (Senkaku Islands) and its historical views, the Japanese foreign ministry has discussed how to effectively use twitter and other social networking sites (SNS). It has also made great efforts in constructing embassies and consulates abroad. Currently, eight new overseas embassies and consulates are under construction.

5. Combining the “renaissance of Japan” with outside disputes, focusing on security and military. Addressing the UN General Assembly in September
2013, just in case Beijing missed his drift, Abe spelled this out: as a global trading nation, Japan’s reinvigorated “national interest” was existentially linked to freedom of navigation and open sea lanes around the Senkakus and elsewhere (Tisdall, November 27, 2013). Abe has tried to attract both Japanese and global attention to these disputes in order to pave the way for implementing an active security policy. In 2014, Japan “named” 158 isolated islands in an attempt to claim its “sovereignty” over the islands, including those under dispute. Following the example of the U.S. and Britain, Japan has also established a national security council. Recently, it has put forward a new national security strategy, revised its defense guideline, and endorsed a stricter “Special Secret Protection Law”. It is also developing a new defense program and preparing to deploy military forces in some outer islands. Moreover, Japan has enhanced security cooperation with some surrounding countries, including providing the Philippines with 10 patrol boats to help the latter defend against China’s “harassment”, and further strengthening security and military cooperation with Australia and India.

East Asia Has Become Unsafe

The departures from the postwar regime that the Abe cabinet has taken in an unusual way are making East Asia increasingly unsafe.

1. Japan has became more dangerous due to its misleading historical views and thus it is more difficult for East Asian countries to achieve mutual trust regarding political and security matters, hindering the construction of a common security community in East Asia.

Buoyed by the nationalist mood sweeping Japanese society since Abe took the helm of the once-pacifist nation, rightwing politicians are increasingly regressing to a backward path. Japan’s interpretation of its crime of aggression has been transformed from an “original-sin theory” into a “theory of patriotism”. Essentially, the Abe regime’s goal is to incite Japanese nationalism and patriotism and to substitute Japanese postwar “pacifist” political beliefs for a “nationalist ideology”, so as to serve its goal of breaking the postwar system. The Abe regime hopes that, by denying the history of aggression, the Japanese would overcome their sense of shame and resume their confidence and pride. Obviously, such a Japan will become a big trouble-maker in Asia. With increasing influences of revisionist historical views and nationalism, those diversified and rational voices of civil society will
decline and their restriction of government behavior will be weakened. Such development in Japan will surely cause worries in East Asia. Joseph Nye expressed his deep concern in an article published in the *Financial Times* in 2012: “As Japan’s economy has been sluggish and overtaken by China, the Japanese public opinion is shifting to the right and in a more nationalistic direction, causing a worse situation in both Japan and the world” (Nye, November 28, 2012).

Abe has remained unyielding on the issues of visiting the Yasukuni Shrine and the island disputes, denied Japanese historical crimes like the Nanjing massacre and the “comfort women”. He also deleted the original content of apologizing to Asian countries in his speech at the “national war dead memorial ceremony”, and refused to issue “no war” statements. All these are not conducive to East Asian mutual trust regarding political and security matters and hinder the construction of a regional security community. As a result, the security situation of East Asia is becoming shakier than ever. Former Japanese Prime Minister Tomiichi Murayama said in an interview with the *Tokyo Shimbun*: “Shinzo Abe lifted the ban on collective self-defense, abolished the three principles for arms export, and implements reactionary policies that are different to that of the previous cabinets. All these have undoubtedly caused the dissatisfaction of the neighboring countries” (Anonymous, August 15, 2014). This point has been proven by many diplomatic protests by China and South Korea, and by the cold political relations between Japan and the two countries.

2. Japan’s breakthrough in crushing the postwar regime in unusual ways, especially its confrontation with China, has caused the two sides to fall into a security dilemma.

As mentioned above, containing the “dangerous China” is an important reason for Abe to get rid of the postwar system. Abe has clearly expressed his tough position towards China on many occasions. Consequently, the differences between Japan and China have been gradually transformed into a strategic rivalry between the two countries. During the World Economic Forum’s annual meeting in 2014, Abe even openly urged other countries to contain China and claimed that the current Sino-Japanese relations are similar to the relations between Britain and Germany on the eve of the First World War. A former Japanese ambassador to China also said: “we have to deter many potential invaders. If China is determined to be a Pacific power and challenge the U.S.-Japanese maritime hegemony, a showdown is inevitable” (Anonymous, December 3, 2013). In an interview with the *Mainichi Shimbun*
in 2014, Hirohisa Fujii said: “the postwar system is established with the LDP as the center. Abe repeatedly stressing the right of collective self-defense is a behavior violating the pacifism maintained by the ancestors. More seriously, if Abe wants to build a collective self-defense with the United States, it is necessary to make an enemy, and the simulated enemy country will really become an enemy” (Zhu, L., August 14, 2014).

