

**Japan as a Rule-Promoting Power:  
Recommendations for  
Japan's National Security Strategy  
In an Age of Power Shifts,  
Globalization, and Resource Constraints**

**Final Report of the Sasakawa Peace Foundation's Project:  
"Japan's Strategic Horizon and Japan-U.S. Relations"**

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We hope that our final report, which has been completed thanks to the support and encouragement of those noted above, will help to launch a further debate on the mid- and long-term goals of Japanese foreign and security policy based on strategic thinking.

“Japan’s Strategic Horizon and Japan-U.S. Relations” project team  
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Disclaimer: The views expressed in this publication are solely those of the authors, and do not represent the views of the Sasakawa Peace Foundation, nor those of the many specialists who were consulted in the course of this project.

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## Executive Summary

Japan's external environment is characterized by power shifts and globalization, and it faces many regional and global security concerns.

However, Japan faces domestic constraints, and therefore, its ability to respond and adapt to the changing international environment will be relatively limited in the next decade or two. Japan not only faces severe fiscal constraints, but Japanese politics is losing its center of gravity. The Japanese constituency is not polarized on major public policy issues, but nevertheless, political factions in Japan have a hard time reaching consensus on crucial issues of the day.

If we are to take these domestic constraints as given conditions in the years to come, we have to fundamentally reconsider the way in which we think about Japanese national security in the rapidly shifting global landscape. *The key will be policy implementation.* It will take longer to make crucial decisions, and Japan may have fewer resources with which to meet its security challenges.

*What are the ways in which we must think about national security in an era when Japan faces an international environment characterized by power shifts and globalization as well as domestic fiscal and political constraints? The purpose of the current project is to address this question by providing a conceptual framework and making recommendations for a new Japanese national security strategy looking at the next 10 to 20 years.*

The project team proposes the introduction of the following three main approaches that would help Japan attain security under these circumstances: (1) prioritization, (2) the formulation of what we call “downstream strategy” and “upstream strategy,” and (3) the promotion of a legitimate order based on shared rules and norms.

**Prioritization.** Any policy package should not rest on the assumption that all security challenges to national security should be addressed equally. We took the following steps to identify and prioritize security challenges for Japan.

First, we located Japanese core interests by defining Japanese national security as comprising the following two elements: (a) the security of Japan's sovereign territory and its exclusive economic zone and continental shelf (we refer to this as Japan's “vital zone”), and (b) the security of its trade and investment relations, imported energy resources from overseas and sea lines of communication (we refer to their geographical distribution as Japan's “strategic horizon”). As regards the latter, we viewed the following countries and regions as being crucial to Japan's national well-being: (1) the United States, (2) China, (3) the Persian Gulf region, (4) Australia, (5) Southeast Asia, (6) Western Europe, (7) South Korea and Taiwan, (8) India, (9) sea lines of communications running from the Persian Gulf through the Indo-Pacific region to the Japanese mainland, and (10) the global commons.

Secondly, we constructed scenarios by identifying mid- to long-term strategic trends in the international system and making assumptions about contingent events. We came up with the following scenarios, and classified them in terms of their “degree of impact on Japanese core interests.” The following are high-impact scenarios that we identified through consultations with security experts outside of the project.

- *High-Impact Scenarios Affecting the Vital Zone.* Low-intensity attacks by North Korea on South Korean and/ or Japanese vessels and islands; a high-intensity attack on the Japanese mainland by North Korea; unilateral development of natural resources by China in the East China Sea; China's “legal warfare” in Japan's Exclusive Economic Zone; escalatory actions by Chinese authorities to “rescue” Chinese activists who have landed on the Senkaku Islands.

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- *High-Impact Scenarios affecting the Strategic Horizon.* A terrorist attack on the U.S. mainland using weapons of mass destruction (WMD) or cyber weapons; a nuclear crisis over Iran and heightened tension in the Strait of Hormuz; unilateral development of natural resources and exercise of jurisdiction by China in the South China Sea.

Based on the above assessment, we identified the following **primary strategic goals** pertaining to the security of Japan's vital zone and the strategic horizon.

### The Vital Zone

1. Deter low- and high-intensity use of force by *North Korea*, prepare a system for responding to such actions, and foster an environment in which a South Korea-led unification of the Korean Peninsula can be achieved in the medium to long term.
2. Prevent and deter low-intensity revisionist actions by *China* in the East China Sea and the Philippine Sea, prepare a system for responding to such actions, and develop a global China strategy in order to integrate China into the international order in the long term.

### The Strategic Horizon

3. Institute defensive measures and prepare a crisis management system for responding to *a large-scale terrorist attack on the U.S. mainland* using WMD and /or cyber weapons.
4. Prevent and deter unilateral actions by *China* to alter the political map in the South China Sea while at the same time getting China to accept certain "code of conduct" as a way to create a foundation for confidence building.
5. Prepare a crisis management system for responding to a major crisis over *Iran*.

*Downstream and Upstream Strategies.* Japan might not be able to invest as much as in the past in costly defense-related hardware. Even if the Japanese government were able to, it would be difficult to maintain the lead over rising states such as China in quantitative terms. Therefore, we believe that strategies for deterrence and response (**downstream strategies**) are certainly required, but we must also identify the structural causes or pressures that can lead an actor to take threatening actions in the first place, and then look at policies that can mitigate or possibly remove those structural pressures through medium- to long-term efforts that apply multilateral diplomacy and development initiatives, as well as policies aimed at building or stabilizing a rules-based order (**upstream strategies**). If we compare it to the flow of a river, downstream strategies are similar to shoring up the banks of the river along its lower reaches, while the upstream strategies are similar to multiple countries working together at the head of a river to build tributaries or dams in order to lessen the force of the river's flow downstream.

*Rule Promotion as a Strategy to Build a Legitimate International Order.* Upon prescribing policy initiatives based on the conceptual frameworks outlined above, the project team defined the philosophical basis on which Japan should operate. The project team believes that a straightforward balance-of-power approach to counter power with power may serve to maintain security, but has limits in improving the quality of security as tension will rise limitlessly during power shifts. On the other hand, a simple accommodating approach to share power by means of strategic concessions may also serve to superficially maintain security, but will ultimately depreciate the quality of security because dissatisfaction will eventually erupt on the appeasing side as the rising power becomes increasingly assertive. We believe that in order to improve the quality of security we must establish a rules-based order underpinned by both deterrence (downstream strategy) and international cooperation (upstream strategy) to create strategic trust, and thereby construct "a legitimate order," if you will, agreed upon by rising and leading nations.

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Thus, our basic approach to managing rising powers (China) and revisionist powers (North Korea and Iran) will be characterized by the following elements: (a) maintain deterrence and response capabilities, (b) demand the acceptance of and adherence to existing norms on external conduct (foreign policy) and internal conduct (domestic governance) as well as negotiation of new rules, (c) offer assistance to reform domestic socioeconomic systems on the condition that it agrees to accept and comply with the various relevant norms and negotiate new ones, and (d) move to pressure or contain the country in question if it refuses to accept existing norms or negotiate new rules or egregiously violates existing norms. It must be emphasized that legitimate interests of rising powers should be taken into account when negotiating new rules. Rising powers must bear the burden of accepting already-prevailing norms for the sake of stabilizing the international order from which it can draw much benefit, but it will be assisted by the leading powers in making the necessary adjustments through economic cooperation (upstream strategies).

This rule-promotion strategy will naturally require the concerted action of those nations that already adhere to the prevailing norms of the existing international order, so security challenges will have to be addressed through bilateral, trilateral, and multilateral approaches. The project team believes that Japan should play a leading role in implementing the rule-promotion strategy, and rule promotion should be its defining identity in the age of power shifts, globalization, and resource constraints. Japan must convince other status quo powers to adopt similar approaches and thereby avoid severe strategic confrontation between rising and leading powers.

Specific actions that should be implemented for the purpose of achieving the above goals are summarized in the conclusion of this report.

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# Introduction

Japan's external environment is characterized by power shifts and globalization, and it faces many regional and global security concerns. However, Japan faces domestic constraints, and therefore its ability to respond and adapt to the changing international environment will be relatively limited in the next decade or two.

First, Japan faces severe fiscal constraints. Social security expenditure has continued to expand, and the reconstruction following the Great East Japan Earthquake that struck on March 11, 2011 requires a vast budget. The lingering recession that was triggered by the financial crisis in 2008 requires the Japanese government to maintain a certain level of expenditure on economic stimulus and a social safety net even with reduced government tax revenue. All of these problems have led to the expansion of an already-enormous national debt, and consequently the defense and foreign affairs budgets will likely face pressure for reduction in the coming years.

Secondly, Japanese politics is losing its center of gravity. The Japanese constituency is not polarized on major public policy issues, but nevertheless, political factions in Japan have a hard time reaching consensus on crucial issues of the day. This makes it difficult for the Japanese government to promptly reach important political decisions on national security matters.

*What are the ways in which we must think about national security in an era when Japan faces an international environment characterized by power shifts and globalization as well as domestic fiscal and political constraints? The purpose of the current project is to address this question by providing a conceptual framework and making recommendations for a new Japanese national security strategy looking at the next 10 to 20 years.*

If we are to take the above-mentioned domestic constraints as given conditions in the years to come, we have to fundamentally reconsider the way in which we think about Japanese national security in the rapidly shifting global landscape. **The key will be policy implementation.** It will take longer to make crucial decisions, and Japan may have fewer resources available to meet its security challenges. Therefore, what is urgently needed is a national security strategy that contains a list of prioritized security agenda items that will serve to inform decision makers

about what they should be putting their hands on first. It should also explicate some major policy initiatives that would allow the Japanese government to invest limited resources efficiently and effectively to meet those security challenges ahead.

The traditional mode of thinking was rather simple. Japan could indiscriminately take strategic goals off the shelf of the international/global security agenda, and engage in whatever initiatives it deemed necessary to achieve those goals. But the days of indiscriminate, open-ended commitment to security issues are over.

The above-mentioned constraints will force us to think hard about how to achieve Japan's national security with fewer national resources and slowly-reached political decisions. The primary objective of any new national security strategy should be to identify methods for addressing the following question: What are the ways in which we must think about national security in an era of domestic fiscal and political constraints? The project team proposes the introduction of the following two main approaches that would help Japan attain security under such circumstances. We believe this would be our core contribution to the security debate that will unfold in an era of power shifts, globalization, and domestic constraints.

## 1. PRIORITIZATION

### – Dealing with resource scarcity and allocation

Any policy package should not rest on the assumption that all threats to national security should be addressed equally; instead, a new national security strategy should prioritize strategic goals and security challenges requiring a higher level of vigilance, and should be accorded priority management. So how should we prioritize security challenges? We believe there are three ways.

**(1) *Contrive a conceptual basis for discriminating between national and international security issues.*** Japan's security rests on numerous factors ranging from territorial security to climate change. However, there are security challenges that impinge upon Japan's strategic interests directly, and also those that threaten the stability of the international society in general. Japan should be able to deal with both types of these security challenges, but in an era when prioritization is a requirement, Japan needs to discern strategies required to manage direct



dangers on its unique national interests (**national security strategy**), and distinguish them from other status-seeking or burden-sharing initiatives that contribute to the stabilization of the international society at large (international security strategy). The current project aims to provide recommendations for the former type of strategy.

This begs the question of how should one draw a line between national security and international security? The project team realizes that this is an artificial dichotomy. In reality, it is more a matter of gradation rather than a clear-cut distinction. However, in order to exercise prioritization, we needed a basis for articulating national security. Therefore, this project team defined Japan's national security in terms of the following two components: (a) the security of its sovereign territory and its exclusive economic zone and continental shelf (we refer to this as Japan's "vital zone"), and (b) the security of its trade and investment relations, imported energy resources from overseas and sea lines of communication (we refer to their geographical distribution as Japan's "strategic horizon")<sup>1</sup>. There is no common objective understanding of what should be included in the strategic horizon. We therefore delineated economic and energy interests as well as sea lines of communication (SLOCs) as crucial components necessary for the national well-being of Japan. Conversely, international security strategies or policies that do not address security challenges that directly affect the security of Japan's vital zone and strategic horizon are beyond the purview of this project.

In order to seek out security challenges that are more pertinent to Japan rather than to the international society at large, the project team (a) geographically located Japan's actual strategic interests (please refer to *chapter 1* and *appendix 1*), and (b) constructed scenarios to specify the main features of the forms in which actual and potential security challenges may materialize (please refer to *chapter 2* and *appendix 2*).

**(2) Provide a conceptual basis for distinguishing between territorial security and overseas security.** Under ideal conditions, Japan should be able to defend both its vital zone and its strategic horizon in its entirety, but this is virtually impossible.

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<sup>1</sup> The notion that Japan's national well-being rests not only on the security of its mainland but also on external trade relations has existed since the Meiji Period. For example, Prime Minister Aritomo Yamagata argued that Japan must not only protect its "sovereignty line" but must also maintain influence over its "interest line" in his inaugural speech at the First Imperial Congress session. Shinichi Kitaoka, "Kaiyokokka Nippon No Senryaku (A Strategy for Japan as a Maritime Nation): from Fukuzawa Yukichi to Yoshida Shigeru," Tomoyuki Ishizu and Williamson Murray eds., *Nichibei Senryaku Shisoushi (The Philosophical History of Japan-U.S. Strategy)*, Sairyusha, 2005, p.21.

Therefore, limited resources should be allocated for dealing with security challenges to the vital zone in the first instance, and then for dealing with security challenges to the strategic horizon. In Japan's case, the alliance with the United States allows it to extend the scope of its security initiatives beyond the vital zone because the United States is committed to defending Japan's territorial integrity.

Any threats to the strategic horizon that would not be met with sufficient national security resources would have to be dealt with through collaborative efforts with the United States and/or with third countries. This is probably an unconventional way to think about Japanese security, but resource scarcity and political stagnancy requires Japan to prioritize among what have appeared to be equally important security challenges.

**(3) Assess actual and potential security challenges in terms of the "degree of impact on Japanese interests."** This will allow us to further prioritize among threats that pose direct danger to Japanese interests. The project team consulted a range of Japanese security experts for their assessment of the various scenarios that the project team constructed, and categorized them into high-impact and low-impact scenarios. The project team made recommendations focused on high-impact security challenges because we believe these require priority vigilance in the years to come, and that resources and policies needed to meet these challenges should not be sacrificed over other competing goals.

## 2. DOWNSTREAM AND UPSTREAM STRATEGIES

### – Employing limited resources efficiently and effectively to construct a legitimate order

Japan might not be able to invest as much as it has in the past in costly defense-related hardware. Even if the Japanese government were able to, it would be difficult to maintain the lead over rising states such as China in quantitative terms. Therefore, we believe that strategies for deterrence and response (downstream strategies) are certainly required, but we must also identify the structural causes or pressures that can lead an actor or a state to take threatening actions in the first place, and then look at policies that can mitigate or possibly remove those structural pressures through medium- to long-term efforts that apply multilateral diplomacy and development initiatives as well as policies aimed at building or stabilizing a rules-based order (upstream strategies). These two types of strategies will combine to serve the purpose of constructing a legitimate order among nations that undergo power shifts and globalization.

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(1) **Downstream Strategies:** Japan must increase its deterrence and response capabilities and enhance its diplomatic presence by strengthening and promoting its alliance with the United States while at the same time strengthening security cooperation with other influential third parties. (If we compare it to the flow of a river, this downstream strategy is similar to shoring up the banks of the river along its lower reaches.)

(2) **Upstream Strategies:** Japan must improve the security environment surrounding its national interests from its structural foundation. It must identify the structural factors that are thought to influence the intentions of those actors that might infringe upon Japan's interests, and must alleviate or remove the sources of those potential threats through mid- to long-term, multifaceted and multilateral diplomatic and development initiatives. The fundamental aim of the upstream strategies is essentially to stabilize the international order by alleviating some of the sources of revisionist actions. (Going back to the river analogy, this upstream strategy is similar to multiple countries working together at the head of a river to build tributaries or dams in order to lessen the force of the river's flow downstream.) Obviously, some sources of revisionist actions are simply impossible to alleviate, but it is often unclear what the sources are. Therefore, attempts should be made to "test" and "probe" sources of revisionist actions by engaging in diplomatic initiatives and offering economic cooperation. If they fail to produce results, then upstream strategies should be abandoned. This project drafted an "upstream strategy" by fleshing out policy initiatives that could target the underlying factors and mediating factors that we identified when constructing the threat scenarios; it also made recommendations on how to build a stable rules-based order involving emerging and challenging states.

(3) **Rule Promotion as a Strategy to Build a Legitimate International Order:** Upon prescribing policy initiatives to achieve strategic goals, the project team defined the philosophical basis on which Japan should operate. The project team believes that a straightforward balance-of-power approach to counter power with power (primarily the realm of downstream strategies) may serve to maintain security, but has limits in terms of improving the quality of security as tension will rise limitlessly. On the other hand, a simple accommodating approach to share power by means of strategic concessions may also serve to superficially maintain security, but will ultimately depreciate the quality of security because dissatisfaction will eventually erupt on the appeasing side.

We believe that in order to improve the quality of security we must establish a rules-based order underpinned by both

deterrence (downstream strategy) and cooperation (upstream strategy) to create strategic trust, and thereby construct "a legitimate order," if you will, agreed upon by rising and leading nations. We do NOT believe that Japanese security should rely on international rules. Rather, we believe international rules and negotiations regarding those rules will serve to probe the strategic intentions of rising powers and thereby provide a basis for leading nations to determine their strategic orientation toward rising powers, and also serve as vehicles for forging a legitimate international order agreed upon both by rising and leading powers. More specifically, we believe that international rules and negotiations of those rules possess four kinds of function. First of all, through negotiations on international rules, advanced countries are able to communicate "red lines" or interests that they cannot concede to the rising powers.