As China is in a period of rise, its economic and military strength are expanding rapidly. China has repeatedly explained to the world that the rise of China is a peaceful rise, but it seems that Japan has not seriously noticed this point. Abe openly exaggerating the threat from China will unavoidably cause Chinese antipathy. In China’s view, Japan steadily enhancing its military capabilities and lifting the ban on collective self-defense has composed a real threat to China. As Sino-Japanese relations already contain all kinds of basic factors that may cause tension and confrontation between big powers and the Abe regime is continuously making trouble to further deteriorate the situation, it will be more difficult for the two sides to resolve their current security dilemma (Zhu, F., 2007:533). For example, China has been keeping alert to Japan’s new move to strengthen military forces in the southwest islands, because it would help Japan more effectively control the disputed Diaoyu Islands. As the area is close to Taiwan, China worries that Japan’s enhanced military strength will increase the possibilities of Japanese intervention in the Taiwan Strait. Also due to historical reasons, Japan enhancing military strength would always cause worries in China and other neighboring countries, as it would compose a psychological and substantial threat to them. So, the intensifying Sino-Japanese security dilemma will necessarily deteriorate the security environment in East Asia.

3. Japan resuming to worship military means may lead to new militarism in East Asia, intensify the regional arms race, and inject new unstable factors to the security environment in the region.

As the Abe regime has insisted on revising the pacifist constitution, modifying the policy of “purely defensive defense”, and lifting the ban on collective self-defense, Japan has started to rely on force and other compulsory means to settle problems. Externally, Japan is further strengthening and highlighting its alliance relations with the U.S.; internally, it is lifting relative bans and restrictions in order to participate in wars. In 2013, a former adviser of the Japanese prime minister stressed: “If a foreign country has been severely damaged, and it may pose a serious threat to Japan, Japan may consider exercising its right of collective self-defense”. Japan
resuming to worship and depend on military means is contrary to most East Asian countries’ will to seek further development and cooperation. The “three security arrows”1 shot by Abe in 2014 have determined the new Japanese military strategic guideline, which emphasizes enhancing Japanese deterrence and pre-emptive striking capability. Under the flag of “active pacifism”, Japan has gradually moving away from the policy of international coordination it had emphasized before. The changes in the Japanese defense white paper have also reflected this point. The 2014 white paper has much more content on increasing defense exchanges and cooperation between Japan and foreign countries and the bigger role played by Japan in multilateral security cooperation. It also reflects the Abe regime’s ambition to become a big military power with regional influence after lifting the ban on collective self-defense.

The “Three Principles for Arms Exports” was made under the background of the pacifist constitution and aimed to restrict arms exports. Now the new “Three Principles for Defense Equipment Transfer” aims to export arms to some areas of potential conflict. This also means that in the future Japan can provide its “allies” with ships, aircraft and other weapons and equipment on the pretext of maintaining the security of sea routes. But in East Asia, there are complicated disputes over islands and maritime rights. Japan’s active attitude on military means will facilitate expanding military competition and arms race in the region, inject unstable factors to the regional environment and encourage local abuses.

4. It will eventually challenge the U.S.-Japan alliance relationship, thus shaking the existing security architecture in East Asia.

Although Abe has been enthusiastically advocating to get rid of the postwar regime and to recover national sovereignty and patriotic pride, he has implemented his programs in a limited way and has not let Japan shift away entirely from American dominance. On the contrary, his original purpose of revising the constitution and lifting the ban on collective self-defense, to a great extent, was to support and coordinate with U.S. military decision-making and strategic goals in East Asia. On the one hand, the Abe regime is seeking independent, autonomous rights; on the other hand, it has tried to further deepen the lord-vassal relationship between Japan and the United States. Such contradictory move has reflected a pair of contradictions within the framework

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of East Asian security, that is, the coexistence of the U.S.-Japan conflict of interests and the U.S.-Japanese alliance.

The Abe regime denies the history of Japanese aggression, seeks to guide the nation towards the right, persists in visiting the Yasukuni Shrine, and even attempts to revise the “Kawano Conversation” and “Murayama Statement”. All these have not only triggered strong protests by those neighboring countries that had been invaded by Japan, but also caused worries and fears in the United States. Washington worries that they may impact America’s East-Asian policy. More importantly, the U.S. knows that Japan’s final aim is to deny U.S. presence in Japan. So, there appeared such a scene: when Abe was ready to make a speech to deny the history of aggression, U.S. President Obama decided to postpone Abe’s visit to the U.S. on the pretext of a “too tight schedule”. Actually, the U.S. was warning Abe not to go too far in disconnecting the postwar system.

But when the right-wing shift is further developing and the process of breaking the postwar system is eventually completed, the U.S.-Japanese alliance, which has been an important part of the postwar East Asian security system, may no longer exist. By then, U.S. ability to control Japan will be greatly weakened, the existing security framework in East Asia will unavoidably undergo drastic changes, and an even more serious situation may emerge. If Japan’s right-wing shift is out of control and Japan steps onto the path of armament and expansion, it will eventually challenge the U.S. and the peace under its dominance. The voice of Russia has pointed out: “The rise of the new right-wing forces has faded Japanese pacifist color. Currently, the Japanese right-wing forces are opposing both China and the United States. If Japan is trying to get rid of America’s protective umbrella and acts willfully, the Asian order will undergo enormous changes and cause a chain reaction” (Chu and Bai, December 6, 2012).

Conclusion

Any nation and country has the right to seek development and prosperity through reform. There is no doubt that Japan has the right to get rid of constrains of the postwar system, but it should do it in a rational way. Japan should not cover up its national history and violate international justice. It should not shake the pacifism it has stuck to since the end of WWII. The Abe regime’s move is not in line with Japanese interests, and does not
comply with East Asian security or world peace. It should be noted that before Abe was reelected as prime minister in 2012, some professors from several universities in Kyoto made a joint statement in which they said: “More and more of the Japanese population are facing difficulties in their daily life, and some old people and children are even in a hopeless plight. The right way to help them is not by getting rid of the postwar system, abolishing the pacifist constitution and becoming a country capable of launching a war”. Such statement with visionary thinking is respectable. In addition, on June 30, 2014, thousands of demonstrators gathered outside Abe’s official residence to protest his cabinet’s move to lift the ban on collective self-defense. When the cabinet approved the resolution on July 1, 2014, thousands took to the streets in protest and 149 local councils criticized the resolution. Pacifism has ensured decades of peace in Japan and is now deeply rooted in the instincts of the people of the country. We believe that it will still be a driving force for East Asian security in the future.

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Abstract

The U.S in the post-war era has made excellent use of governmental techniques to control people’s mentality in order to tame the Japanese. Here are two techniques: the invention of border issues, and dipping Japanese into the cultural allurement of the American way of life. How was it able to accomplish these seemingly different tasks at the same time?

The U.S has effectively approached both the desires and fears of the Japanese in order to construct pro-American social forces. What if border issues such as those over Dokdo Island (Liancourt Rocks/Takeshima), the Diaoyu Islands (Senkaku Islands) and the Northern Territories (Hopporyodo) were invented by the U.S? What if the Japanese had unconsciously been exposed to culture as the most attractive part of the United States of America?

The concept of “Popular Geopolitics” gives us a clue to recognize how the U.S has constructed Japanese mentality related to every word and deed. Popular geopolitics is the term to understand what discourses, maps and images are distributed in their heads through everyday conversations, communications, and the mass media. Border issues with China, South Korea and Russia covered in the mass media have made the Japanese mentality head towards the U.S. as a last resort for its prosperity and peace on a deeper level.

In conclusion, it is suggested that we take into account the illiberal practices of the U.S. to defend the liberal world and rethink what liberal governance is without an enemy.
Introduction: Population Management by the U.S.

In the discipline of Politics and International Relations, the realms of diplomacy and domestic politics have been distinguished from each other and understood as separate systems. However, in light of a governmental approach of both international and national politics, the two have been used hand-in-hand to govern and tame peoples.

In the case of the Japan-U.S. alliance, it is often said that the Japan-U.S. Security Treaty has had a crucial role in the Asia-Pacific region since the end of WWII. However the focus should be on the linkages or relationality between external and internal affairs, rather than just diplomacy per se. The U.S in the post war era has made excellent use of governmental techniques to control people’s mentality in order to tame the Japanese. Here are two techniques: the invention of border issues as external governance, and dipping the Japanese into the cultural allurement of American way of life as internal governance. How was it able to accomplish these seemingly different tasks at the same time?

1. External Governmental Technique: Invention of Border Issues

In this section, I will historically verify the drafting process of the San Francisco Peace Treaty (Treaty of Peace with Japan) to understand why it is often said that the U.S. invented the triple border issues of Japan over Dokdo Island (Liancourt Rocks/Takeshima), the Diaoyu Islands (Senkaku Islands) and the Northern Territories (Hopporyodo). In the process, it will become clear how strong the U.S. government had gradually increased vigilance level against both communism as thought and communist countries, and how the draft of San Francisco Peace Treaty was drastically changed many times.
1.1. The Case of Dokdo Island (Liancourt Rocks/Takeshima)

The Cold War had already started between U.S. President Harry Truman and U.S.S.R Secretary-General Joseph Stalin at the Potsdam Conference, different from the cooperative relations of two countries at the Cairo Conference in 1943 and the Yalta Conference in 1945 when the course of war with the Axis and Allies was still unclear. Japan surrendered to the allied powers on August 15th 1945 and Douglas MacArthur was appointed Supreme Commander for the Allied Powers (SCAP). The Korean peninsula was controlled under the occupational administration but the U.S.S.R. and the U.S. had countervailed and set the 38th parallel of latitude in the peninsula. The U.S.S.R. had already marched into the Korean Peninsula, Manchukuo and Sakhalin (Karafuto) in the immediate aftermath of Japan’s acceptance of the Potsdam Declaration, but not the Kurile Islands. The draft of General Order No.1 from the U.S. government to General MacArthur, prepared by the State-War-Navy Coordinating Committee (SWNCC), described the region where the surrendered Japan was to the U.S.S.R. The North Korean region and South Sakhalin were included in this, but not the Kurile. Upon receiving a copy of the draft, Stalin demanded all the Kurile and North Hokkaido. Truman rejected the U.S.S.R.’s acquisition of North Hokkaido but accepted its domination of all the Kurile. Due to Stalin’s focus on the Kurile during the negotiation of territory acquisition with Truman, the sole occupation of the Korean peninsula by the U.S.S.R was prevented. In other words, the U.S. capitalized on the Kurile Islands as the card of negotiation for the Korean peninsula. There was a linkage between the occupational areas (Hara, 2005:36).