Secondly, as rising powers' attitudes toward accepting and adhering to existing international rules and negotiating new ones become clear, advanced countries will have a better idea of whether a particular rising state is tilting toward revisionism by means of unilateral actions or toward a status quo orientation leading to the pursuit of negotiated agreements. If strategic orientation of a rising power becomes evident, then advanced countries can judge whether to deepen cooperation or balance against it.

Thirdly, rules can serve to justify and forge domestic as well as international coalition for balancing. In an age when power shifts and globalization are progressing concurrently, it is likely that certain constituency within an advanced country may develop vested interests in economic relations with a rising power. If such a constituency were to become influential then that country could develop appeasing or conciliatory tendencies toward the rising power. But if advanced countries adopt strategies to closely monitor a rising power's attitude toward international rules, and if a rising power were to violate, renege on, or abrogate from international rules, then that very fact would serve as a basis for justifying or legitimizing counteractions, and thereby prevent endless concessions.

Fourth, if international rules and norms can be shared among leading and rising states, then they would establish bases for judging rightful external conduct (foreign policy) and internal conduct (domestic governance), and would generate an order characterized by predictability among those who adopt them. Advanced countries will have to approach rising states that try to justify their deviation and exemption from existing rules. They will have to apply pressure and provide incentives in order to make rising powers accept and adhere to existing rules, and in

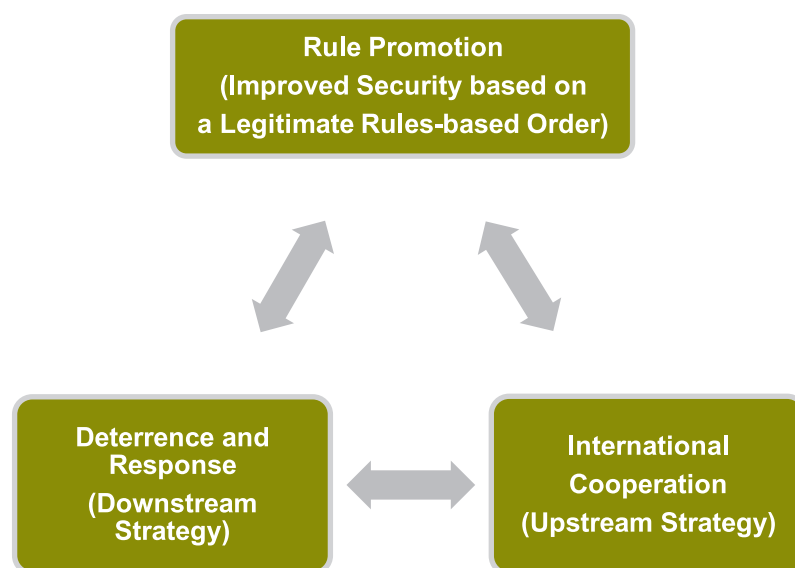
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issue areas that lack rules, they will have to take the legitimate interests of rising powers to negotiate new rules. Leading countries will have to assist rising countries to make their transitions into status quo powers that adhere to shared rules and norms. We believe that the bargaining between advanced and rising nations over existing and new international rules and the legitimate international order resulting from the negotiated agreement between them are keys to forming the foundation of improved security in a world undergoing power shifts and globalization. Obviously, there is no guarantee that this rule-promotion strategy will produce the expected outcome, and rule violations will have to be deterred, so it will be essential to maintain architectures of deterrence in a wide range of issue areas. But even then, we believe that this rule-promotion strategy should be pursued because it will give us a better chance of stabilizing the international order than alternative strategies of simple balancing or pure accommodation.

Thus, as will be explicated in chapter 3, our basic approach to managing rising powers (China) and revisionist powers (North Korea and Iran) will be characterized by the following elements: (a) maintain deterrence and response capabilities, (b) demand the acceptance of and adherence to existing norms on external conduct and internal conduct as well as the negotiation of new rules, (c) offer assistance to reform domestic socioeconomic systems on the condition that the other party agrees to accept and comply with the various relevant norms and negotiate new ones, and (d) move to pressure or contain the country in question if it refuses to accept existing norms or negotiate new rules or egregiously violates existing norms. It must be emphasized that legitimate interests of rising powers should be taken into account when negotiating new rules. Rising powers must bear the burden of accepting already-prevailing norms for the sake of stabilizing the international order from which it can draw much benefit, but they will be assisted by the leading powers in making the necessary adjustments through economic cooperation (upstream strategies).

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### <The Security Strategy Triad>



This rule promotion strategy will naturally require the concerted action of those nations that already adhere to the prevailing norms of the existing international order, so security challenges will have to be addressed through bilateral, trilateral and multilateral approaches. Therefore, although this project team does not elaborate on policy initiatives regarding various international or global governance institutions, it is our implicit assumption that specific multilateral rules and norms in various issue areas will be negotiated in these forums. The project team believes that Japan should play a leading role in implementing the rule-promotion strategy, and rule promotion should be its defining identity in the age of power shifts and globalization. Japan must convince other status quo powers to adopt similar approaches and thereby avoid severe strategic confrontation between rising and leading powers.

The subsequent chapters will demonstrate the following steps:

**Chapter 1** will geographically locate the vital zone and the strategic horizon.

**Chapter 2** will (a) lay out the scenarios that will show actual and potential threats to Japan's vital zone and strategic horizon, and then (b) classify them in terms of the "degree of impact on Japan".

**Chapter 3** will take up higher-priority strategic goals and prescribe policy initiatives that contribute to attaining those goals.

Chapter 1:

Locating Japan’s Vital Zone and the Strategic Horizon

The first step in prioritizing security challenges to Japan is to provide a conceptual basis for discriminating between national and international security.

Generally speaking, Japan’s national interests encompass the lives and property of the Japanese people, their political and economic freedoms, as well as their way of life. However, given that it would be nearly impossible to comprehensively enumerate these interests, for the purposes of this project we have created a simple conceptual framework and tried to give some shape to those interests.

Japan is physically separated from other countries by the ocean, but its growth and prosperity are heavily reliant on its economic relations with foreign countries. Japan’s national interests are thus not confined to its own territory, but are distributed widely overseas as well. Therefore, for the purposes of this project, we assumed that Japan’s national interests were composed of two kinds of interests: (1) a “vital zone” formed by Japan’s sovereign territory and the exclusive economic zone (EEZ) and continental shelf over which it has sovereign rights, and (2) a “strategic horizon” comprised of those countries and regions with which

Japan has close relations in terms of goods, finances, and energy, as well as the lines of communication that tie those countries to the Japanese mainland.

The bottom-line objective of any Japanese national security strategy should be to protect the territorial integrity of the mainland and the sovereign rights in the vital zone, and also critical interests in the strategic horizon that are essential for sustaining Japan’s national well-being. Obviously, Japan should pursue a wide range of foreign policy and defense initiatives, but national interests that are unique to Japan should be the primary focus of any national security strategy.

The following map illustrates the geographic distribution of Japan’s strategic interests. Locations that have high strategic value to Japan are: (1) the United States, (2) China, (3) the Persian Gulf region, (4) Australia, (5) Southeast Asia, (6) Western Europe, (7) South Korea and Taiwan, (8) India, (9) the SLOCs (see note 1), and (10) the global commons (see note 2).

**Please see appendix 1 for detailed descriptions of their significance to Japan.**

Horizon Map

This map on the following page was created by the project group to illustrate geographic distribution of Japan’s strategic interests.

[Data Sources]

1. Japan’s Exports and Imports: Value of Merchandise Trade with Major Countries and World Share.

Based on the data for 2009 from the Trade Statistics of Japan, Ministry of Finance (MOF)

2. Japan’s Outward and Inward Direct Investment: Stock Value of Direct Investment to and from Major Countries and World Share.

Based on the data for end 2009 from the Balance of Payments statistics, Bank of Japan.

3. Japan’s Import of Energy Resources: Major Import Partners of Three Major Resources and World Share.

– Crude Oil: Based on the data for 2009 from *Yearbook of Mineral Resources and Petroleum Products Statistics*, Research and Statistics Department,

Economic and Industry Policy Bureau, Ministry of Economy, Trade and Industry (METI).

– Liquefied Natural Gas (LNG): Based on the data for 2009 from Trade Statistics of Japan, Japan External Trade Organization (JETRO).

– Uranium: Japan’s stockpile of Uranium by country: The grand total of natural uranium, depleted uranium and enriched uranium, registered by bilateral nuclear agreements. Those with multiple nationalities are redundantly sorted by each country. Compiled from List of the Quantity of Nuclear Fuel Material addressing Safeguards Implementation in Japan (as of the end of 2009), Ministry of Education and Culture, Sports, Science and Technology.

4. Japan’s Import of Selected Mineral Resources: Top Two Import Partners of Thirteen Mineral Resources and World Share.

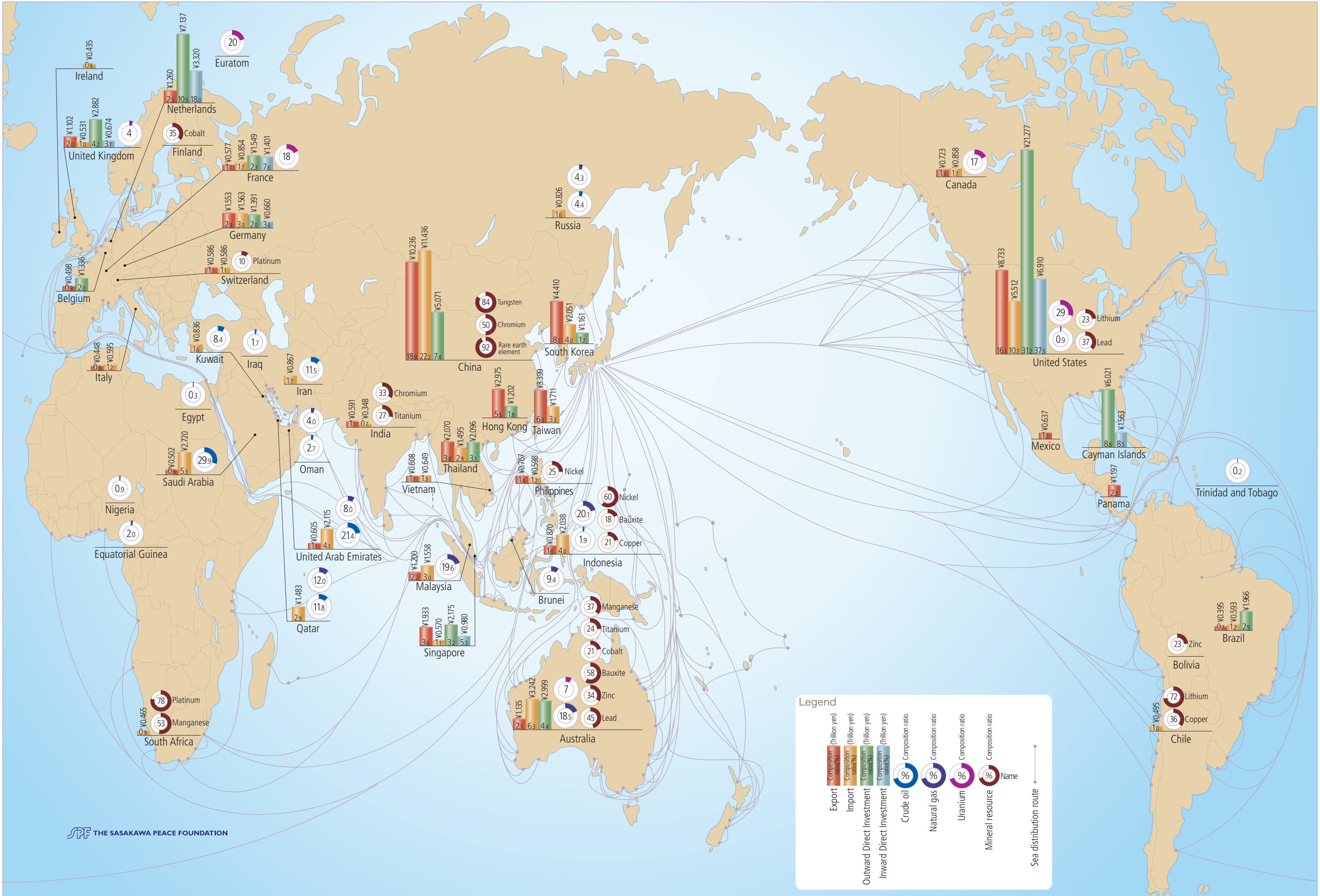
Based on the data for 2009 from the Trade Statistics of Japan, MOF. Data for Tungsten is for 2008 from *Material Flows of Mineral Resources 2009* (in Japanese), JOGMEC. Only one country represented for Tungsten and Rare Earth.

5. Maritime Shipping Routes.

Based on the Japanese Ship Owner’s Associations, *Shipping Now* 2010-2011.

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#### NOTE 1. Japan's Sea Lines of Communication

Japan's vital zone is connected to its strategic horizon by critical sea lines of communication (SLOCs). If we turn our focus to Japan's transportation activities, the volume of its maritime trade is approximately 949,990,000 tons (about 14 percent of the global total). Roughly 71 percent of Japan's international freight in monetary terms and 99 percent in terms of weight travels by sea, as roughly 60 percent of its food and roughly 90 percent of its energy depends on seaborne imports. If we look at the volume of sea transport by region, Asia accounted for 30.8 percent, Pacific nations 25 percent, the Middle East 24.5 percent, and below that were North America at 7.6 percent, Central and South America at 5.9 percent, Europe at 4.2 percent, and Africa at 2 percent.

States in Asia and the Pacific represent more than half of Japan's total trade volume, while its reliance on the Middle East for oil resources is overwhelming. For that reason, the SLOCs running through the Western Pacific and Northern Indian Oceans are so essential to Japan that they can be called "ocean lifelines." There are as many sea lanes as there are ships in the ocean, but many ships travel in specific regions of the ocean. *Japan's "ocean lifelines" can generally be broken down into the Persian Gulf, onto which the Middle Eastern oil-producing countries face, the oceans surrounding South Asia, the ocean region around Southeast Asia, and the Northeast Asian ocean region near Japan—each of which has its own unique security environment.* Japan imports roughly 90 percent of its oil from the Middle East, and to give you a sense, imagine that there are always 90 Japan-related tankers lined up in the sea lane from the Middle East to Japan.

The Persian Gulf is the starting point for Japan's sea lane, and almost all of the oil from the Middle East to Japan passes through the Strait of Hormuz. On average, 3.5 Japan-related tankers pass through the Strait of Hormuz each day. There is no alternate ocean route to the Strait of Hormuz, and so it can certainly be described as the "scruff of the neck" of the Japanese economy.

The seas around South Asia are today on the front lines of the war against terrorism, and not only the United States but India has also made its presence known in recent years in those waters, the latter being the leading force behind the Indian Ocean Naval Symposium (IONS) and other initiatives. Meanwhile, China has also been putting its efforts into developing commercial ports in countries facing the Indian Ocean. As the Indian and Chinese economies continue their economic development, the Indian Ocean is expected to gain even greater importance as a marine transportation route for energy resources. In recent years, in addition to the proliferation of WMD, there has been a rapid rise in incidents involving drug smuggling and piracy, and an increase in transnational activities by non-state actors.

In the waters of Southeast Asia, the Straits of Singapore and Malacca are key strategic points connecting the Western Pacific Ocean and the Indian Ocean. Ocean transportation has long flourished in this region, but one notable characteristic is that in times of emergency it is possible to use the Lombok Strait as an alternate route. One additional feature of the Straits of Singapore and Malacca is that security frameworks focused on maritime safety and antipiracy measures are developing. In addition to territorial and border disputes and competition for resources in the South China Sea, piracy and other issues have also arisen, creating an ever-growing list of ocean-related security issues and raising the fear that these will hinder maritime safety and freedom. Perhaps the biggest concern is that the Chinese have claimed sovereignty over the Paracel Islands and the Spratly Islands, drawing a U-shaped line in this part of the ocean that extends their control to roughly 80 percent of the South China Sea, which puts them at odds with the littoral states of Southeast Asia, including the Philippines, Vietnam, Indonesia, Brunei, and Malaysia, as well as Australia and the United States.

In Northeast Asia, there is an ocean region that overlaps with Japan's vital zone; it is a triangular area known as the TGT Triangle—formed with Tokyo, Guam, and Taiwan as its points—and it is a region that can appropriately be said to control the fate of Japan. Not only does the TGT Triangle hold the important economic role of being the area in which almost all of Japan's sea lanes converge, but it also contains Japan Self-Defense Force naval and air installations and strategic bases of the American military (the Japanese mainland, Guam, and Okinawa), and militarily it plays the role of an "ocean beachhead" for the US military's force projection in East Asia. At the same time, China is pursuing an area denial strategy to prevent access by foreign militaries to this ocean region, and both the United States and China are deploying their military forces, making this increasingly an area where they are keeping each other in check.

## NOTE 2. The Global Commons

Japan's growth is dependent on the global economy, and that, in turn, is supported by more than just the oceans. For example, international private airlines transport 2.2 billion travelers per year and 35 percent of all internationally traded goods (based on monetary value). Outer space also provides a platform for communications and for research and investigation, while cyberspace has come to play a major role in transmitting and sharing information, making it now indispensable for all kinds of work. In addition to the traditional seas and skies, outer space and cyberspace have now become something that is shared by humanity in order to support the global economy. In other words, ensuring the freedom and fair use of these global commons is now essential to the maintenance of the international order and the further development of the global economy.

However, while the globalization of the economy is uniting the world, at the same time it is also resulting in the proliferation of the latest military technologies and doctrines as today many state and non-state actors have gained access to these global commons.

Needless to say, it is extremely difficult for the United States to maintain the control and stability of the global commons on its own. While the United States remains in a predominant position to control the global commons, its overwhelming control at all levels is gradually eroding, and this trend will undoubtedly become even more apparent over the next 20 years. Thus, the relative and perhaps even absolute decline of U.S. sea power and maritime presence in the Western Pacific portends a less stable Asian order.