Although U.S. Secretary of State Dean Acheson declared the defense line of the West Pacific area by the U.S., so-called “Acheson Line”: the

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1 Because there seemed to be no prospect for a united Korea, the U.S. left the problem to the UN General Assembly. The General Assembly resolved to form a national unity government through a general election under the supervision of the U.N., overcoming the opposition of the U.S.S.R. As a result, the U.N. founded the Republic of Korea on August 15 1948, while the provisional administration of North Korea founded the Democratic People's Republic of Korea and immediately received recognition from the U.S.S.R and satellite countries on September 9, 1948. The Third U.N. General Assembly recognized the Republic of Korea as the only legitimate government on December 12, 1948.
Aleutian archipelago, Japan, Okinawa and the Philippines in January 1950, Taiwan and the Korean peninsula were not included because both areas were possibly lost. However, because of the outbreak of the Korean War in June 1950, U.S. foreign policy underwent a historic transformation.

The Korean War made the U.S. turn a draft for a punitive peace treaty with Japan to prevent militarism into a simple and vague version to leave room for interpretation in favor of Japan. It could be said that the comments by William J. Sebald, U.S. Political Adviser to SCAP on the draft of the San Francisco Peace Treaty provided a turning point to change U.S. foreign policy. Sebald thought that the draft with detailed border demarcation had no power of negotiation, or rather strategically left the simple text of the treaty as room for negotiation. He suggested the revision of the Peace Treaty of Japan as below.

Article 3. It is admitted that this Article offers a practical and convenient manner of describing the territories which Japan gives up and those which Japan retains. It is believed, however, that the method of delineation employed in this Article has serious psychological disadvantages. If possible, it is recommended that another method of description be employed which avoids circumscribing Japan with a line even if it is necessary to enumerate a large number of territories in an annex.²

It could be said that it was favorable if Dokdo was not the territory of the “United Korea” when the U.S. took into account that it was possible for North Korea to take control of the whole Korean peninsula in this period. It was fortunately and unfortunately decisive for the U.S. to regard Japan as the forefront for strategic defense of the liberal world, not Korea in 1949, as is easily understood from this comment by Sebald.

Any draft treaty which does not fully recognize conditions in the Far East as they exist today, and which fails determinedly to discard the psychology and concepts which prevailed before and at the time of Japan’s surrender, will fall short of our basic needs. The Far Eastern situation has undergone a vast

change for the past four years, largely to American disadvantage (with the single exception of our relations with Japan); the coming treaty must face this situation and take into account the obvious fact that the United States now has a vital stake, which did not exist four years ago, in a politically stable and friendly Japan. It may accordingly be questioned whether many of the terms of the November 2 draft may not be too severe for a Japan which suffered total defeat, without offering us any conceivable advantage. The draft could possibly be improved by making greater allowances for the fact that the difficult task of rebuilding Japan into a peaceful democratic country, and of meeting deficiencies to enable Japan to achieve a stable economy capable of sustaining its large population, has been primarily the responsibility and burden of the United States.³

Although the U.S. Department of State and other countries pointed out Dokdo Island (Liancourt Rocks / Takeshima) would belong to Korean territory and the government of South Korea requested to revise the draft to include Dokdo as a subject to renounce in Article 2, any mention of renouncing Dokdo Island (Liancourt Rocks / Takeshima) disappeared in Article 2⁴ of Chapter II. The Treaty of Peace with Japan does not have any provision on countries to whom Japan renounces its previous territory in the first place. However, there was no provision to renounce Dokdo Island (Liancourt Rocks / Takeshima). How do we interpret the disappearance of this? In 1950, U.S. president Harry Truman appointed John Foster Dulles as a special envoy to Japan to negotiate a peace treaty with Japan. He took Sebald’s opinion into consideration to revise the draft and always thought of counter measures so as not to yield to the diffusion of communism in this period. It could be said that he deliberately left a border issue as a potential outstanding problem for the two countries, in case the Korean peninsula turned into a communist region. His intention was demonstrated by his attitude regarding another border issue - “the Northern Territories (Hopporyodo)”. In addition to the border issue, the U.S. containment policy made the

³ Ibid.
⁴ (a) Japan, recognizing the independence of Korea, renounces all right, title, and claim to Korea, including the islands of Quelpart, Port Hamilton and Dagelet.
people of South Korea dissatisfied with the U.S. attitude after the People's Republic of China intervened against the U.S. military advance during the Korean War. The top priority of the containment policy was to avoid an all-out war involving the great powers and localize the war. The U.S. intentionally abandoned marching into the North to avoid total war with the communist countries, and invented the 38th parallel of latitude for cease-fire to contain civil wars in Korea. However, it made the Korean people distrust the U.S. because they desired northing for unification (Hara, 2005:68).