## Changing Features of the Strategic Horizon

### 1. Trends in the Global Economy and Japan's Trade and Investment Patterns

Emerging economies have vastly increased their economic significance over the last few decades. Many of them maintain high growth rates, and centers of economic activities are likely to continue to shift from developed to emerging economies and from Europe and North America to Asia. This will result in emerging economies, especially those in Asia, increasing their significance as Japan's major trade and investment partners.

In order to obtain a rough picture of the trends in the global economy, we have produced forecasts based on the assumption that each economy retains its recent growth rate<sup>2</sup>. The project team realizes that future economic growth of any nation will not take a linear path; instead, countries that have the potential for a major domestic socioeconomic dislocation will no doubt experience a much slower or even negative growth. Even absent such dislocation, emerging economies including China are unlikely to maintain the current growth rate because their rate of technological progress will slow down as they approach the world

technological frontier and because the aging of their population will result in a lower savings rate and a slower capital accumulation. Our simple estimates do not take these into account, so GDP forecasts for China and other emerging economies are probably overestimated.

With this caveat in mind, the largest economies in 2030 will be China, the United States, India, Russia, Japan, Brazil and Germany. These seven countries will together produce approximately 64 percent of the world GDP, valued at purchasing-power-parity (PPP) exchange rates. Of the top 21 economies that constitute over 80 percent of the world GDP, only China (from 19.8 percent of world GDP in 2010 to 33.5 percent in 2030), India (from 5.5 percent to 8.6 percent) and Nigeria (from 0.5 percent to 0.8 percent) will increase their shares in the world GDP<sup>3</sup>. In addition, Russia, Brazil, South Korea, Indonesia, Turkey, Taiwan and Iran will move up in the ranking. The

<sup>2</sup> GDP (current international dollars, purchasing-power-parity basis) data from 1995 to 2016 (estimates from 2010 onwards with some exceptions) from the IMF World Economic Outlook database are used to estimate the trend for each country, and forecasts are produced by extrapolation.

<sup>3</sup> Our forecast for China's share of world GDP in 2030 compares with: 21.4 percent by Citigroup ("Global Growth Generators: Moving beyond 'Emerging Markets' and 'BRIC'," *Citigroup Global Markets Global Economics View*, 21 February 2011); 23.0 percent by Goldman Sachs ("EM Equity in Two Decades: A Changing Landscape," *Goldman Sachs Global Economics Paper* No. 204, 2010); 23.8 percent by Angus Maddison (*Contours of the World Economy 1-2030: Essays in Macro-Economic History*, Oxford: Oxford University Press, 2007); 28.2 percent by Andrew Mold ("Maddison's forecasts revisited: What will the world look like in 2030?," *VoxEU.org*, 24 October 2010); 30.2 percent by the Cabinet Office, Government of Japan, (*World Economic Trends: the Spring Report* in 2010); and 31.7 percent implied by the growth rate forecasts by Robert W. Fogel ("Capitalism and democracy in 2040," *Daedalus*, 136, 87-95, 2007; "\$123,000,000,000,000," *Foreign Policy*, January/February 2010). Goldman Sachs uses market exchange rates while all the others use PPP.



United States, Japan, Germany, the United Kingdom, France, Spain, Italy and Australia will move down.

Bilateral trade between two countries can be explained to a certain extent by the gravity model<sup>4</sup>. We have estimated the parameters in the equation that represents this model using Japan's recent export and import data<sup>5</sup>. We then used these estimates and our GDP forecasts to obtain forecasts for Japan's trade with each country. This means that our trade forecasts are also likely to be overestimated as well.

With this in mind, we forecast Japan's top export destinations in 2030 to be China, the United States, Korea, Taiwan, Singapore, and Hong Kong. This list is very similar to the 2010 list, but China's share will apparently increase from 20 percent to 45 percent. The top import partners will be China, Qatar, the United States, Korea, Indonesia, Taiwan and Malaysia. Here again, China's share is forecast to increase from 23 percent to 48 percent<sup>6</sup>. Even though our GDP, export and import estimates for emerging economies may overemphasize the pace of their growth, we believe that emerging economies will increase in importance as both Japan's export and import partners, and China's continued rise will be notable. Foreign direct investment flows can also be explained in part by the gravity model, and FDI to emerging countries is expected to rise significantly

## 2. Trends in Japan's Source of Energy Supply

The March 2011 accident at the Fukushima Daiichi Nuclear Power Plant has compelled Japan to fundamentally rethink its nuclear power policy. It is difficult to predict what the future ratio of nuclear power will be within Japan's total power generation (as of 2008, nuclear accounted for 24 percent of Japan's power). It is still too early and difficult to make an exact prediction of nuclear power's share in Japan's primary energy mix in the future. Although the expectations about renewable energies as alternatives to nuclear power are rising, any substantial increase in the share of renewables will likely require a lengthy period of time due to high development and economic costs.

<sup>4</sup> According to this model, trade is more active the higher the exporting country's GDP, the higher the importing country's GDP, and the lower barriers to trade such as geographical distance, tariffs and language barriers are.

<sup>5</sup> A panel of Japan's export and import data from 1995 to 2010 from the IMF Direction of Trade database are used. For exports, we estimated a fixed effects model with the log of export as the independent variable and the log of Japan's GDP, the log of the partner country's GDP and country dummy as dependent variables. We made similar estimates for imports.

<sup>6</sup> The gravity model assumes that, as a country's GDP increases the variety of product produced in that country expands, causing its export to grow. In reality, as a country's GDP becomes very high, additional increase in GDP may not result in a very large expansion in the product variety, but our simple estimates do not take this into account.

In the absence of concrete future prospect with regard to nuclear power, the role of gas-fired turbines as its replacement is increasingly drawing attention. This will lead to increases in Japan's imports of LNG (liquefied natural gas)<sup>7</sup>. Energy analysts in the world have debated whether the rise in Japan's gas consumption will bring about a supply crunch of LNG in the global market around the mid-2010s.

However, generally speaking, Japanese buyers have not been seriously concerned about procuring sufficient volumes of LNG to date, notwithstanding the additional amount of LNG demand due to the shutdown and suspension of nuclear power plants caused by the Great East Japan Earthquake. There are several reasons: (a) surplus in the LNG spot markets, (b) the flexibility of existing long-term contracts (usually with a mechanism for adjusting to a small increase or decrease in LNG supplies annually), (c) surplus capacity of the biggest LNG supplier, Qatar, and (d) the new large LNG projects under construction in western Australia and Indonesia with Japanese investment, which are planned to come online after the mid-2010s. In addition, looking at the medium to long term, there are increasing discussions of raising the level of imports from Russia and starting LNG shipments from North America as well.

The future of international gas markets will also be largely affected by the development of the "shale gas revolution" that began in the United States around 2009. There are a number of uncertainties with regard to the possible spillover of the shale gas revolution outside of the United States, even if its potential has been under examination in China, Europe, and elsewhere<sup>8</sup>.

## 3. The Changing Feature in the Sea Lines of Communication – the Arctic Ocean

According to the U.S. National Snow and Ice Data Center, which has been observing the Arctic sea ice since the 1980s, the average area of sea ice in the Arctic Ocean during the summer was 7.5 million km<sup>2</sup> up until 2000, which meant that up to 80 percent of the total area of the ocean (9.5 million km<sup>2</sup>) was covered by ice even in the summer. However, since 2000, the ice has been shrinking, and the observed area of ice in September 2007 was just 4.25 million km<sup>2</sup>—the smallest in recorded history<sup>9</sup>.

<sup>7</sup> It is also important to note that even the increase in Japan's LNG demand needs to be addressed in the wider context of the overall gradual decline of Japan's energy demand in the long term.

<sup>8</sup> Given a variety of factors including concerns over environmental contamination, the projection by the U.S. Department of Energy's Annual Energy Outlook 2011 that about the increasing share of shale gas in the U.S. domestic gas production will increase from 16 percent in 2009 to 47 percent in 2035 is not free from persistent skepticism.

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Concurrently, it is unclear whether the five Arctic states—Canada, Denmark, the United States, Norway, and Russia—can avoid a “New Cold War” over continental shelf resources in the Arctic Ocean. Although all of the states except the United States subscribe to the United Nations Convention on the Law of the Sea, increasing military activity, a plethora of excessive maritime claims, and haughty nationalism threaten to upset the rule of law in the region. A survey by the US Geological Survey reported that 90 billion barrels of crude oil and 50 billion cubic meters of natural gas are believed to be lying in the Arctic zone<sup>10</sup>. Looking at the entire globe, this means that potentially 7 percent of the world’s untapped crude oil and 25 percent of its natural gas can be found in this region.

The ice melt not only opens access to resources. The opening of Arctic sea lanes could drastically shorten routes that currently pass through the Suez and Panama canals. For example, by sailing through the Arctic sea lanes on the Russian side, the voyage from Hamburg to Yokohama would be reduced by 40 percent (5,000 nautical miles) compared to the route through the Suez Canal, thereby shortening the length of the trip by one week. Similarly, by going through the northwestern sea lanes on the Canadian side, the trip from Rotterdam to Seattle could cut 2,000 nautical miles off the time-consuming voyage through the Panama Canal.

The opening of the Arctic sea lanes may bring major changes to the global distribution of goods. Trade between Europe and Asia would travel through the Arctic Ocean, and more European goods would probably flow into the Chinese markets. The United States has begun considering a container route with a hub at Adak Island in the Aleutian Islands chain. If that happens, in the near future Adak Island might come to be the “Singapore of the North.” And if the Arctic Ocean becomes the new “Persian Gulf,” energy resources from that region could be transported to Japan, China, South Korea, and other newly emerging Asian nations<sup>11</sup>.

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9 For Arctic Sea Ice Data, see National Snow and Ice Data Center, “Arctic Sea Ice News and Analysis,” <http://nsidc.org/arcticseaicenews/>.

10 US Geological Survey, “USGS Release: 90 Billion Barrels of Oil and 1,670 Trillion Cubic Feet of Natural Gas Assessed in the Arctic (7/23/2008 1:00:00 PM),” <http://www.usgs.gov/newsroom/article.asp?ID=1980>.

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11 America’s National Intelligence Council has predicted that in 2025, those countries that would benefit most from the opening of the Arctic Ocean would be Japan, South Korea, and China, given their geographic proximity and technological capabilities. In fact, China and South Korea were quick to apply for observer status in the Arctic Council, an organization comprised of the key stakeholders in the Arctic. In 2008, the two countries reached an agreement to carry out joint research in the Arctic, and they are now carrying out a joint survey. In 2009, China also began importing iron ore and gas condensate via Arctic Ocean sea lanes. Compared to China and South Korea, Japan has been slow to move on this potential opportunity. Japan’s participation as an observer in the Arctic Council has not yet been approved, and the Ministry of Foreign Affairs and the Ministry of Education, Culture, Sports, Science and Technology have finally set up a task force just recently. Japan’s shipbuilding, ice breaking, and resource development technologies could contribute greatly to the development of the Arctic Ocean, and there is also potential for Japan to benefit from the sea lanes and resources. Japan needs to get the nation involved in addressing the Arctic Ocean issue and deepen its cooperation with all of the relevant countries.

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## Chapter 2:

# Identifying and Classifying Current and Potential Security Challenges to Japan's Security Interests

Having delineated Japan's vital zone and strategic horizon, this chapter will now discuss actual and potential security challenges to those strategic interests, and will classify them for the purpose of prioritization.

In order to identify security challenges that pose direct dangers to Japan's vital zone and strategic horizon, the project team (a) began by analyzing strategic trends in the international system (section 1), (b) constructed scenarios in order to gain a more concrete image of how these security challenges might materialize (for synopses see *appendix 2*), and (c) classified actual and potential security challenges based on "the degree of impact on Japan" (section 2).

Upon constructing scenarios, we identified **underlying factors** or structural conditions emanating from strategic trends that could engender motives for certain actors to take threatening actions, and also made assumptions about **mediating factors** or contingent events that could interact with the underlying factors to cause certain threatening actions or events to materialize.

It goes without saying that assessing the degree of impact of various potential threats would involve subjective evaluation of multiple factors based on the personal experiences of the assessor. Therefore, the project team distributed questionnaires to a wide range of Japanese security experts and elicited their assessment of the scenarios, in order to get a more balanced assessment.

### 1. Strategic Trends

We isolated the following strategic trends: (1) power shifts, (2) the rise in violent transnational actors, (3) the intensification of conflicts related to energy, mineral resources and food, (4) instability in fragile states, and (5) the rise of nationalism. In actual political phenomena, these various elements intermingle in complex ways, and outbreaks of additional events also come into play. Also, it hardly bears repeating that underlying these various currents is the increasing interaction brought about by globalization.

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<sup>12</sup> Our initial assessment of the degree of impact on Japan was based on the assumption that materialized threats would have a higher impact on Japan when it (a) involves a large number of casualties, or (b) significantly has adverse effects on countries and regions that have a higher strategic value to Japan, or (c) directly infringes upon Japan's sovereignty or sovereign rights.

### (1) Power Shifts—"Integration" and "Competition"

#### *Power Shifts in the Global Economy*

When the project team looked ahead 20 years to the future of the global economy, there was a strong tendency to predict a power shift from the advanced industrialized nations to the newly emerging nations that are now serving as the growth engine for the world economy. The global financial crisis struck a much lighter blow to the economies of the BRIC nations (Brazil, Russia, India, and China) than it did to the advanced industrialized nations, and it has been forecast that by 2020 these countries will be responsible for 49 percent of global economic growth, valued at market exchange rates, that by 2027 the Chinese economy will overtake the United States and India will surpass Japan, and that by 2032 the BRICs will stand shoulder to shoulder with the G7 countries<sup>13</sup>.

Some experts are also predicting a shift to a three-currency system based on the US dollar, the euro, and the renminbi. Of course, the pessimists who doubt the linear growth of these economies also have a point when they identify impediments these countries face: the disparity between the urban and rural economies, the disparity within the cities, and the potential bottleneck to growth presented by resources, energy, and environmental issues. We also need to consider scenarios where the growth of emerging economies flattens out, or where some of those countries' systems of governance become unstable.

It must also be emphasized that interconnectedness will increase into the future. Scientific technology will proliferate much faster and easier in some cases from advanced countries to emerging countries, and the role of non-state actors, such as individuals and corporations, is now on par with that of some governments.

In any case, it cannot be denied that power shifts, changes in the existing order, and changes in each country's foreign policy will be one major trend in international politics.

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<sup>13</sup> Goldman Sachs, "The N-11: More than an Acronym," Global Economic Paper, No. 153 (March 28, 2007). The rise of BRIC nations would appear even more pronounced if PPP exchange rates were used, as in chapter 1 of this report.

<sup>14</sup> World Bank, "Global Developmental Horizon 2011: Multipolarity: The New Global Economy," (2011)

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### ***China's Military Growth and Political Influence***

The newly emerging countries showing remarkable growth are concentrated in Asia. Indeed we are approaching a historic turning point that must be called an Asian "revival." That may also imply the emergence of Asia's military and political power.

China's national defense budget could potentially be 6.5 times that of Japan in 2020 and 12.7 times as large by 2030; depending on US cuts to its defense spending, China's defense budget has the potential to be equal to that of the United States by 2030<sup>15</sup>. With its swelling military budget, China is increasing its nuclear stockpile and firming up its air power. Within the framework of the coming 10 to 20 years, the overall capacity of the People's Liberation Army (PLA), including its military technology, will not outstrip that of the United States, but if the PLA acquires "anti-access/area denial" (A2/AD) capability, it can solidify the defense of its own coastlines and will be able to expand its political influence as well. China has been expanding the activity of its augmented navy beyond the Western Pacific and into the Indian Ocean, and has been expanding the sphere of action of its submarines. China's active military diplomacy is displaying the toughness of the PLA to small and mid-sized countries. The increase in the country's military strength is being linked to its political influence, and this is leading to a growing confidence within the PLA and the Chinese government leadership. China's integration into the international economic system has been progressing, and the potential for a large-scale great power conflict is currently very low, but there is competition for political influence and, depending on each country's unique political interests, there is the possibility that they will take actions to affect low-intensity changes, and that possibility is increasing. In addition, it is feared that the United States and other countries in the region will respond by increasing their own military activities, and that could create the risk of unintended conflicts and reprisals for punitive actions.

### ***The Relative Decline of the United States and Changes in its Foreign Engagement***

If it succeeds in its fiscal and economic policies, the American society can continue to flourish and maintain a certain level of innovation and growth. However, the power shift in the global economy is undoubtedly bringing about changes to the free, open international order that evolved with the United States at the core during the post-World War II era. That might produce a difficult situation if the US position becomes relative as opposed to absolute and if a sufficient change in its political

influence occurs. It is difficult to think that a hegemonic nation will appear to replace the United States in providing public goods; rather, the fear is that consensus building in economics, finance, the environment, and other areas will become difficult, and we will end up with a world in which no specific player is sitting in the "driver seat." And even if a consensus can be reached, the newly emerging countries will probably be playing an increasingly "central" role in agreements that can influence the US and global economies and societies. In this context, the World Economic Forum and other similar forums will continue to develop and the role of corporate businesspeople in creating rules can be expected to steadily increase.

There is increasing recognition in the United States that government spending, regulation, and a burdensome tax structure are hampering private investments and a return to economic growth, and that the growing budget for social welfare and the swelling military budget since the 9/11 terrorist attacks are unsustainable. Unless there is once again a clear, shared sense of an external threat among the American people, the pressure to cut the defense budget will increase in the future, there will be a review of the health of domestic society and the role of military power, and the call for a mix of development and diplomacy strategies along with defense will gain traction.

Of course, it is difficult to imagine that the United States would simply regress to a policy of isolationism, even though some conservative and liberal politicians allude to a refocus inward. Although it seems to be unwavering in its will to retain its position as a leading nation, as seen in Afghanistan and in its response to the Libya issue, the United States is increasingly exhibiting a clear tendency to "shift the burden" to partner countries. It is also likely that the United States will become more prudent about the way it uses force in regional conflicts, and many are calling for an emphasis on naval and air power coupled with a strategy of offshore balancing<sup>16</sup>. While by and large all of the advanced industrialized nations are currently facing financial constraints due to the increase in their social welfare spending, the pressure on U.S. allies and partners to contribute to the international community is expected to only increase in the future.

However, at the same time, America is concerned that the increased political influence of the newly emerging nations might encourage neighboring countries to bandwagon on those emerging states, and it also fears that compromise on one front might lead to a stagnation of American leadership overall and further

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15 Tokyo Foundation, "Japan's Security Strategy toward China: Integration, Balancing, and Deterrence in the Era of Power Shift," (2011).

16 On offshore balancing, see Christopher Layne, *Peace of Illusions: American Grand Strategy from 1940 to the Present*, Ithaca: Cornell University Press, 2006.

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invite challenges by emerging nations, so it is likely that they will continue to maintain their commitments to their allies and other partners in the years ahead. In Asia as well, it is believed that the United States will strengthen its partnerships with various countries, expand its naval access, and provide development assistance from a strategic perspective. However, as their economic interdependence with China increases, it becomes increasingly difficult for Asian countries to choose sides between the United States and China.

## **(2) The Threat of Violent Transnational Actors**

The existence and growth of international terrorism, piracy, and international crime networks will pose a threat to Japan's interests in its vital zone and strategic horizon over the next 15 years. Dealing with failed states that serve as a breeding ground for those types of activities will continue to be at the center of the international security agenda. Even in the aftermath of the killing of Osama bin Laden, al-Qaeda's ability to carry out violent acts is not expected to weaken in the foreseeable future. Under its new leader, Ayman al-Zawahiri, al-Qaeda has continued to shore up its organization and its franchises are pledging their cooperation. In addition to activities in Afghanistan and Pakistan, extremist groups are on the rise in Europe, and activities in Southeast Asia are expected to continue as well. Moreover, while some hold the view that the probability has decreased for terrorist attacks that employ WMD, the potential nonetheless still exists.

While some experts point to the overthrow of secular and dictatorial governments and the democratization that occurred in the Middle East and North African regions during the "Arab Spring" and take the view that al-Qaeda's influence will decrease in the long term, others believe that the chaotic democratic transition creates an opening for extremists. In addition, while it is possible to expect a softening in the Middle East of the kind of anti-American sentiments that fuel terrorism once the United States begins its withdrawal from Iraq and Afghanistan, at the same time it cannot be denied that the resulting power vacuum could potentially be used to increase the activities of al-Qaeda and other extremists. It is also possible that religious extremists and their sympathizers in the United States and Europe could form connections there and carry out future terrorist attacks in advanced industrialized nations.

There is a strong possibility that the security environment of an entire region might decidedly worsen as a result of a major act of international terrorism. For example, one could envision another large-scale terrorist attack being carried out by a Pakistani terrorist organization, which in turn produces an even more severe

backlash than ever before from within India. Another possibility is that members of the Shi'a sect in Iraq or of Hezbollah could deepen their ties to Iran, and Iran could support terrorism through those ties as a way of exerting political influence, thereby creating a state of chaos in the Middle East.

A cyber terrorist attack using extremely harmful malware and disrupting operations of critical infrastructures constitutes another serious concern. The magnitude of damage that could be caused by cyber terrorism will of course depend on the target of an attack, but simultaneous cyber attacks on electric power grid systems, nuclear facility networks, public transportation systems, financial transaction networks, the military network, and public health systems could cause substantial damage. The origins of attacks in cyberspace are extremely difficult to detect, and this very nature of cyberspace provides the attacker with a substantial advantage. Surely, this cyber attack could be done by a particular nation's agency, but it is also likely that terrorist organizations will achieve such capabilities within a 15 to 20 years span. A traditional notion of deterrence is probably unsuitable to meet security challenges in the digital realm.

Finally, attention must be paid in the future as well to the continued occurrence and viability of pirates as a form of violent transnational actor. As noted in the previous section, acts of piracy are on the rise, and while the response of the international community may be altering the location of the piracy, criminal acts of piracy are still being committed. Assistance to fragile and failed states as a response to threats by non-state actors will continue to be of great importance, and there will probably be a continued need for the use of military assets and capacity building for law enforcement agencies in order to respond.

For the outlook of large-scale terrorist attacks on U.S. mainland, please see *appendix 3-3*.

## **(3) Intensification of Conflicts over Energy, Mineral Resources, and Food**

For the governments of newly emerging nations, their ability to raise their country's productivity and their people's standard of living is directly connected to the level of political support they receive. It is therefore important to secure large supplies of energy and mineral resources, which leads to energy and resource nationalism in emerging nations. The trend toward rising prices of energy and of the mineral products and resources that serve as raw materials is expected to continue in the future. There are particularly good prospects for oil and natural gas production in the South China Sea. Chinese state-owned companies are



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aggressively pursuing their interests in energy development, and there is a strong possibility that this will push the country toward a hard line in domestic politics. Another factor at play in this area is thought to be the awareness that the international oil market is under the control of Europe and the United States. Efforts by the international community are needed to lessen the incentives for the Chinese to head in the direction of independent development too aggressively rather than market procurement.

Nuclear energy had been thought of as a way to satisfy the rising demands for energy, but given the accident at the Fukushima Daiichi Nuclear Plant, there are increased uncertainties including a high level of risk management. While there is no sign that China has been discouraged from its rapid development of nuclear power generation, being no exception globally, a relative decline in the share of nuclear power is likely to trigger the rising importance of fossil fuels, including natural gas.

Also, among the newly emerging countries, and also among states that are still in transitional stages of economic development, there are nations where the populations will continue to increase at a rapid pace. As the use of grains to produce ethanol fuel is dramatically increasing and meat consumption is on the rise as well, the current grain production is just barely managing to meet demand; if there are crop failures or if the use of speculative money expands and leads to a sudden leap in market prices, then there is a strong chance that large numbers of people would not be able to purchase grains. And as food prices overall rise, there will be growing efforts to increase profits through illegal fishing operations, which brings the risk that law enforcement in areas where there are competing territorial claims will lead to more bilateral conflicts.

#### **(4) Instability in Fragile States**

The so-called “Arab Spring”—a wave of democratization that began in early 2011 in Tunisia and spread through Northern Africa and the Middle East—is distinctive in that the central actors were young people. The fact that this movement took off through social networking shows the emergence of political movements as a result of the dramatic increase in communications, but underlying these movements was a dissatisfaction among the masses due to the rapid rise in food prices and other issues. In addition, in the medium to long term, it is predicted that the population boom in this region will bring a lack of employment, and if the instability of the governance systems and the poverty of the masses are left unaddressed, then space will be created for Islamic radicalism to expand its power. Instability in the governance systems of countries that have already achieved

democracy has also been seen in Southeast Asian countries. The political chaos in Thailand and the Philippines demonstrates situations where the difficult coordination of interests could not be solved through elections.

Many states that have no more than fragile control domestically are also isolated internationally, and often actions are taken to overturn the status quo by unilaterally deviating from international norms and rules. In addition, in states that fail to achieve economic growth, there is a possibility of financial collapse, there is a possibility that changes in leadership will lead to civil war, and there is a possibility that major disturbances to the governance system as a result of natural disasters, the spread of communicable disease, or other factors will lead to intervention by the international community and the emergence of refugees. In such cases, the Japanese government will need to be able to secure Japanese citizens and corporations, provide emergency assistance, and receive refugees.

#### **(5) The Rise of Nationalism**

Economic interdependence is progressing, the movement and exchange of people is increasing dramatically, information is now readily available about other cultures, and there is a growing trend toward regionalism. But as a foundation of identity, the viscosity of nationalism is as strong as ever.

Nationalism is especially gaining strength among the Chinese people, both in China and in the diasporas. Chinese nationalism is fed by a sense of historical grievance against Japan and the West, and makes the regime in Beijing a less predictable partner for regional stability. It spreads easily and widely throughout society via statements on Internet sites and is connected to demonstrations and other political actions as well. In large part, it relies not on government leadership but on the spontaneous actions of the masses; indeed, actions in cyberspace present an easy way to get around government regulations. Still, it is unclear how much the Chinese Communist Party fans Chinese nationalism for its own ends. Indictments of growth disparity, corruption, and other social woes are common in cyberspace, but rather than nationalism being raised as an outlet for those complaints, the proponents of nationalism fix their gaze harshly on neighboring Japan and try to assert the moral rectitude of their own country, despite their love-hate relationship with it. Of course, through the Internet, it is possible to learn about conditions around the world in great detail, which can create solidarity and compassion among people across national boundaries, but the speed of the Internet can often inflame people's emotions, and for governments that are trying to keep that in check, external compromise becomes difficult.

## 2. The Scenarios and their Classification

The project team constructed scenarios to identify the general features of actual and potential security challenges to Japan's vital zone and strategic horizon. The synopses of the

scenarios are contained in **appendix 2** for reference. The following chart is a list of scenarios that we considered.

<b>Japan (Vital Zone)</b>	<ul style="list-style-type: none"> <li>-Low-intensity attacks by North Korea on South Korean and/ or Japanese vessels and islands</li> <li>-A high-intensity attack on the Japanese mainland by North Korea</li> <li>-Unilateral development of natural resources by China in the East China Sea</li> <li>-China's Legal Warfare<sup>17</sup> in Japan's Exclusive Economic Zone</li> <li>-Escalatory actions by Chinese authorities to "rescue" Chinese activists who have landed on the Senkaku Islands</li> <li>-Outbreak of a global pandemic of a highly virulent disease</li> </ul>
<b>The United States</b>	<ul style="list-style-type: none"> <li>-Terrorist attack on U.S. mainland using WMD</li> </ul>
<b>The Persian Gulf</b>	<ul style="list-style-type: none"> <li>-Nuclear crisis over Iran and heightened tension in the Strait of Hormuz</li> </ul>
<b>Southeast Asia</b>	<ul style="list-style-type: none"> <li>-Unilateral development of natural resources and exercise of jurisdiction by China in the South China Sea</li> </ul>
<b>South Korea</b>	<ul style="list-style-type: none"> <li>(-Low-intensity attacks by North Korea on South Korea and/or Japanese vessels and islands)</li> </ul>
<b>Sea Lines of Communication / Global Commons</b>	<ul style="list-style-type: none"> <li>-Increase in and intensification of acts of piracy in the Indian Ocean and South China Sea</li> <li>(-Unilateral development of natural resources and exercise of jurisdiction by China in the South China Sea – resulting in higher risks to the passage through the South China Sea)</li> <li>(-Nuclear crisis over Iran and heightened tension in the Strait of Hormuz – resulting in higher risks to the passage through the Strait of Hormuz)</li> </ul>

We do not intend to argue that the scenarios in **appendix 2** will play out exactly as they have been narrated. Rather, the purpose of the scenarios was to (a) elucidate the main features of the form and shape of various security challenges, and also (b) identify underlying factors that may form the background of certain threatening actions. This enabled us to make more specific recommendations as to what kind of downstream and upstream strategies should be implemented to meet these challenges, rather than make recommendations based solely on considerations of balancing.

Having constructed these scenarios, the project team consulted Japanese security experts through the use of questionnaires, and assessed these scenarios in light of their "degree of impact"<sup>18</sup>; then we classified them into four categories: (a) high-impact

vital zone scenarios, (b) high-impact strategic horizon scenarios, (c) low-impact vital zone scenarios, and (d) low-impact strategic horizon scenarios. The following chart is a summary of our findings.

<sup>17</sup> Legal Warfare means a legal and political campaign to deny foreign countries' legitimate use of the seas as part of anti-access strategy by making excessive claims under the pretext of fishery enforcement or environmental protection.

<sup>18</sup> In order to elicit respondents' views on a wide range of security challenges and their relative importance, we also included in the questionnaires scenarios that did not directly impinge upon Japan's strategic horizon. Those scenarios constructed narratives on genocide in an African country, abduction of a Japanese national in a conflict zone, disruption of the international grain market due to major drought, and theft of officially classified information by a foreign intelligence agency. However, these are not included here because they do not directly threaten Japan's strategic horizon, and may cause confusion.

## <Classification of Security Challenges>



The chart classifies principal dangers to Japan's vital zone and strategic horizon that could emanate from the following entities:

### <Primary Dangers>

North Korea: Dangers of launching low-intensity and high-intensity armed attacks against Japan.

China: Possibility of engaging in unilateral revisionist actions in the East and the South China Seas and the Philippine Sea, and thereby infringing upon other nation's sovereignty and /or sovereign rights and increasing political influence over sea-faring nations<sup>19</sup>.

Iran: Dangers of instigating a crisis through nuclear armament and obstructing freedom and safety of navigation in the Strait of Hormuz.

Major international terrorist organizations: Dangers of attacking the continental United States using WMD and cyber weapons.

### <Secondary Dangers>

Pirates in the Indian Ocean and the South China Sea: Dangers of assaulting Japan-related vessels and crews.

Deadly infectious disease: Dangers of killing Japanese citizens and hindering socio-economic activities.

Japan's national security strategy must address these security challenges in a prioritized manner, and must also point to principal means with which these threats must be dealt. The next chapter will define strategic goals that Japan needs to pursue in order to manage primary threats that could inflict high-impact damages on Japanese core interests in the vital zone and the strategic horizon.

<sup>19</sup> The project team also speculated the likelihood of domestic political turmoil in mainland China, such as a nation-wide peaceful protests by people stimulated by a small protest in a particular region against collapsed regional leadership, promoted by information-sharing technology and social-networking-service. We omit the policy recommendation based on this scenario since it is unlikely to see such escalation of protests with the evidence available, and the strategy Japan and other countries could take is limited to evacuation of their citizens, diversifying their investment and procurement source, and supporting mainland socioeconomic welfare through various assistance programs.



## Chapter 3:

# Recommendations on Japan's National Security Strategy

Having classified actual and potential threats to Japan's vital zone and strategic horizon in the previous chapter, we will now articulate strategic goals that would serve to minimize

dangers posed by the actors and events that were identified in the scenarios.

### Primary Strategic Goals

The Vital Zone	The Strategic Horizon
<p><b>V-1</b> Deter low- and high-intensity use of force by <b>North Korea</b>, prepare a system for responding to such actions, and foster an environment in which a South Korea-led unification of the Korean Peninsula can be achieved in the medium to long term.</p> <p><b>V-2</b> Prevent and deter low-intensity revisionist actions by <b>China</b> in the <b>East China Sea</b> and the <b>Philippine Sea</b>, prepare a system for responding to such actions, and develop a global China strategy in order to integrate China into the international order in the long term.</p>	<p><b>H-1</b> Institute defensive measures and prepare a crisis management system for responding to <b>a large-scale terrorist attack on the U.S. mainland</b> using WMD and / or cyber weapons.</p> <p><b>H-2</b> Prevent and deter unilateral actions by <b>China</b> to alter the political map in <b>the South China Sea</b>, while at the same time getting China to accept certain "code of conduct" as a way to create a foundation for confidence building.</p> <p><b>H-3</b> Prepare a crisis management system for responding to a major crisis over <b>Iran</b>.</p>

### Secondary Strategic Goals\*

The Vital Zone	The Strategic Horizon
<p><b>V-3</b> Prepare a system for minimizing the damage that would be created by a <b>global pandemic</b> of a highly virulent disease.</p>	<p><b>H-4</b> Enhance the system for dealing with <b>pirates</b> in the Indian Ocean and the South China Sea.</p>

\*Recommendations for meeting these secondary strategic goals are attached in **appendix 4**. We do NOT intend to imply that these strategic goals are insignificant. For instance, we believe Japan's anti-piracy efforts, especially those carried out from Djibouti in the Gulf of Aden and the Indian Ocean will also serve to prepare for contingencies in the Strait of Hormuz, and therefore should be continued.

For each strategic goal, we will (a) identify Japan's core interests that need to be protected, and then (b) offer both downstream strategies (policies for deterrence and response) and upstream strategies (policies to mitigate structural pressures that may motivate threatening actions/situations, and rule-promoting policies to stabilize regional orders in the medium to long term) to recommend a coherent policy package.

Recommendations will place emphasis on policy initiatives that require renewed efforts and new initiatives. For policy initiatives that are already being pursued with rigor, this report will only very briefly mention them.

## V-1 North Korea

(For scenarios see pp.49–50; on outlook see pp.58–59.)

*Deter low-intensity attacks (on vessels and islands) and a high-intensity attack (on the Japanese mainland) by North Korea, prepare a system for responding to such attacks, and foster an environment in which a South Korea–led unification of the Korean Peninsula can be achieved.*

### Core Interests at Risk

Japan's territorial integrity and socioeconomic life. The lives and properties of Japanese, their political and economic freedom, and their way of life will be threatened if North Korea engaged in armed attacks. Low-intensity attacks against Japanese vessels will create high-risk situations in the Sea of Japan and thus hinder shipping as well as fishing; lives may be lost in the event that North Korea targets Japanese islands. High-intensity attacks against Japanese cities using multiple means will greatly hinder the smooth operation of socioeconomic activities in general. Many lives will be at risk, and a financial crisis may ensue as foreign capital may flee.

### Strategic Goals

In order to secure the above interests and improve Japanese national security, the following goals should be pursued.

In the short to medium term, (a) deter the use of low-intensity or high-intensity force by North Korea against South Korea and Japan, (b) prepare measures to respond to such actions, and (c) hinder and delay as much as possible North Korea's operational deployment of nuclear weapons.

In the medium to long term, keep a lookout for an opportunity to arise for the unification of the Korean Peninsula and develop a policy so that if such an opportunity does arise, Japan can work closely with the United States and South Korea to press forward with unification.