The Cold War policy of the U.S. left conflict as a poisoned gift that was difficult to remove among North and South Korea and Japan at any rate.

1.2. The Case of the Diaoyu Islands (Senkaku Islands):

1.2.1. The Problem of the Taiwan Strait

The Treaty of Peace with Japan has a clause reading, "Japan renounces all right, title and claim to Formosa and the Pescadores" in Article 2 (b). However, it does not stipulate the name of the country to whom Japan renounced Taiwan and the Penghu archipelago. This is related to the problem of One China. There has been dispute of national jurisdiction around the Diaoyu Islands (Senkaku Islands) between China and Japan: whether the islands belong to Taiwan or Okinawa.

Truman stopped the non-intervention policy on mainland China and declared the adoption of a containment policy and the dispatch of the Navy's Seventh Fleet to the Taiwan Strait in order to protect Taiwan on June 27, the second day after the outbreak of the Korean War. The U.K. adopted the engagement policy and recognized the People's Republic of China (PRC) on January 1950 to enhance its diplomatic presence in Asia when the PRC seceded from the U.S.S.R. in the coming era, while the U.S. took a tougher line against the PRC with consistency due to the deployment of the People's Volunteers' Force in the Korean peninsula. Although both countries had difficulty in foreign policy on China until the last minute of signing the Treaty of Peace with Japan, John Foster Dulles finally persuaded the U.K. with the following logic to effectuate the Treaty:

Prolongation of occupation by the western capitalist states could stimulate nationalism in Japan, trigger the expansion of influence of
communism and enable the communists to gain control. After all, the U.S. and the U.K. decided to let Japan choose the course of foreign policy with the PRC in future, not to mention the country to which Taiwan should belong after Japan renounced it, and not to invite both Chinas.

1.2.2. Okinawa

As in the case just described above, the Korean War changed U.S. foreign policy from non-intervention to containment and the recognition of Okinawa. Although the U.S. consistently regarded it as a keystone, the positionality of Okinawa was transformed from a keystone for “defense from Japan” to a keystone for the “defense of Japan” within a short period.

The communization of China in 1949 and the Korean War in 1950 changed Okinawa’s status in the drafts several times, from a place of trusteeship through a part of the U.S. to a part of Japan. After all, there was no provision to renounce Ryuku (Okinawa) in Article 3 in the Treaty of Peace with Japan, although there was no clause to confirm Japan’s sovereignty over Okinawa. The reason why Okinawa’s status was so vague can be seen in the process of revision of the U.S. strategy against the PRC. The Nationalist government in Taiwan had often announced it would recover the Ryuku as its original territory since 1942. The U.S. recognized the Taiwan government’s position on Okinawa. If Japan renounced Okinawa, the U.S. lost legitimacy and authority to place U.S. military bases in it. On the other hand, if Japan kept sovereignty over Okinawa, the U.S. could almost permanently demand whatever it needed on Japan for as long as the Japan-U.S. Security Treaty continued. When the reversion of Okinawa to Japan was realized in 1972, the U.S. gave Japan another poisoned gift of the Diaoyu Islands (Senkaku Islands) with Okinawa involving a border issue with the PRC via the Taiwanese administration, whose issue almost automatically connected Japan with the U.S.-cum-military bases.

The Nixon administration adopted a policy of taking no position on sovereignty to avoid the dilemma between the PRC and the ROC, while returning administrative rights of the Diaoyu Islands (Senkaku Islands) to Japan. As the U.S. realist’s mentality gave sufficient consideration to the concerns of the PRC and the ROC respectively. While the U.S. promoted détente with the PRC to balance the U.S.S.R., it continued a defense policy of the Taiwan Straits. Its policy would have been guaranteed by tactical
nuclear weapons placed in ROC and carried into the U.S. base in Okinawa thanks to a secret arrangement with Nixon and Sato. Therefore, the Diaoyu Islands (Senkaku Islands) as a border issue was a truly trivial matter for the U.S. grand strategy of ‘realism’.

Moreover, due to escalation of resource nationalisms over the islands as negative heritage, the UN Convention on the Law of the Sea (UNCLOS) complicated the border issue of these areas because it provided nation states with a legal foundation for their territorial allegation. While the PRC has alleged that the continental shelf around the Diaoyu Islands (Senkaku Islands) has belonged to the coast of the PRC since around 1970s, Japan declared a 200 mile exclusive economic zone (EEZ) in 1996.

After the age of the Cold War as an ideological clash, it is obvious that all countries confront the problem of feeding people in a sense that population management as governmental rationality (Foucault, 2009) in each country needs to keep natural resources for energy and the economy rather than a system of ideology. This leads China and Japan to be seemingly nowhere near resolution.

However the Okinawa-cum-Diaoyu Islands (Senkaku Islands) nexus cannot be complete within a single border issue with China. It must be connected with the problem of the Northern Territories (Hopporyodo) as yet another border issue with Russia.

1.2.3. The Case of the Northern Territories (Hopporyodo)

(c) Japan renounces all right, title and claim to the Kurile Islands, and to that portion of Sakhalin and the islands adjacent to it over which Japan acquired sovereignty as a consequence of the Treaty of Portsmouth of September, 5, 1905.

As well as the case of renouncing of Taiwan, the provision for renouncing the Kurile Islands and south Sakhalin in the treaty did not mention the name of the country to which Japan restituted it. The reason why the treaty left this out traces back to the Yalta Conference in 1945. The U.S and the U.K. thought that the U.S.S.R.’s participation in World War II was needed in order to win it over a short period and with the least casualties, and enhance the legitimacy of the foundation of the United Nations after the War. In fact, they distinguished to “return” the southern
part of Sakhalin from to “hand over” the Kuril in the Yalta agreement.\(^5\) It was understood that handing over the Kuril from Japan to the U.S.S.R. was regarded as compensation for cooperation (Magozaki, 2012:169). However, structural transformation took place over the six years between the Potsdam Declaration and the Treaty of Peace with Japan.

It was found that there was a record of investigation entitled “Minor Islands Adjacent to Japan Proper: Part 1 the Kurile Islands, the Habomais, and Shikotan” made in November 1946 at the National Archives of Australia in 1994. There were three categories in the record: first, the Habomais and the Shikotan as part of Hokkaido, second, Kunashiri and Etorofu as the South Kuril, and third, the rest of the Kuril as the North Kuril (Hara, 1998:30; Magozaki, 2012:171; see also Schaller, 1997). The following draft of the Treaty of Peace with Japan in March 1947 stipulated a clause that Japan ceded to the U.S.S.R. the entire sovereignty of the Kuril between Kamchatka and Hokkaido. However there were twists and turns regarding the management of the Northern Territories (Hopporyodo) via a report by George Kennan and a comment by William J. Sebald. The U.S. leaned towards the position of returning all four islands to Japan thanks to Sebald’s advice. Sebald knew that it was unacceptable for the U.S.S.R. to regard the four islands as part of Hokkaido and led the rejection of the proposition by the U.S.S.R., while the friendly attitude of the U.S. made the Japanese anti-U.S.S.R. and pro-American (Shinbei).

On the other hand, the U.S. was concerned about the prospect in the draft in November 1949 that if the U.S. supported Japan’s position of return of all four islands, the U.S.S.R. might criticize the support as a violation of the Yalta agreement and it might become difficult for the U.S. to legitimate control of the Ryuku (Hara, 2005:134-135).

In the end, mention of the four islands was omitted from the Treaty because even if the Treaty stipulated that sovereignty of the four islands remained in Japan, the U.S.S.R. continued to occupy them and then it would

\(^5\) The leaders of the three Great Powers—the Soviet Union, the United States of America and Great Britain—have agreed that in two or three months after Germany has surrendered and the war in Europe has terminated the Soviet Union shall enter into the war against Japan on the side of the Allies on condition that:

2. The former rights of Russia violated by the treacherous attack of Japan in 1904 shall be restored, viz: (a) the southern part of Sakhalin as well as all islands adjacent to it shall be returned to the Soviet Union,

3. The Kuril islands shall be handed over to the Soviet Union.
clearly visualize a potential border issue between Japan and the U.S.S.R., which would be unfavorable for the U.S. which had already entered into the Japan-U.S. Security Treaty (Hara, 2005:144).

It should be noted that when Japanese foreign minister Aoi Shigemitsu tried to enter into a peace treaty with the U.S.S.R. by agreeing to return two islands in 1965 after the 1951 Treaty, US Secretary of State John Foster Dulles cautioned Shigemitsu that if Japan abandoned Kunashiri and Etorofu, the U.S. could not guarantee “residual sovereignty” of Japan on Okinawa, and dissuaded Japan from concluding a peace treaty with the U.S.S.R. Dulles thought that if Japan solved the border issue with the U.S.S.R., the next step would be the return of Okinawa. What he thought exactly was that the U.S. should eschew such circumstance at any cost because it meant losing the most important military base in the Asia-Pacific Region. Both border issues with the PRC and Russia have always been connected by the U.S. for the sake of retaining its own military bases.

To sum up, the Treaty of Peace with Japan did not have name of any countries to which Japan should renounce territories, and this happened as a result of careful examination from various angles in light of the national interests of the U.S. This triggered territorial conflicts among Japan, South Korea, Russia and China. It could be said that three border issues were invented by the U.S. containment policy to prevent communism from diffusing across East Asian countries during the Cold War as well as to inhibit those countries from building an anti-American alliance. Such border issues as a tool of divided governance for the U.S. have been continued and seamlessly constructed awareness of oneself/other among those countries.