### Downstream Strategy

**Deter and Prepare a System for Responding to Low-Intensity and High-Intensity Armed Attacks by North Korea, and Hinder North Korea's Development and Deployment of Nuclear Weapons.**

### (1) Defense

- **Surveillance.** Japan should further strengthen its ability to constantly monitor North Korean military activity.
- **Capabilities for Deterrence and Response.** Japan must further improve its capability to deter and respond to low-intensity and high-intensity armed attacks by North Korea.

Japan must strengthen its ability as necessary to deter or respond to a high-intensity armed attack by North Korea—i.e., attacks by ballistic missiles and/or Special Forces and /or cyber attacks on the Japanese mainland. More specifically, Japan must undertake the following measures: (1) accelerate the introduction of the missile defense system, (2) introduce cruise missiles that can be used in a measured surgical retaliatory attack on the location from which the attacks were launched<sup>20</sup>, (3) strengthen the capacity of the Ground Self Defense Forces (GSDF) antiterrorism unit and the National Police Agency's antiterrorism team to address subversive activities by North Korean Special Forces or covert operatives within Japan, and create a system that allows them to flexibly operate together in urban areas and elsewhere, and (4) rapidly build up an SDF Cyber Force and create a Cyber Threat Response Center in which an JSDF cyber unit and the NPA cybercrime division can jointly monitor, investigate and respond to cyber attacks<sup>21</sup>.

- **Counter-proliferation Initiatives.** Japan must actively take measures to delay North Korea's development and deployment of nuclear weapons and missiles.

Japan must devise a policy to delay to the greatest extent possible North Korea's development of nuclear weapons and missiles. More specifically, it should comprise the following efforts: (a) Japan should help expand the activities of the Proliferation Security Initiative (PSI), and the JSDF in addition to the Japan Coast Guard (JCG) should be allowed to actively participate in its activities; and (b) Japan should carry out covert operations to hinder and prevent the North Korean authorities from procuring the necessary materials and equipment for nuclear development. Japan's intelligence, foreign affairs, and defense authorities must not only uncover the routes outside of North Korea that it is using to procure key materials, equipment, and other resources, but should aggressively work to disrupt or block off those routes.

<sup>20</sup> For possible contingencies, please refer to the scenarios relating to North Korea (See *appendix 2*.)

<sup>21</sup> This kind of close coordination is necessary because (a) it is difficult to distinguish between an egregious cyber crime by an individual and a major cyber attack by a foreign military or terrorist organization during its initial stages, and (b) when a cyber attack originates within Japan, bureaucratic issues could hinder effective initial response.

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## (2) Japan-U.S. Alliance and Security Cooperation with Third Countries

- *Japan-South Korea coordination plan to respond to low-intensity attacks. Japan should engage in bilateral contingency planning with South Korea with a view to responding to low-intensity military attacks by North Korea against ships and islands of their respective countries.*

In case North Korea launches a low-intensity armed attack, the United States and Japan will of course need to have devised a plan for cooperating and carrying out joint operations between the SDF and the U.S. military. But in addition, the governments of Japan and South Korea must also devise a plan for coordinated action in the sea and air that the SDF and the South Korean military can jointly implement in the absence of active U.S. engagement. To this end, there should be efforts to more actively undertake exchanges between the Maritime SDF and the South Korean Navy and between the Air SDF and the South Korean Air Force, and they should work to create a system to facilitate smooth coordination in case of a contingency.

- *Japan-U.S. coordination to deter and respond to high-intensity attacks. Japan should sort out its interpretation of collective self-defense, and jointly confirm and declare U.S. retaliatory policy concerning a large-scale attack on the Japanese population.*

Japan must create the necessary system to deter or respond to a high-intensity armed attack by North Korea. Such a system should specifically comprise the following: (a) Japan should plan for various types of contingencies; and (b) Japan must define its interpretation of the right to collective self-defense in such a way as to allow the SDF to intercept missiles launched in the direction of the U.S. military forces assigned to Japan's defense, or toward U.S. military bases in the Pacific and the continental United States. Also, (c) Japan and the United States should confirm that in the case that North Korea launches military attacks on densely populated areas in Japan, thereby causing large numbers of civilian casualties, the United States would massively retaliate against North Korea with full force – not excluding the use of nuclear weapons – regardless of whether the North Korean attack is conventional or nonconventional in nature. A declaration of such intent will become crucial if North Korea deploys long-range ballistic missiles capable of carrying nuclear warheads and reaching U.S. territory.

- *Japan-U.S.-ROK contingency planning for securing North Korean nukes. Japan must coordinate with the United*

**States and South Korea on an emergency response plan to prepare for a U.S.-ROK operation to secure nuclear weapons inside North Korea in the event of a major instability within North Korea.**

If North Korea launches an armed conflict which then escalates, and if chaos erupts within North Korea during such a conflict, there is a possibility that U.S. and South Korean militaries might carry out joint operations to secure North Korea's nuclear weapons that could potentially be lost in the confusion. To prepare for such an event, Japan should have adequate advanced consultations on emergency response with the United States and South Korea, and should institute the necessary system to respond. If the U.S. and South Korean militaries were to send Special Forces units to infiltrate North Korea and try to secure the nuclear weapons, and if the North Korean military units come in contact with them, then the North Koreans would be unable to distinguish between a special operation for that limited objective or an operation to penetrate North Korea as the first stage of a full-scale invasion. It is plausible that the North Koreans would make the latter assumption during a time of domestic unrest or limited war. If that is so, then North Korea could react with an all-out retaliatory strike. Because the target of such a retaliatory strike is likely not to be limited to just South Korea but to include Japan as well, Japan needs to meticulously coordinate with the United States and South Korea in advance if such an operation is to be carried out. Japan and the United States also need to agree in advance on response measures for the defense of Japan in such an event.

## (3) Diplomacy

- *De-legitimization. The international community must constantly be reminded of the illegality of North Korea's nuclear armaments under international law, and of the fact that its announcement of withdrawal from the Non-Proliferation Treaty (NPT) does not legally exempt its violation of that treaty.*
- *Sanctions. Steps must be taken to strengthen the effectiveness of sanctions against North Korea.*

Japan must create conditions that would enable the imposition of stronger sanctions in the case of a low-intensity or high-intensity armed attack by North Korea. If China challenges the adoption of a UN Security Council resolution, then there is little hope of passing a sanctions resolution, so that would mean sanctions would have to be imposed by like-minded countries. What is important in such circumstances is the ability to win

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over those countries that have close relations with North Korea on the economic and other fronts. Japan together with the United States, South Korea, and other interested states should jointly co-opt some of the minor powers that have close relations with North Korea by providing incentives for severing or limiting their ties with North Korea, and thereby strengthen the effectiveness of sanctions.

### **Upstream Strategy**

**Reinvigorate Containment if North Korea Goes Nuclear and Foster Conditions for the Unification of the Korean Peninsula in the Medium to Long term.**

**(1) Demand compliance with the NPT and the relevant International Atomic Energy Agency (IAEA) instruments.**

The international rules that North Korea should fully comply with in the first instance are the NPT and the relevant IAEA instruments necessary for international inspection. Japan should make the argument that a North Korean announcement of its withdrawal from the NPT is not valid if it has already violated the terms of the treaty. A complete, verifiable, and irreversible denuclearization and North Korea's full compliance with the NPT should be the non-negotiable conditions, and that even if North Korea expresses its decision to abandon its nuclear program in stages, there must be prior agreement on the entire path of the denuclearization process. A series of piecemeal, phased agreements will always allow the North Koreans to hold on to "a few for insurance" at the very end. Therefore, from Japan's perspective, prior agreement on complete denuclearization is essential.

Ideally, as a part of the upstream strategy, we would like to identify the sources of North Korean insecurity and then propose policies that would mitigate such insecurity so as to persuade the North Koreans to denuclearize.

The question is whether North Korea would actually denuclearize and fully comply with the NPT and accept full IAEA inspections in return for certain security guarantees. Chinese and Russian security guarantees may, in theory, substitute for nuclear weapons, but the lack of trust evident in Sino-North Korean and Russo-North Korean relations probably compel the North Korean leaders to opt for nuclear weapons that they deem more reliable as their ultimate insurance for survival. In addition, North Korean leaders are likely to be considering the acquisition of nuclear weapons as a source of domestic authority over the military as well as the general population. Due to these circumstances, there is very little chance that North Korea will

agree to complete denuclearization through negotiation.

Therefore, North Korea's external relations characterized by distrust toward foreign nations and its domestic political structure characterized by tyranny are unlikely to allow external incentives to reverse its current course toward unlawful nuclearization.

**(2) Launch harder containment upon deployment of nuclear weapons by North Korea.**

Japan must create a medium- to long-term strategy that posits nuclear armament as a strategic crossroads. The substance of Japan's North Korea strategy must be understood to change greatly depending on North Korea's nuclear armament.

If North Korea proceeds to deploy operational nuclear missiles, the only way to achieve North Korean denuclearization with certainty would be through military intervention with a view to regime change, but there is no incentive for any country to resort to such means because anticipated costs overwhelm expected gains. Thus, if North Korea goes nuclear, Japan will have to continue its containment policy with drastically elevated sanctions until North Korea can be incorporated into South Korea, without offering any incentives at all.

**(3) Create an environment that facilitates the realization of a South Korea-led unification of the Korean Peninsula.**

Even if North Korea can be contained, China and Russia will maintain some degree of political and economic ties with North Korea, so it will not necessarily bring about a sudden weakening of the North Korean regime. Rather, if the containment of North Korea succeeds on other fronts, then the country's dependence on China and Russia will increase accordingly, and so it is also possible that it will result in China progressively turning North Korea into a semi-protectorate. In the process, there will be an increased exchange between China and North Korea of people, goods, money, and information. In the short to medium term, this implies an expansion of China's influence on the northern half of the Korean Peninsula. North Korea could see an opportunity to exploit this situation, and thus the possibility of a low-intensity attack by North Korea could increase, which would not be a desirable outcome.

Nevertheless, if North Korea does deepen its dependence on China, then conditions would be such that if the Chinese economy were to be significantly shaken by a financial crisis or perhaps a serious economic dislocation in the future, then North Korea will squarely feel the impact as well. In those circumstances, if

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China experiences a dramatic economic deceleration, for example, then the possibility of China retreating from its previous path of protecting North Korea might emerge.

Of course, whether or not China abandons its protection policy toward North Korea would be influenced by various factors, including whether or not U.S.-China relations, Japan-China relations, and South Korea-China relations are on good terms at that point in time, and whether there are leaders within China who are placing priority on cooperation with Japan, the United States, and South Korea. However, in the future, (a) if China chooses financial and economic assistance from Japan, the United States, and South Korea and by extension, the rebuilding of its own economy over the cost of extending the life of the North Korean regime, and (b) if it determines that a South Korea-led unified Korea is preferable for China's security to the continued existence of an independent North Korea, then the opportunity may arise for the unification of the Korean Peninsula. Therefore, positive changes in China's external relations with Japan, the United States, and South Korea combined with economic and financial difficulties might open the window for a negotiation on Korean unification.

Of course, even if China agrees to Korean unification, North Korea will undoubtedly demand for the continued existence of its regime and thus reject unification, and depending on the circumstances, may undertake military actions. But the more North Korea does so, the more China will realize the desirability of North Korea's incorporation into South Korea, and thus North Korea will become increasingly isolated. Even then, North Korea might threaten an all-out war, but without China as its shield, it cannot carry out a credible threat, and so Japan, the United States, and South Korea will be able to present North Korea with two choices: push on toward the collapse of the regime, or agree to unification. Nevertheless, it would be necessary to guard against a strategic surprise in which a cornered North Korea resorts to launching a large-scale conventional attack or a nuclear attack (strategic surprises occur when aggressors take actions that are considered completely irrational by the defenders).

There is no sure strategy that can bring about unification on the Korean Peninsula as described above. Change in Chinese attitudes will depend on contingent events. However, in order to somewhat increase the possibility of achieving a South Korea-led unification, it is important to improve our relations with China on the North Korean issue, institute a rigorous system of containment in which North Korea shares the same lot with China, and thereby make it easier for the change of the latter to bring the downfall of the former.

## **V-2 China's Legal Warfare**

*(For scenarios see pp.51-3 ; on outlook see pp.59-61.)*

*Prevent and deter low-intensity revisionist actions by China in the East China Sea and the Philippine Sea (e.g., unilateral development of natural resources in Japan's continental shelf, exercise of fishery jurisdiction or illegal marine scientific research in Japan's EEZ, maritime enforcement activities relating to the Senkaku Islands, etc.), prepare a system for responding to such actions, and develop a global China strategy in order to integrate China into the international order.*

### **Core Interests at Risk**

Japan's territorial rights over the Senkaku Islands and sovereign rights over its EEZ and the continental shelf (see *appendix I*). The intrinsic values of the Senkaku Islands and Okinotorishima and the Japanese EEZ and continental shelf in the East China Sea and the Philippine Sea lay not so much in their economic worth per se; rather it is Japan's sovereignty and sovereign rights that are put at risk by possible revisionist actions by China. The magnitude of threat is less compared to North Korea, but the inherent and symbolic nature of the act of infringing upon Japanese territorial and sovereign rights must be considered a serious challenge to the integrity of Japan.

### **Strategic Goals**

In order to secure the above interests and improve Japanese national security, the following goals should be pursued.

In the short to medium term, Japan should (a) deter China's low-intensity revisionist actions, and (b) encourage China to accept prevailing norms of external conduct and domestic governance.

In the medium to long term, (a) if Japan is satisfied with the progress China is making toward accepting and complying with international rules, then Japan should actively support China's socioeconomic reform and should also explore the signing of agreements with China on border demarcations and other issues related to the territorial status quo; but (b) if Japan is dissatisfied with Chinese progress, and if China continues to expand its unilateral actions, then Japan should actively expand security cooperation with the United States and other nations.



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## Downstream Strategy

### Deter Low-Intensity Revisionist Actions by China and Prepare a System to Respond to Such Actions.

#### (1) Defense

- **Surveillance. Japan must strengthen its maritime domain awareness in the TGT Triangle.**

It is essential that Japan raise the level of its maritime domain awareness in the TGT Triangle. At the very least, it must lay out a system for constant surveillance of Chinese PLA or government-operated vessels, fishing vessels, and other vessels registered to foreign countries that are in Japan's territorial waters or EEZ. To do so requires the cooperation of the government and the private sector to form a more robust intelligence and surveillance system, including the creation of a centralized data-gathering and response system that can collect and centralize information from satellites, Maritime Self-Defense and Coast Guard patrols, and private ships and fishing boats. Intelligence, surveillance, and reconnaissance (ISR) platforms such as unmanned aerial vehicles (UAVs) would be highly effective in fulfilling a part of this task<sup>22</sup>.

- **Legislation and Regulation for Managing Low-intensity Unilateral Actions. Japan must enact a territorial security law and clarify the rules of engagement at sea.**

Japan must strengthen its capacity to respond to cases where China carries out low-intensity revisionist actions—such as trying to make the exercise of jurisdiction over the Senkakus (which China claims as its territory) *a fait accompli*, or starting large-scale surveys and development of resources in Japan's EEZ.

To do so, Japan must first enact a territorial security law and give the Coast Guard the authority to detain, inspect, or carry out other operations if foreign vessels are conducting harmful activities in Japan's territorial waters or are conducting illegal activities in Japan's EEZ. At the same time, Japan must clarify its rules of engagement and permit the use of force as necessary in carrying out their duties, without being limited only to cases of legitimate self-defense and emergency evacuation. It must clarify that Japanese enforcement authorities can take defensive measures if they come under attack after having responded to illegal conduct by a foreign warship or government vessel and demanded

that the vessel obey the law and promptly leave.

At the same time, if necessary, Japan should allow the Japan Maritime Self-Defense Force (JMSDF) to provide escort for the Coast Guard, and based on clear rules of engagement, the JMSDF should be able to carry out territorial defense even before maritime security order is given.

- **Capabilities for Deterring Low-intensity Actions in the Maritime Domain. Japan must strengthen the personnel and equipment of the Japan Coast Guard and enhance the JSDF's area denial capability.**

Japan must prepare an effective deterrence capability so that it can deter, or if necessary, prevent China from opting for taking low-intensity revisionist action in the first place. If Japan does not create conditions that would convince China to believe that the use of unilateral action to escalate a conflict will not lead to a settlement to its advantage, then Japan will not be able to deter a low-intensity use of force by China in the earliest stages. For that reason, Japan must enhance capabilities that will provide an advantage at each stage of escalation if China does attempt a low-intensity revisionist action.

If a China-Japan conflict that is triggered by a low-intensity revisionist action in the TGT Triangle does escalate to a higher level, U.S. involvement could be expected. It goes without saying that Japan and the United States acting in concert are more powerful than the sum of them operating individually—each nation must maintain strong air and naval forces in order to deter an assertive China. However, if the conflict remains at a lower level of intensity, then Japan should be able to address the issue on its own.

If there is a stalemate at the site of the conflict, with the maritime law enforcement vessels of both Japan and China facing a stand-off, one can also imagine a scenario in which China dispatches a small to medium-sized naval fleet to the scene to test Japanese resolve. In such a situation, it will be crucial for Japan to create conditions that would make it risky for China to dispatch such a fleet in the first place. This requires a further strengthening of Japan's area denial capability in the TGT Triangle. More specifically, it requires (a) the further strengthening of the JMSDF's submarine units as well as its antisubmarine warfare (ASW) capability, and (b) the reinforcement of its anti-ship guided missile unit as well as the deployment of anti-ship cruise missiles capable of targeting hostile vessels in the TGT Triangle. (Of course, because resources are limited, even if Japan does strengthen its area denial capability, a redistribution of resources within the

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<sup>22</sup> For a detailed discussion, see Patrick M. Cronin and Paul S. Giarra, *Robotic Skies: Intelligence, Surveillance, Reconnaissance and the Strategic Defense of Japan*, Working Paper, Center for a New American Security, December 2010.