2. Internal Governmental Techniques: Intimidation and Allurement Complex

2.1. Sweeping the Liberals for the Cold War

That the six years from 1945 to 1951 were turbulent can be said of East Asia as a whole, and not just Japan. First of all, attention should be given to the antagonism between the Government Section (GS) and the General Staff Section II (G2) of the General Headquarters (GHQ) (Reischauer, 1982). The Showa Denko affair appeared in 1948 and Prime
Minister Hitoshi Ashida and his cabinet resigned over the corruption scam, although he was not implicated in the payoff case. Because he, as a liberal, tried to maintain autonomy and a suitable distance from the U.S., G2 launched the scandal. Moreover, bribery affected not only the cabinet but also GS (Willoughby, 2011[1973]). Charles Louis Kades, the chief of the GS, was substantially ousted in 1948 due to an affair launched by G2, which happened just after the Constitution came in effect on May 3, 1947. As GS had lost the power in GHQ because of the Showa Denko affair, the process of democratization in Japan had stopped and the outbreak of the Korean War had led Japan on the road to remilitarization. Owing to a conflict of opinion on the Korean War, Douglas MacArthur was dismissed by President Truman on April 11, 1951. The resignation of MacArthur, who disagreed with the rearment of Japan, meant the end of pacifism from the top in Japan.

2.2. Ins and Outs of the Coin: Economic Growth and Military Burden in East Asia

Ironically, the birth of the Liberal Democratic Party (LDP) as a center-right alliance in 1955 in order to counter communism was a crucial moment to becoming a core member of the Western camp as a state, because the LDP has eventually undertaken a significant role in realizing two tasks that the U.S. had aspired to accomplish as a simultaneous achievement. One was to build a military bulwark against communism in East Asia and the other was to create a model country as a showcase for capitalism which could support developing countries and also be envied by them. Obviously, Japan was geopolitically and economically at stake for the U.S global strategy. However, a heavy military burden might have hindered economic restoration. Therefore, while the U.S. has strategically imposed a military burden on Okinawa, Taiwan and South Korea, the U.S. has let people living on the main island of Japan concentrate on economic recovery (Yoshimi, 2007:13-14). This means that the U.S distinguished the main island of Japan as a keystone at the expense of its surrounding areas. Critical Geopolitics

Kades played a central role in creating the GHQ draft of the Japanese constitution. However, he did not create this from scratch but capitalize on outlines of draft constitutions that had been published by the Progressive, Liberal, and Socialist Parties in Japan (Kades, 1989:227).
requires us to remember what spatial realities as “common sense” were in the past by tracing back histories (Ó Tuathail, 1996).

The majority of Japanese born in the post war era have political unconsciousness as apolitical agents. In fact, Japan had been fascinated by a series of stories for high economic growth: the marriage of Japan’s crown prince in 1959, the boom of home electronics, the Shinmu (1954-57), Iwato (1958-61) and Izanagi (1965-70) economic booms, the Tokyo Olympics in 1964, and the Japan World Exposition in 1970. In this process, the U.S. transformed for the majority of Japanese from being a symbol of military violence to an icon of the life of wealthy consumers, which was quite different from the realities of the U.S. military bases in Okinawa, Korean peninsula and Taiwan.

2.3. Japan’s Identification with the U.S.

The geopolitical division of labor in East Asia has been supported by the U.S. as inheritor of the Greater East Asia Co-prosperity Sphere (Daitoua Kyoeiken). However, taming and disciplining the majority of the Japanese was essential to achieve the U.S. strategy for world order. In this regard, it is equally important to realize that the Americanization of the Japanese has not just been a one-way process by the U.S. but also a voluntary and intentional process sought by the defeated nation (Dower, 1999). The majority of Japanese still has had no experience of contact with U.S. soldiers, or, rather, the U.S. has been internalized as an ideal to be attained through mass media at a distance. The symbolization of the U.S., in turn, has had power as “conduct of conduct”\(^7\) to construct identity of Japanese by oneself. After all, the U.S. has consistently been the “Other” as well as the “Self” for the Japanese.

The system of consuming and enjoying the American way of life in Japan has generated seemingly post-war Japanese cultures such as animation films, TV dramas, songs, movies and Tokyo Disney Land (TDL) one after another since 1950s (Yoshimi, 2007:24).

\(^7\) “Conduct of conduct” is the phrase for analyzing people’s mentality by Michel Foucault. It can be replaced by the phrase the “guide of actions.” In this context, the Americanization of the Japanese mentality sets down their attitudes towards the Americans.
2.4. Atoms for Peace

The U.S. successfully carried out the first experiment of the hydrogen bomb (IVY MIKE) around the Marshall Islands and extinguished Elugelab Island in 1952. With a worsening fiscal deficit due to the Korean War, the U.S. paid a great deal of attention to the atomic bomb as an attractive technology that was comparatively low in cost but had devastatingly striking power. The U.S. expected a prolongation of the Cold War and focused on restraining military expenditure (Yoshimi, 2012:24). The U.S. had executed image strategies to keep carrying out the experiments through the Psychological Strategy Board (PSB).

U.S. President Dwight D. Eisenhower delivered a speech entitled “Atoms for Peace” as part of an image strategy to the UN General Assembly on December 8, 1953 in light of psychological strategy as above. He promised to promote the peaceful use of nuclear power. The seemingly generous attitude of the U.S. about nuclear power was aimed at sweeping away the negative images of Hiroshima and Nagasaki.

However, the fishing boat “Daigo Fukuryu Maru” was exposed to and contaminated by nuclear fallout from the United States’ Castle Bravo thermonuclear device test on Bikini Atoll on March 1, 1954. As the boat returned to Yaizu Port on March 14 and Japan’s mass media reported on it on March 16, Graves B. Erskine, a member of the U.S. National Security Council (NSC), suggested constructing a nuclear power plant in Japan to make a feint on anti-American social forces on March 22 (Yoshimi, 2012:29). In short, an essential psychological strategy for the U.S. was to separate military use and peaceful use of nuclear power in the mind of Japanese.

2.5. American Culture as Soft Power and the Ocean

What the U.S. had done to dispel the distrust of the Japanese against
U.S. militarism was to inject and expose them to American culture as soft power through multimedia. Negative images of military bases and nuclear tests in the Pacific Islands were actually counterbalanced by the effect of positive images of American culture. Images of paradise in Hollywood movies like *South Pacific* in 1958, for example, were impressed on the Japanese. Hawaii has actually become a popular seaside resort for the Japanese to visit, although it is in Hawaii that the headquarters of the United States Pacific Command (USPACOM) is based. Beach sounds such as music by *The Beach Boys* have given to the Japanese the sophisticated images of an Americanized paradise in the ocean during 1950s and 60s (Yoshimi & Tessa, 2010:120-122). Another example is *Shōnan*, a region along the coast of Sagami Bay in Kanagawa prefecture. *Shōnan* was known as the Miami of the Orient, becoming popular through Japanese movies produced by film companies such as Nikkatsu, Syochiku and Toei. However, it is worth noting that U.S. soldiers and their families from the military bases enjoyed their holidays swimming or surfing at *Shōnan*. *Shōnan* is conceptually and physically linked with Guam, Hawaii and Miami in the sense of being American beaches of gathering vacationers behind military bases (Yoshimi, 2007:136-148). In other words, Hollywood movies and American pop culture with the ocean made the structure of the Cold War invisible by diverting peoples’ attention to the sphere of entertainment.

All in all, the majority of Japanese have seemingly lived in the main island of Japan as a military-free space, while specific sites like Okinawa, Taiwan, the Korean peninsula and so on, have undertaken an excessive military burden. The construction of non-political agents in Japan has been supported by multimedia such as newspapers, radio, TV, music and movies since 1945.

3. Linkage of External and Internal Governance

In this paper, it has become clear that U.S. foreign policy intentionally invented the friend/foe structure through the Treaty of Peace with Japan. This means that a mentality of the Cold War stemmed not from the addition of “pre-given containers for politics, a state-centric system of space” (Ó Tuathail, 1996:62) but through truly political attempts from beginning to end. However, as if pre-given assumptions were effective, it
ruled the mentality of not only diplomats, statespersons or bureaucrats but also ordinary people. In the context of the internal governance of Japan, the American way of cultural practices as subject which the Japanese have envied has actually constructed non-political agents in Japan. They have been honest servants to the “Economic Polity” (Wolin, 1989) as a system for disciplining the population since Japan’s defeat in WWII. They have heard the news or stories of border issues through multimedia without consideration. Buzzwords about border issues on TV, newspapers and the like in everyday life have supported the repeated practice of “bordering, ordering and othering” (van Houtum, Kramsch, & Zierhofer, 2005) in East Asia in peoples’ minds and crystallized peoples’ vision of friend/foe as a system of recognition. The process of discourse circulation belongs to a category of popular geopolitics into which everyone enters.

Approaching from both external and internal governance and finding linkages of the two is to “investigate how the categorizations and cultural creations through which we come to understand and write in turn shape our political existence” (Ó Tuathail, 1996:62). This is called Critical Geopolitics.

Concluding Remarks:

Economic growth in nation states enables people to consume goods and services. It is ostensibly liberal governance at a distance, not which the government directly intervenes but which makes people enjoy economic life through choices in markets. One tends to equate having more choices with richness and wealth. However, the “liberal world” given by the U.S. has only come from constructing enemies in the American way of thinking especially since the post-war period. As one cannot understand what the liberal actually is without enemy in the history of the U.S., one ironically has to search for a potential foe again.

Sheldon Wolin lamented two crucial consequences of the Cold War upon domestic politics. One was the shrinking of the scope of public participation. The second was the emergence and legitimation of elitism as “the best and the brightest.” Both consequences were due to the growing dominance of foreign policy and military strategy (Wolin, 2008:39). The problem of anti-democracy in democratic countries is not just for the U.S. but also Japan.
Taking into account the lessons from the series of illiberal actions by the U.S. as guardian of “liberalism” during the Cold War era, we should rethink what liberal governance is without an enemy.

References


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