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JSDF will be necessary.)

- *Escalation Dominance to Deter Escalation of Low-Intensity Actions.* **Japan must strengthen its capability and systems to prepare also for higher-intensity conflicts, including its ability to cope with a cyber attack.**

If a conflict with China escalates to a high-intensity conflict under unforeseeable circumstances, in light of the characteristics of the Western Pacific Theater, a well-developed force structure, doctrine, and operational experience centered on a joint air-sea battle would become important. Nevertheless, one would need to assume a full-dimensional battle that encompasses land, sea, air, space, and cyberspace.

Rather than trying to take on China's A2/AD capability head on by matching it quantitatively, Japan's defense should aim to develop asymmetric capabilities that would effectively exploit weaknesses in Chinese military capability. In particular, Japan's ability to take actions in cyber space is presently insufficient, and so actions should be taken immediately to augment its cyber capability. Under A2/AD environment, it is also urgent to harden SDF and US bases in Japan, while securing the emergency use of alternative ports, airports, and other facilities. At the same time, the relocation of Futenma Air Station should be implemented as agreed by the two governments in May 2010 so that Guam can be developed into a strategic bastion for the alliance.

## **(2) Japan-U.S. Alliance**

- *Interoperability.* **JSDF and U.S. forces should continue to enhance their interoperability through their participation in multinational as well as bilateral military exercises.**
- *Surveillance.* **Maritime surveillance intelligence should be shared as extensively as possible.**
- *Treaty Application.* **The range of applicability of the Japan-US Security Treaty should be continuously reaffirmed.**

If a third country uses force to occupy the Senkaku Islands or to impinge upon Japan's interests in the East China Sea and the Philippine Sea as are guaranteed under international law and reflected in the UN Charter, and if Japan takes defensive action, then it must be repeatedly and publicly reaffirmed that any such unilateral action falls within the purview of the U.S.-Japan Treaty of Mutual Cooperation and Security.

- *Combined Freedom of Navigation Program.* **Japan should participate in the U.S. Freedom of Navigation program.**

In areas of the ocean where China and other nations make excessive maritime claims in light of the UN Convention on the Law of the Sea, Japan should join the United States and encourage the United Kingdom, Australia, and other nations to reject such claims. More specifically, the SDF should participate in the operational assertions of the U.S. Freedom of Navigation Program, and should make clear its intention not to accept state practice, in particular from China, of excessive maritime claims.

- *Combined Operation Plan.* **A combined operation plan should be devised that sufficiently prepares for the escalation of a conflict.**

A combined operation plan should be set in place so that the United States and Japan can cooperate smoothly in the case that China takes revisionist actions and there is an escalation of conflict between China and Japan. The two countries should also undertake relevant training as necessary so that they will be ready to implement the plan promptly and steadily.

Such a plan is premised on being able to keep the United States—which will inevitably be inward looking as it works to rebuild its domestic economic system—engaged in the Western Pacific region both militarily and economically. On the economic side, it is extremely likely that the United States will take advantage of exports to Asia to recover and expand employment, and will increase earnings through investment in the region. Meanwhile, on the military front, the United States is not expected to recognize any challenge to the freedom of navigation in the Western Pacific region or any revision of the present territorial status quo through the use of force, and so it will undoubtedly continue to stick to its defensive commitments to its friends and allies.

However, if the U.S. economy does not successfully recover, then there is a strong possibility that there will be increasing and continuing pressure in the U.S. Congress to cut the defense budget. While the American domestic political situation will not dramatically weaken or diminish U.S. military power in the Western Pacific region, if the defense budget is limited, the timing and form of U.S. involvement in a China-Japan conflict would be greatly affected, and it is highly likely that it will be more passive than have been expected in the past. If Japan does not demonstrate sufficient efforts on its own to defend its national interests, then it would become even more difficult for the U.S. Congress or president to decide to intervene for the purpose of defending Japan.

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Based on this realization, Japan must proceed with decisions on maintaining its defense capability and establishing contingency plans. They need to work out a combined operation plan that does not anticipate American military involvement at the initial stages of a conflict if China's low-intensity revisionist actions become an issue, but rather is premised on Japan addressing that situation on its own if the intensity of the conflict remains at a low level – only involving the U.S. military once the conflict has escalated past a certain threshold. The key here is to devise a combined operation plan that would allow American military intervention at different levels of escalation, and thereby provide a wide range of entry options for the United States.

### (3) Diplomacy

- *Persistently Advocate Japan's Legal Position on the Senkakus and Okinotorishima. Japan must continue to clearly assert its position on the Senkaku Islands and Okinotorishima.*

While holding firmly to its stance that there is no territorial issue with regard to the Senkaku Islands, Japan should demand in high-level and administrative-level meetings with China that references to the Senkakus be deleted from relevant Chinese domestic laws, and should clearly convey its stance that any unilateral action to revise the territorial status quo will be viewed as an invasion of Japanese territory and will be unequivocally rejected. Japan should seek international support for this position from the United States, Australia, and other nations.

Japan should make the international community aware of the positive effect of Japan's development of Okinotorishima on the safety of navigation and regional security. China claims Okinotorishima to be a "rock" and does not recognize a Japanese EEZ around it. Japan needs to deliver a strong message to China that Chinese illegal maritime research activities for submarine operations in the Japanese EEZ around Okinotorishima cannot be accepted.

- *Constantly Advocate Japan's Legal Position and Approach to the East China Sea. Japan should make its stance on and approach to solving the East China Sea border demarcation issue known broadly throughout the international community, and should demand that China clarify its legal position and the basis for that position.*

With regard to the border demarcation in the East China Sea, Japan must make the international community understand that its approach is legitimate so that if China does carry out a

unilateral action, there will be an environment in which Japan can immediately mobilize the broad support of other countries. More specifically, Japan should call attention to the fact that it has been taking a cooperative approach and has been appealing to China to promote "joint Japan-China development" not only in bilateral discussions, but in multilateral conferences as well.

Japan should hold international conferences on maritime law, and it should demand that China explain how its argument that the natural prolongation of the continental shelf should serve as a basis for the border demarcation in the East China Sea can be justified under the UN Convention on the Law of the Sea. At the same time, Japan should widely advocate the validity and legality of the principle of the median line, and if possible, should issue a joint statement with a third country that shares Japan's views. Furthermore, Japan should renew its effort to seek support on this issue from the United States and other nations.

- *Balance Economic Dependency on China. To ensure that economic dependency on China does not result in political vulnerability, Japan should adequately diversify its foreign economic relations.*

To ensure that Japan can effectively respond if China resorts to revisionist actions, Japan must limit its vulnerability in terms of its economic relations with China. The development of trade and investment between Japan and China is very much desirable, but over-reliance on China's economy will enable the Chinese government to use economic means to exert pressure on Japan. Accordingly, Japan must diversify the sources of its imports, in such areas as important mineral resources, including rare earth, tungsten, and chromium, for which it currently relies heavily on Chinese imports.

In the area of trade, China has become Japan's leading partner for both imports and exports, but the best option would be for Japan to diversify its trade relations by stimulating its trade with Australia, India, South Korea, Southeast Asian countries, EU countries, and the United States through the signing of free trade agreements. As it is mentioned in chapter 1 and appendix 1, Japan depends heavily on China for the export of semiconductors and electronic parts, auto parts, plastics, organic compounds, scientific and optical equipment, electronic circuits, and the import of clothing & accessories, computers & units, audio-visual apparatus, and seafood. Any free trade agreement (FTA) with third countries should focus particularly on reducing tariff barriers for these products.

By not excessively relying on China in the economic realm,



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Japan can decrease the possibility of being pressured through economic means even if a low-intensity conflict with China does become serious. It must be emphasized here that if China develops a firm reputation of strictly adhering to international trade rules and transforms into a state that does not apply economic pressure to resolve international issues, then economic relations with China could expand without regard to such concerns as mentioned above.

- *Concluding a Prevention of Incidents Agreement and a Hotline Agreement. Japan and China should sign an agreement on the prevention of incidents on and over the high seas and a hotline agreement.*

In order to prevent unforeseen crises between Japan and China regarding the Senkaku Islands, the East China Sea, or the Philippine Sea, the two countries should sign an agreement on the prevention of incidents on and over the high seas. In addition, in case a crisis does arise, they should establish a hotline that would allow the leaders of the two countries to be in direct contact.

### **Upstream Strategy**

#### **Prevent Low-Intensity Revisionist Actions by China and Promote the Integration of China into the International Order.**

While in the short to medium term it is essential that Japan undertake downstream strategies to prevent low-intensity revisionist actions by China and to prepare the conditions in which Japan could respond to such actions. In addition, Japan needs to discourage China from undertaking unilateral actions to change the status quo in East Asia, and convince China that such actions would not result in any benefit. For that purpose, Japan must simultaneously pursue upstream strategies that would (1) lessen the impact of structural factors—especially the rising demand for energy resources—that would lead China toward expansion in the East China Sea through various means of cooperation and assistance, and (2) encourage China to accept certain norms of external conduct and domestic governance and thereby allow for its integration into the international order accompanied by deeper cooperation with advanced democracies.

#### **(1) A “Northeast Asia Energy Cooperation Arrangement (NECA)” should be established to respond to China’s increasing demand for energy.**

There are various reasons why China might turn toward

unilateral actions on the Seas—which China would deem as retrieval of its “legitimate” interests—but in relation to the East and South China Seas, it is the burgeoning demand for energy that may become a major driving factor. It is not enough for Japan to simply deny the Chinese claim that the key to solving its rising energy demands is to unilaterally carry out independent development of energy resources in the East China Sea and the South China Sea; Japan must undertake diplomatic efforts that consider proposals for alternative solutions.

Specifically, in order to reduce the impact of China’s rapidly rising demand for energy, the crude oil and natural gas potential that lies under the eastern regions of Russia (East Siberia, the Far East, and the Arctic) should be tapped. In terms of petroleum, Japan’s demand has reached its peak and is now on the decline, so there is no need for it to compete with China over Russian crude oil exports. Rather, it needs to find a mechanism for encouraging an increase in crude oil production in the eastern region of Russia, while at the same time encouraging an expansion of the supply to the Chinese market. By doing so, Japan could also expect to contribute to the stabilization of prices in the international crude oil market.

Chinese demand for natural gas is also predicted to rise rapidly, and there is an ongoing rush to build LNG terminals. Although Japan’s demand for natural gas is expected to be relatively higher because of the Fukushima Daiichi Nuclear Plant accident, in terms of Russian natural gas supply to Japan, the amount provided directly from Sakhalin is sufficient to cover that demand, considering availability of multiple supply routes with the expansion of spot and short-term LNG markets. The scale and speed of China’s increasing demand are expected to eclipse those of Japan. By creating a system as quickly as possible for getting East Siberian natural gas flowing into China at reasonable prices, the physical scale of what China needs to procure from other areas either through imports or independent development will be mediated. This point is also significant from the perspective of enabling Japan to secure natural gas at a low cost.

The issue then is the deeply entrenched mutual distrust between Russia and China, and the “strategic partnership” in the energy sector is in large part a political façade. If it were left up to just China and Russia, it is unlikely that a timely “perfect match” would emerge between Russia, the world’s number two oil producer and also number one natural gas producer, and China, now the world’s largest energy consumer. Japanese diplomacy can serve as an intermediary. Accordingly, Japan and the United States must take the lead and engage China and Russia in the building of a multilateral framework for utilizing

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the potential resources in the eastern regions of Russia (tentatively, the “Northeast Asia Energy Cooperation Arrangement,” or NECA). By working within that context to alleviate the geopolitical antagonism between China and Russia, Japan can actively promote the deepening of mutual energy dependence between those two countries.

Also, the NECA could serve as more than just a venue for addressing the supply and demand issues of oil and natural gas; member nations could also provide funding for the promotion of joint development of energy-conserving technologies and renewable energies. It could also be a forum in which Japan could share the latest knowledge it has gained from the Great Eastern Japan Earthquake with regard to the building and operations of nuclear power plants.

## **(2) China must be integrated into the prevailing international order through a global china strategy.**

The ultimate assurance against China taking unilateral revisionist actions would be to get China to accept the norms of external conduct and norms of domestic governance to which market economy-based liberal democracies adhere. This would signify a national transformation for China, so it would require a very long-term, steady, coordinated multilateral initiative as well as patience. Obviously, it is unclear whether this is possible. However, simply responding to China’s rise through military balancing will neither suffice to establish a legitimate regional order nor enhance Japan’s security in the long run. Without a strategy for encouraging China to turn into a reliable, trustworthy partner, any China strategy will turn either into hawkish containment or dovish appeasement or a simple conflation of both that will lead to nowhere.

China is grappling with a broad range of deep-rooted socioeconomic structural issues, including, among other things, income disparity, ethnic issues, and an aging society. China will get older before it gets as rich as the advanced nations that have begun experiencing aging in the past. It is almost inevitable that China will have to devote a substantial amount of its national resources to tackling the socioeconomic supply and demand gap that will result from this demographic change, and will become significantly introverted after several decades. The next 10 to 20 years is likely seen by the Chinese leadership to be a major window of opportunity to secure offshore and overseas interests, and thereby narrow the anticipated socioeconomic supply and demand gap before its working population begins to diminish and its senior citizens to increase rapidly in the future. This situation has coincided with American economic and financial difficulties

that limit its scope of action in the world. These anticipated internal condition and actual external condition combine to make Chinese revisionist unilateral actions on the seas more likely.

If China is confronted with resistance from other countries, its potentially revisionist tendency would be reinforced, eventually creating cold war conditions. Such a situation would require a drastic expansion of defense spending and a corresponding decrease in domestic spending not only by Japan but by a broad range of states that have issues with China, and is thus certainly not a desirable outcome. This is why China’s domestic issues must be the subject of global concern.

Japan thus requires a China strategy that can increase—at least slightly—the possibility that China will transform into a market economy-based liberal democracy in the very long term. Needless to say, whether China reforms itself or not will primarily be affected by domestic factors within China. Nonetheless, the China strategies adopted by those countries that have close relations with China will undoubtedly have some influence as well. What is important is the following: (1) China already has foreign relations with countries around the globe, so for any China strategy to be effective, it must have a global scope; and (2) the content of that strategy must be such that China understands that (a) if it tries to solve its various problems through violations of existing international laws or through unilateral revisionist actions toward other nations, then its actions will be met with opposition and estrangement from the market economy-based liberal democratic nations and their partner states, and conversely, (b) if it decides to accept and adhere to various norms of external conduct and domestic governance, then those same countries will actively support China in tackling difficult domestic reforms.

The strategy must encourage China’s self-realization that the true solution to its problems is domestic political, economic, and social reform, while also guaranteeing that if China does accept the various norms of external conduct and domestic governance that are adhered to by the market economy-based liberal democratic nations, then it will receive assistance and cooperation from the advanced liberal democracies.

In the past, China has extracted the benefits of a stable international order based on the rule of law, but without necessarily investing in or strengthening its authority and institutions. China has to become a more constructive presence in international law bearing more of the costs of and obligations accruing from its international position, while accepting its benefits. China has to stop negotiating with the “zero sum” mentality of a small and

weak nation, and shoulder greater burdens for regional stability.

Specifically, a bargaining mechanism should be created for dealing with China that contains a combination of the following two approaches: (a) China must clarify its position and the basis for that position on existing and new international rules that it has not yet accepted; and (b) in the case that China refuses to accept existing international rules, demands the revision of those rules, or refuses to negotiate new rules, then a diplomatic environment must be established that will allow effective collective bargaining between major powers and China.

***(a) Negotiations with China on international rules in individual sectors***

Even though we may talk about international rules as one lump sum, it comprises a vast range of formal and informal rules on everything from territorial demarcation to environmental protection. Accordingly, the most realistic approach is to carry out negotiations on individual rules in the context of existing multilateral or bilateral negotiations. In those instances, the approach should be first to make China clarify its stance—and the basis for that stance—on the international rule or rules in question, and not let China stay away from the site of negotiations on international rules by carefully avoiding excessive denunciations of past behavior.

***(b) “China Strategy Review” by major nations***

As a result of persuading China to indicate its stance on individual international rules and the basis for that stance, it is possible that China may declare that it does not accept existing international rules, may demand their revision, or may refuse negotiations on new international rules. If China foregoes negotiations on international rules, then it will create an ongoing situation in which the rules are not binding on China, so while its revisionist actions cannot be deemed lawful, neither can they be deemed unlawful, which strategically speaking is not a desirable state of play.

Under these circumstances, a mechanism is needed to facilitate effective bargaining with China regarding the acceptance of international rules and the setting of new ones. The key here is that when encouraging China’s acceptance of crucial existing international rules or China’s agreement to establish new rules, a negotiating environment must exist in which China has the maximum incentive to agree. This should comprise two components: (1) the major powers should clarify among themselves the sectors in which they can work in step to bargain with China, and then implement collective bargaining with China in those individual sectors; and (2) in order to limit any unnecessary

opposition, the relevant countries should present either prior to or during the bargaining what sort of economic assistance and cooperation (incentives) they can provide if China does accept various international rules<sup>23</sup>.

Needless to say, each of the relevant countries has its own unique relationship with China, so keeping perfectly in step will naturally be difficult. Therefore, the mechanism should in no way bind China policies of participants. Coordination among mechanism members will have to be made on an issue-by-issue basis. It should remain primarily as a forum for exchanging information on the state of Chinese foreign legal relations, and secondarily as a process for identifying issue areas where coordination of negotiating tactics regarding major multilateral rules and assemblage of relevant multilateral incentive packages for China are possible. In order to incentivize China to adopt various international rules, a substantial amount of incentives (economic cooperation and assistance) will be needed, and thus it would be more effective to pool assistance programs from multiple countries and present them as a package rather than offer them separately and individually. Therefore, it is envisioned here that actual negotiations on rules will be carried out in individual sectors, and that the CSR will only serve for information exchange to identify sectors in which negotiating tactics and multilateral assistance packages can be coordinated.

More specifically, the governments of Japan, the United States, the EU, Australia, and South Korea (i.e., the leading trade and investment countries that have the appropriate leverage vis-à-vis China) should establish a China Strategy Review (CSR) mechanism for regular consultations (initially at the ministerial and working levels) to (1) review and exchange information on the progress being made by China on accepting major international rules and setting new rules<sup>24</sup>, and to (2) coordinate their negotiating tactics and assemble multinational incentive packages for China as needed.

<sup>23</sup> For example, China should be offered energy efficiency technologies when asked to accept rules on CO<sub>2</sub> emission reduction. Technical assistance relating to the enhancement of the patent system and relevant law enforcement should be offered to China when asked to accept rules on intellectual property rights.

<sup>24</sup> The following are examples of areas that should be reviewed to assess whether China is following international rules:

1. To what extent has China ratified the major multilateral agreements, bilateral treaties, and other agreements that underpin the current international order?
2. To what extent is China actively engaging in negotiations on those yet-to-be-ratified treaties and agreements or in negotiations to set rules in fields where international rules are not yet in place?
3. To what extent is China in compliance with or in violation of the treaties and agreements that it has already ratified?
4. To what extent is China negotiating in good faith to peacefully resolve bilateral and regional sources of tension or potential conflict?

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A global China strategy to encourage China to bind itself to shared international rules is essential. It must effectively combine adequate pressure and attractive incentives in individual sectors. There is no guarantee that it will be an easy road ahead, and it is likely that it will entail tense bargaining with China. Japan, in concert with other advanced liberal democracies, must nonetheless continue to encourage China to adhere to the same norms of external conduct and domestic governance as do market economy-based liberal democracies, for the simple reason that doing so would help the Chinese government provide sustainability to its society and economy, create strategic trust between itself and major advanced liberal democracies, and avert the real possibility of another cold war.

It is also significant in the sense that an assessment of the extent to which China is accepting or rejecting international rules, or the degree to which it is abiding by or violating those rules, clarifies the extent of China's integration into the international order and of its transformation. Such an assessment would offer a factual basis for a domestic debate in Japan and other countries on China strategy that should not be swayed by extreme China threat theories or China appeasement theories that instigate hysterical responses to individual incidents.

## **H-1 Large-scale Terrorist Attacks on the United States**

*(For scenarios see p.54 ; on outlook see p.61.)*

*Institute defensive measures and prepare a crisis management system for responding in the case of a major terrorist attack on the U.S. mainland using WMD and cyber weapons.*

### **Interests at Risk**

Japan's substantial strategic and socioeconomic interests in the United States. The possibility of a major international terrorist organization to acquire both biological and cyber weapons and using them inside the United States is currently remote. However, in 10-20 years, non-state actors may get the opportunity to access these asymmetric means by recruiting native collaborators working in high-security facilities. If multiple terrorist attacks using cyber and biological weapons are launched, the lives of Japanese nationals living in the United States, and substantial portions of Japan's industrial, commercial and financial interests in the United States will either sustain actual damage or be put at high risk. Adverse effects will spread to mainland Japan since the level of interdependence between Japan and the United States is highest among all other bilateral relationships (see *appendix 1*). Above all, America's political attention will shift once again toward counterterrorism, and thereby its strategic focus toward East Asian security will be partially redirected elsewhere.

### **Strategic Goals**

The United States is the most secure part of Japan's strategic horizon. The United States will continue to be capable of managing direct terrorist threats to its homeland. Also, it could be said that it is almost impossible to deter violent extremists committed to attacking the United States. Therefore, Japan's strategic goals should be: (a) to cooperate with the United States to establish and expand cyber defense and security systems and coordinate various contingency support measures in case of large-scale terrorist attacks using WMDs and/or cyber weapons, and (b) engage in long-term efforts to eradicate international terrorist organizations and alleviate deleterious conditions in terrorist hotbeds through multinational development initiatives.

### **Downstream Strategy**

**Reinforce the System for Preventing and Responding to WMD and Cyber Terrorist Attacks.**

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## (1) Japan-U.S. Alliance

- *Counter-WMD Terrorism Cooperation.* **Japan should participate in international cooperative frameworks to counter WMD terrorism.**

The Japanese government should come to an agreement with the U.S. Department of Homeland Security on a cooperative framework on measures to counter WMD terrorism, and should participate in U.S. government programs to prevent nuclear and radioactive material terrorism, and biological and chemical weapons terrorism. Also, within that cooperative framework, regular training should be held for government-to-government cooperation in the case of a WMD terrorist attack on either the United States or Japan (e.g., receiving rescue units, decontamination efforts, etc.). Cooperation on this front would prove useful in case Japan faces North Korean Special Forces or agents that might employ biological weapons or radioactive explosive devices inside Japan for sabotage purposes.

- *Cyber Defense Partnership.* **Japan should conclude a cyber partnership with the United States in order to mutually enhance their defensive measures against cyber attacks.**

If a major cyber attack is launched against both private and government networks in the United States, a large number of computer terminals could be physically disrupted. In such a situation, network operation centers in U.S. allies and partner countries could function as alternative points for initiating redress measures, and also for investigating origins of the attack if possible. English-speaking allies such as Canada, the United Kingdom, and Australia are the obvious first choice for the United States. Nevertheless, allies such as Japan that already have a high volume of digital exchanges with U.S. networks should also explore areas of cooperation to enhance defensive measures against cyber attacks. For example, with regard to developing data screening systems known as “the deep-packet inspection systems,” the Japanese and the American governments should host a closed international conference by convening major Internet Service Providers (ISP) in both countries to identify major technical challenges that need to be overcome to enhance cyber security and discuss possible defensive measures and technical and legal requirements.

## (2) Diplomacy

- *Multilateral Initiative to Combat WMD Terrorism.* **Japan should actively support the WMD countermeasures**

**program within ICPO and assist in its expansion.**

- *Promotion of Rules Relating to Nuclear Material Security.* **Japan should encourage multilateral efforts to reinforce and universalize international rules on nuclear materials management and to introduce a nuclear security inspection system.**

International rules such as the Convention on the Physical Protection of Nuclear Material should be reinforced and universalized to ensure a high level of security of nuclear materials. A nuclear material security inspection system should be introduced to verify that those obligations are being fulfilled. Where possible, Japan along with other developed nations should actively offer technical cooperation and grant aid to institute protective measures against nuclear material theft.

## Upstream Strategy

**Eradicate International Terrorist Organizations through Multilateral Efforts.**

- *Continued Efforts to Combat Terror Financing* **Japan must promote the establishment of a multilateral mechanism for investigating and eradicating financing networks of international terrorist organizations.**
- *Development Assistance to Improve Living Conditions in Unstable States.* **Japan and other liberal democracies fighting international terrorism should promote the creation and implementation of multilateral aid programs for Iraq, Afghanistan, Pakistan, Yemen, and other terrorist hotbeds.**

In connection with the withdrawal of American forces from Iraq and Afghanistan, a multilateral aid framework should be created to ensure the stability of those countries’ governments and also other countries that are actual and potential terrorist hotbeds. Also, in order to expose and disrupt violent extremist organizations in countries like Pakistan and Yemen, some incentives in the form of multilateral economic and military assistance should be offered to encourage those countries to carry out domestic military operations to eradicate violent extremist organizations. Instead of approaching these countries individually, advanced liberal democracies should pool their aid resources to provide a comprehensive aid package that would serve to strengthen moderate secular factions in those countries.



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## H-2 China and the South China Sea

*(For scenarios see p.51 ; on outlook see p.62.)*

*Prevent and deter unilateral actions by China to change the present situation in the South China Sea (occupation of islands, unilateral development of natural resources, etc.), while at the same time getting China to accept certain “code of conduct” as a way to create a foundation for confidence building.*

### Interests at Risk

The security of Japan’s SLOC and Japanese influence over China. Military skirmishes in the South China Sea put maritime transport destined for and departing from Japan in danger. Trade commodities exchanged between Japan and the EU nations as well as energy supplies from the Persian Gulf region are put at risk (see **appendix 1**). More importantly, if China establishes superiority in terms of naval and maritime enforcement capabilities to dominate the South China Sea, it would gain strategic leverage over Japan as well as other SLOC user nations like the United States and South Korea, and consequently negate their political influence over China. If China succeeds in turning the South China Sea into a “Chinese lake,” then, depending on the circumstances, Chinese unilateral action aiming to assert claims in the East China Sea and its naval activities beyond the so-called first island chain may become much more active in the medium to long term.

### Strategic Goals

In order to secure the above interests and improve Japanese national security, the following goals should be pursued.

In the short to medium term, in order to avoid a situation in which China singlehandedly controls the South China Sea, Japan along with the United States and other third countries should assist the other claimants to strengthen their capacity to deter and respond to possible low-intensity revisionist actions by China.

In the medium to long term, Japan should actively promote and support diplomatic processes to compel China to accept a “Code of Conduct for the South China Sea,” which would impose a legal obligation not to resort to unilateral actions to revise the current political map and would simultaneously offer maritime cooperation conditioned upon its agreement to bind itself to the code of conduct. If China (a) agrees to refrain from unilateral action and adheres to this commitment

continuously, then maritime cooperation with China should be advanced. Conversely, if China (b) decides not to bind itself to any code of conduct and continues to act unilaterally, then Japan together with the United States should encourage other claimants to actively enhance maritime security cooperation and strengthen their maritime enforcement capabilities to counter Chinese unilateral actions in the South China Sea.

### Downstream Strategy

#### Contribute to the Maintenance of Good Order in the South China Sea.

##### (1) Defense

- **Training and Exercise. Japan should carry out bilateral and multilateral trainings and exercises with South China Sea claimants, as well as the United States, Australia, and other nations.**

Japan should carry out bilateral and multilateral training and exercises for search and rescue, fishing enforcement, and counter-piracy with South China Sea claimants such as Vietnam, Indonesia, Malaysia, and the Philippines, as well as the United States, Australia, India, and other nations.

- **Increased Access to Southeast Asian Ports. Japan must increase its maritime presence in Southeast Asia by engaging in various cooperative activities.**

Japan must exert its presence in Southeast Asia as a stabilizing force. Specifically, JMSDF vessels could pay calls at the ports of Southeast Asian nations such as Vietnam’s Cam Ranh Bay and other ports, carrying out medical activities and/or conducting joint training for disaster relief efforts. Also, given that Southeast Asia is a waypoint if Japan dispatches the SDF to the Indian Ocean region, it would also be significant to sign an agreement on port calls and access.

##### (2) Japan-U.S. Alliance

- **Invigorated “JUS PLUS” Initiatives with Key Nations. Japan should invigorate “Japan-U.S. (JUS) PLUS” initiatives with Australia, Vietnam and India, among others, in the area of maritime security cooperation.**

Japan and the United States should jointly engage the following countries to enhance maritime cooperation in trilateral frameworks: Australia (JUSA), Vietnam (JUSV), and India (JUSI).

With regard to JUSA, joint trilateral exercises should be continued, and combined patrol of the Philippine Sea should be initiated. In the case of JUSV, joint training in the area of maritime enforcement as well as capacity-building involving supply of patrol boats and flying boats should be carried out. In addition, trilateral naval exercises based on an island occupation scenario by a third country and joint patrol in the South China Sea should also be conducted. As regards JUSI, Japan should participate in the Malabar Exercises; Japan and the United States should jointly invest in developing Indian harbors facing the Bay of Bengal, the Arabian Sea, and the Laccadive Sea.

- *Pacific Partnership and Mil-Mil Exchange. The Pacific Partnership and military-to-military exchanges with Southeast Asian nations should be expanded.*
- *Joint Freedom of Navigation Initiative. Japan should participate in the U.S. Freedom of Navigation Operational Program carried out in the South China Sea.*

In light of the UN Convention on the Law of the Sea, Japan should demand that countries asserting excessive jurisdiction should correct their ways. The JMSDF could, for example, participate in the operational assertions of the Freedom of Navigation Program being implemented by the U.S. Navy. Toward this end, Japan should encourage the United States to reverse the slow decline in the number of diplomatic protests and operational assertions under the Freedom of Navigation program. Finally, Japan should work with other maritime powers to facilitate similar programs.

### (3) Diplomacy

- *Capacity-building for Maritime Security Agencies of Southeast Asia. Japan should provide assistance to strengthen the maritime security capabilities of claimant countries.*

Japan must provide aid to enhance various capabilities of those third countries that are vying with China over the territorial rights issue. In particular, it is urgent that Japan put together an assistance scheme that allows it provide patrol boats, flying boats, and other hardware along with training for the maritime agencies of the claimant countries by relaxing the three arms export principles.

- *A new “Freedom of the Seas Initiative”. Japan should establish a “Freedom of the Seas Initiative” to discuss pending issues related to the South China Sea.*

Japan should host an inclusive international conference, tentatively titled the “Freedom of the Seas Initiative (FSI),” where the South China Sea claimant countries and user countries would meet under one roof to hold discussions on unresolved maritime issues. In the FSI, discussions could address the maintenance of freedom of navigation, the development of natural and living resources, and the conservation of the marine environment in the Asian seas—including in both the South and the East China Seas—and issues related to the specific application of the UN Convention on the Law of the Sea to the Western Pacific region. In addition, participating countries could report on issues that arise in the South China Sea and East China Sea, and where possible and necessary, countermeasures could be considered against any country that engages in unilateral forceful actions. If conditions were created so that the use of force by a given claimant would be called into question at a multilateral forum, then one would expect the claimant countries to be forced to act with greater caution.

### Upstream Strategy

#### **Persuade China to Accept “Code of Conduct” to Build Confidence and Expand Maritime Cooperation among the Claimants.**

A framework that will deter China from committing low-intensity revisionist actions is of course necessary in the short to medium term, but to undertake counteractions indefinitely in the South China Sea is not conducive to the stabilization of the maritime order. What is important is to agree among the claimants on legally binding rules that the territorial status quo will not be changed through unilateral actions (i.e., rules that are separate from any final determination of territorial rights or maritime borders), and thereby build strategic trust by establishing a track record of mutually and continuously fulfilling the obligations of those rules by deterring any changes in the territorial status quo through the use of force. Then, on the basis of that confidence, conduct negotiations to determine territorial rights to islands and maritime border demarcations. These steps cannot guarantee but could possibly lead to an agreed upon status quo – a legitimate maritime order in the South China Sea.

All claimants except China are positive about adopting a so-called “code of conduct for the South China Sea” while China

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has indicated hesitance to agree to legally-binding code. From China's perspective, in light of the fact that its scope for action is expected to expand for some time to come, allowing itself to be bound by a "code of conduct" that would restrict its actions does not appear to be in the country's best interests. China's urge to establishing effective control over the South China Sea is being driven by its economic and strategic military interests such as energy and marine resources. Therefore, unless there is an international reaction that would entail costs that are capable of offsetting those interests, China will not agree to be bound by a "code of conduct." That begs the question, then, of what types of action could compel China to become inclined to accept a "code of conduct." Generally speaking, the following two-pronged approach is needed.

**(1) Depending on China's actions, Japan should pursue security cooperation with other claimants and the United States, as well as other nations.**

The first approach is to work out a policy whereby Japan and the United States would demand the acceptance of a "code of conduct" and simultaneously develop and expand security cooperation with claimants other than China and Taiwan, making it clear that the expansion of such cooperation will stop if China accepts and abides by the "code of conduct." For example, (a) Japan and the United States, together with Vietnam, the Philippines, Malaysia, and others, could conduct island defense exercises, including the participation of Indonesia and Australia as applicable. Another possibility would be (b) for Japan and the United States to sign a naval visiting forces agreement with the claimants other than China and Taiwan. Yet another option that might be possible is (c) for the Maritime SDF and the U.S. Navy to work with the navies or maritime security agencies of the claimants other than China and Taiwan, and carry out joint patrols or ocean surveys of the South China Sea.

What is important is to develop a phased program for this type of security cooperation among the relevant countries, and simultaneously guarantee to China that if it accepts the "code of conduct" that prohibits the use of force to revise the territorial status quo, then the security cooperation among third countries to prepare for such a contingency would be frozen, and if China continues to abide by that code, each of the relevant countries would engage in meaningful maritime cooperation with China. By combining this kind of pressure and incentive, conditions can be created under which China can determine that unilateral actions not bound by international rules will result in a loss of its own country's maritime security and interests, and that it is therefore rational to consider accepting the "code of conduct."

**(2) In order to limit Southeast Asian countries' reliance on China to a certain degree, Japan and the United States should develop multilateral economic assistance packages for the region. Australia, New Zealand, South Korea, and other stakeholders should also be encouraged to participate.**

China is currently working to expand its economic influence—and by extension its political influence—among the South China Sea claimants as well as other Southeast Asian nations through economic assistance, trade, and investment. Accordingly, in order to help the countries of Southeast Asia maintain their autonomy and enhance their "countervailing power," Japan and the United States should use aid-related organizations and other expedient bodies to devise and implement a multilateral official development assistance (ODA) scheme for Southeast Asian development. The basic thinking is that this scheme should avoid competition in areas such as basic infrastructure where China is already providing substantial economic assistance, and instead offer development assistance programs in areas where Japan, the United States, Australia, South Korea and other developed countries have a relative advantage.

It could also be possible for Japan and the United States to offer the South China Sea claimants other than China and Taiwan multilateral aid through ODA schemes for port and harbor improvements and fishing development. In addition, it might be possible for the United States and Japan to provide Vietnam, the Philippines, and Malaysia technical cooperation for the purpose of exploring seabed resources. These types of aids could expand or contract according to Chinese behavior in the South China Sea and its attitude toward the "code of conduct." Active promotion of FTAs with Southeast Asian States would also help these countries to diversify their foreign economic relations.

While taking these two approaches, if Japan and its partner states first demand that China accept the "code of conduct" and China indeed accepts, and if the region is subsequently able to deter China from revising the present territorial situation by unilateral action, and if the conditions are sustained so that the "code of conduct" continues to be observed, and if in that context the relevant countries including China are able to agree on further rules and carry out maritime cooperation, then that will result in increased strategic trust. Of course, whether or not meaningful negotiations can be held on territorial rights and border demarcations is not simply determined by the existence or absence of strategic trust – it is affected by many other factors (including domestic ones) as well. But at the very least,



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building strategic trust among the claimants in maritime issues is one critical and necessary condition, so it is essential that efforts be made to reach an agreement on a “code of conduct” and ensure through deterrence that its obligations are continuously complied with. This will allow for a modest balance of forces among the South China Sea stakeholders and a relatively stable maritime order.

### **H-3**    **Iran**

*(For scenarios see p.55 ; on outlook see p.63.)*

*Prepare a crisis management system for responding to a major crisis over Iran that could result from a possible Israeli airstrike against Iranian nuclear facilities.*

#### **Interests at Risk**

The security of Japan’s SLOC, Japanese oil interests in the Persian Gulf region, and the economic health of Japan. Military skirmishes in the Persian Gulf or a blockade of the Strait of Hormuz by Iran would put Japanese oil tankers at risk or force Japan to at least temporarily cease its oil import from this region (see *appendix 1*). It is unlikely that Iran would resort to mining of the Strait of Hormuz as it would mean hindering its own oil exports, and Japan has a strategic oil reserve worth 200 days. Therefore, Japan would not immediately face a shortage of oil supply. However, oil prices would likely spike as tensions rise or continue, and oil speculations would further push the prices up – the psychological impact of the event would also be substantial. Consequently, Japan as well as other nations depending on Gulf oil would sustain substantial economic damage, and adverse effects would spill over to various sectors of the economy.

#### **Strategic Goals**

There is of course no way to be sure about when an Israeli strike might take place whether it would succeed or how Iran would react to such an attack. Nevertheless, the task for Japan in dealing with the Iranian problem is twofold: (a) crisis management to respond to an Iranian contingency, and (b) a strategy for delaying Iranian acquisition of nuclear weapons, seeking opportunities to test Iran’s intention, and preparing for a thorough containment in the event that Iran withdraws from the NPT.

In the short to medium term, Japan must prepare to manage the crisis of an armed conflict in the Persian Gulf, while at the same time engaging in efforts aimed at discouraging Iran’s nuclear development. In the medium to long term, Japan should plan to organize sets of incentives and pressure against the backdrop of renewed American attention to Iran after its completion of withdrawal from Afghanistan and Iraq, while also preparing to thoroughly containing Iran in case it withdraws from the NPT and proceeds to deploy nuclear weapons.

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## Downstream Strategy

Prepare a Crisis Management System to be Able to Respond to an Iran Crisis.

### (1) Defense

- *Consider Forming a “Rapid Deployment Force.” Japan should consider forming a “Rapid Deployment Force,” maintain the facility in Djibouti, and enact permanent legislation that would enable the overseas dispatch of SDF forces.*

In order to ensure the safe navigation of ships passing through the Strait of Hormuz heading for Japan, a system needs to be established to dispatch Maritime SDF vessels to the Persian Gulf and the Strait of Hormuz, and to allow them to engage in escort and minesweeping activities. Therefore, Japan should be prepared to form a “Rapid Deployment Force” that would include destroyers, submarines and minesweepers, and also create a system that will enable it to operate from the Djibouti facility<sup>25</sup>.

A permanent law should be enacted to allow for the dispatch of an SDF force overseas based on a decision by the prime minister for the purpose of preserving Japanese national interests.

### (2) Japan-U.S. Alliance

- *Contingency Planning and Joint Exercises with the United States. A contingency plan should be devised to enable cooperation with the U.S. military and other nations in the Strait of Hormuz and the Persian Gulf in the event of a major crisis. Relevant joint exercises to that end should be carried out periodically.*

If the SDF is assigned to escort ships or carry out minesweeping missions in the Persian Gulf and the Strait of Hormuz, it must cooperate fully with the militaries of other nations. Japan and the United States as well as other third countries should carry out joint exercises with a view to enhancing the ability to effectively operate in high-risk situations in the Gulf region.

### (3) Diplomacy

- *Invigorate Intelligence and Policy Consultation with the United States and Israel. Japan should more actively engage in policy consultations on Iran policy with the United States and Israel and simultaneously strengthen its intelligence operations with regard to the Middle East and Gulf states.*

It is highly unlikely that Israel would inform other countries about a planned airstrike against Iran. Therefore, Japan must strengthen its intelligence efforts not only in Iran but also more generally in the Middle East and the Gulf states so that it can promptly pick up on signs of an impending Iran crisis and thereby minimize the political effects of an Israeli tactical surprise. Japan also needs to reinvigorate bilateral policy consultations on the Iran issue especially with Israel and the United States.

- *Sanctions If Iran Withdraws from the NPT. Measures should be taken along with other countries to increase the efficacy of economic sanctions against Iran in the event that it withdraws from the NPT.*

If Iran announces its withdrawal from the NPT, then Japan should move swiftly with other key nations to thoroughly contain Iran.

- *Encourage Regional Response in the Event of Nuclear Weapons Deployment. Japan should facilitate the deployment of missile defense systems from the United States to regional partners.*

In the case that Iran does acquire nuclear arms and is contained, there is a strong possibility that it will demand the lifting of sanctions and will either threaten or resort to the use of force against countries like Israel. Accordingly, Japan must work with the United States to sustain a structure for deterring Iran’s possible conventional attacks and support for subversion by (a) facilitating the provision of missile defense systems to Israel, Saudi Arabia, Iraq, and other U.S. allies and partners in the Gulf region, and (b) encouraging the augmentation of the conventional and security forces of those countries.

## Upstream Strategy

Japan must create an upstream strategy that would constantly test Iran’s intentions and seek opportunities to incentivize Iran to accept intrusive inspections and a new energy supply system, and simultaneously prepare for thorough

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<sup>25</sup> If the SDF Rapid Deployment Force has to carry out the types of activities described above from its facility in Djibouti, it would be preferable for the Ground SDF to deploy the Patriot Missile Defense System at the facility to defend and secure that location.

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**containment in the event that it decides to withdraw from the NPT and proceed with nuclear weapons development.**

The strategic environment surrounding Iran would change according to the level of U.S. engagement. In the short term, the United States will have to manage difficult withdrawal operations from Iraq and Afghanistan. During this phase, the strategic calculation of Iran with regard to its nuclear weapons development is unlikely to change. UN sanctions consisting of a combination of export control and financial and economic sanctions launched by individual states would be the principal means with which to delay Iran's acquisition of nuclear weapons. In the medium to long term, if the United States completes its withdrawal from Iraq and Afghanistan successfully, and if the U.S. domestic fiscal and political situation improves, then the United States would be able to more credibly deter Iran from withdrawing from the NPT and deploying nuclear weapons.

Concurrently, as a part of an upstream strategy, Japan should work with other key nations to constantly probe Iran's strategic intentions with regard to its future trajectory. There are two sources that could be addressed: (a) Iran's relations with Israel as well as Sunni countries like Saudi Arabia, Jordan and others, and (b) Iran's energy demand.

First, Japan should coordinate with the United States, states in the Middle East and the Persian Gulf region, the EU, China, and Russia to periodically hold an international conference to discuss various issues ranging from environmental cooperation to combat desertification, academic exchanges, and the development of regional transportation network to the stabilization of Iraq and Afghanistan. It is clear that there are deep suspicions among states in the region, but opportunities to seek out positive signs of Iranian behavior toward key issues should be created, and these forums should serve to test Iranian intentions. If Iran begins to display positive behavior toward stabilizing the region, then cooperative activities should be tried out or expanded to see whether Iran's statements are backed by real action. Conversely, if Iran behaves irresponsibly, then it should form a basis on which to legitimize further escalated sanctions thereafter. The aim of this line of endeavor is to seek possibilities of confidence-building among regional states alongside efforts made by major stakeholders to engage Iran in meaningful bargaining on nuclear issues.

Second, Japan along with the states of P5+1 (5 permanent members of the UN Security Council plus Germany) should address Iran's energy demand problem together with the issue of accepting an intrusive inspection by a special IAEA inspection

team. Japan, in consultation with the P5+1 and other relevant countries, should (a) engage the Iranian government to explain the prospects of Iran's domestic energy demand and its energy supply plan, (b) subsequently consider a comprehensive proposal on energy cooperation in the fields of non-nuclear and renewable energy development and energy efficiency technology alongside existing proposals on outsourced uranium enrichment processes that do not violate existing UN sanctions resolutions, and (c) offer this comprehensive energy cooperation package tied to the acceptance of an intrusive unrestricted IAEA inspection. In this regard, an effective inspections system that is capable of carrying out effective verification and producing credible findings is essential.

If Iran agrees to an intrusive unrestricted IAEA inspection, then the proposed energy cooperation package should be implemented, but if it refuses the proposal, then preparation for a much more thorough set of sanctions should proceed.

The project team fully realizes that confidence-building among regional states will not come easy. Nevertheless, resolving the Iranian nuclear issue requires a double-track approach. The first track would address regional confidence-building, and the second track would address nuclear issues. It should be emphasized here that inducements should always be tied to Iranian compliance with international rules and norms, and the violation of those rules and norms should result in escalated sanctions.

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## Conclusion

The following are national security initiatives that the Japanese government should initiate or accelerate in order to meet security challenges now and in the years ahead. We have reorganized the various policy initiatives mentioned in the previous chapter in order to provide a more coherent picture of what should be done in the areas of (1) defense, (2) Japan-U.S. alliance/security cooperation with third countries, and (3) diplomacy and development. The report will conclude by referring to some major upstream strategies that should be implemented to produce results in the medium to long term, and reiterate Japan's role and identity in the era of power shifts, globalization and resource constraints.

### Defense

There is no question that the JSDF must accelerate its adaptation to the shifting security environment. Increasing the defense budget is desirable to meet the major security challenges, but if political and fiscal conditions do not permit this, choices will have to be made about what should be augmented and what should be reduced. The following are capabilities that require reinforcement and measures that require urgent action. Conversely, *reductions will have to come from other capabilities such as those that serve to deflect a massive amphibious invasion which is an extremely unlikely event.*

The JGSDF should (a) reduce the number of tanks and introduce more attack helicopters, (b) reinforce the anti-ship guided missiles units, and (c) reinforce its counterterrorism unit capable of neutralizing terrorists and covert operatives in urban areas. With regard to counterterrorism, the Ministry of Defense should closely coordinate with the National Police Agency when planning for major sabotage contingencies instigated by terrorists or foreign Special Forces and covert operatives.<sup>26</sup>

The JMSDF should (a) enhance its maritime domain awareness through the acquisition of UAVs, among other things, and the

establishment of a maritime information fusion center, (b) further augment its submarine fleet with the possible introduction of ground attack cruise missiles, (c) continue enhancing its anti-submarine warfare capability, (d) consider introducing anti-ship cruise missiles, and (e) consider forming a "Rapid Deployment Force" that could be dispatched overseas to provide escort and minesweeping functions in case a significant threat endangers Japan's overseas interests in the strategic horizon, and periodically engage in joint exercises with the other JSDF services and JCG and combined exercises with the navies of the United States and other nations to prepare for various events and enhance interoperability.

The JASDF should (a) accelerate the introduction of Patriot missile defense systems for defending critical national infrastructure, (b) enhance capability to protect and recover airports, and (c) maintain the number of pilots and aircraft as well as the ability to repel incursions into Japanese airspace by foreign military aircraft. It should also acquire UAVs and establish a main training center for UAV pilots. The introduction of air-to-surface cruise missiles should be considered as part of the joint air-sea battle concept.

The Japanese government should also rapidly build up a Cyber Self-Defense Force. The Cabinet Office together with the Ministry of Defense and the National Police Agency should establish a Cyber Threat Response Center in order to closely coordinate and exchange information on detection, investigation, and responses to various kinds of cyber crimes and cyber attacks<sup>27</sup>.

It is also becoming ever more important to strengthen the Japan Coast Guard's surveillance and enforcement capabilities. Substantial resources should be invested into achieving this purpose. In addition, the JCG should provide training and other technical assistance to some key claimants in the South China Sea such as Vietnam, Malaysia, and the Philippines.

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<sup>26</sup> In addition, the relaxation of regulations relating to rules of engagement of units participating in peacekeeping operations (PKOs) should be considered. PKO could be required in countries or regions that pose risks to Japan's strategic horizon. Since there are limitations to increasing hardware due to resource constraints, the enhancement of JSDF's capability needs to be achieved by expanding its scope of action and functions through the relaxation of existing regulations.

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<sup>27</sup> The Center should allow close coordination between the SDF and the NPA until it is determined whether a major cyber incident is either a cyber crime by an individual(s) or a cyber attack by a foreign state actor or terrorists. In the case of the former, the NPA will take charge, but if it is determined to be the latter, then the SDF cyber force will be the primary responder thereafter. The initial response phase is crucial especially when a cyber attack is launched from within Japan because complications might be caused by jurisdictional issues.

With regard to legislative matters, Japan should enact a territorial security law and clarify the rules of engagement at sea. Japan should also enact a permanent legislation that would allow the prime minister to determine the dispatch of JSDF units overseas for the purpose of preserving core national interests. Also, the Three Principles on Arms Export should be reviewed in order to facilitate joint international development of military technology as well as to provide hardware to certain countries as part of maritime capacity-building programs. It goes without saying that the effort to define the interpretation of the right to collective self-defense should be reinvigorated to allow a stronger alliance relationship with the United States<sup>28</sup>.

Japan should also expand the activities of the Proliferation Security Initiative, and the JSDF in addition to the JCG should be allowed to actively participate in its activities. This should be accompanied by a Japanese effort to covertly hinder and disrupt North Korean procurement of materials and equipments necessary for developing nuclear weapons.

### Japan-U.S. Alliance / Security Cooperation with Third Countries

There is a plethora of security initiatives that could be taken jointly with the United States. Nevertheless, there is a growing need to develop and enhance trilateral and multilateral security cooperation as well.

With regard to the Japan-U.S. alliance, the following are some key areas that deserve priority action: (a) JSDF and U.S. forces should constantly work to enhance their interoperability through their participation in multinational as well as bilateral military exercises, (b) maritime surveillance intelligence should be shared as extensively as possible, (c) the scope of applicability of the Japan-U.S. Security Treaty to the Senkaku Islands should be reaffirmed regularly, (d) Japanese and third-party participation in the U.S. Freedom of Navigation Program should be considered and Japan should also encourage the United States to reverse the slow decline in the number of diplomatic protests and operational assertions under this program, (e) Japan-U.S. joint operation plans should be devised and reviewed to sufficiently prepare

for low- to high-intensity conflicts with North Korea and China both to enhance deterrence and defense, (f) the Pacific Partnership and military-to-military exchanges with Southeast Asian nations should be expanded, (g) cooperation in the area of counter-WMD terrorism and cyber defense and security should be strengthened, and (h) a contingency plan for a major crisis over Iran and the Strait of Hormuz should be devised and the necessary joint exercises should be carried out periodically.

Japan and the United States should also actively engage third countries (JUS PLUS initiatives) in certain areas in order to achieve crucial strategic goals. The following are some key countries that the two countries should jointly engage.

- (a) **South Korea:** Jointly prepare for North Korean contingencies that require U.S.-ROK incursion into North Korea to secure nuclear weapons. Japan should also consider bilateral planning with South Korea for joint responses to low-intensity attacks by North Korea on Japanese or South Korean vessels or islands.
- (b) **Australia:** Continue ongoing military exercises and initiate joint naval patrols in the Philippine Sea.
- (c) **Vietnam:** Provide joint training in the area of maritime enforcement as well as capacity-building involving the supply of patrol boats and flying boats. In addition, trilateral and multinational naval exercises for littoral contingencies should also be conducted. Port calls to the Cam Ranh Bay by JMSDF ships should be considered.
- (d) **India:** Continue the Malabar Exercises with the participation of Japan and other nations. Japan and the United States should jointly invest or provide economic assistance to develop Indian harbors facing the Indian Ocean as necessary.
- (e) **Claimants and Users of the South China Sea:** Japan and the United States should call for the establishment of an annual international conference – the Freedom of the Seas Initiative (FSI) – in order to widely discuss issues related to freedom of navigation, resource development, and marine environment conservation.
- (f) **Israel, Saudi Arabia and Iraq:** Japan and the United States should facilitate the provision of missile defense systems and encourage augmentation of conventional and security forces in order to deter and respond to possible Iranian use of force in the event that Iran goes nuclear.

<sup>28</sup> The Japanese government should also take into account other strategic implications of being able to exercise its right to collective self-defense in the future. The possibility of Japan being able to exercise collective self-defense would provide the Japanese government with the option to respond or take active measures in the Western Pacific along with other nations if overtly aggressive actions are taken by a third country. Decisions on actual response would depend on many contingent circumstances, but the very fact of Japan being able to actively respond to contingencies of this type would complicate the calculations of a potential aggressor and thereby create a deterrent effect.

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## Diplomacy and Development

Japan will have to undertake active international cooperation and assistance in order to provide incentives for China to adopt international rules as well as to stabilize and improve domestic conditions of certain unstable states that could turn into terrorist hotbeds. Various forms of capacity-building efforts may help enhance deterrence and response capabilities of certain states that face a changing balance of power.

ODA will no doubt function as an effective vehicle to forge international cooperation that will help Japan and other key nations to manage the consequences of globalization and power shifts. Thus, the ODA budget should be increased, but needs at the very least to be maintained at current levels. The project team believes that despite the limited resources, various economic cooperation and development programs that contribute to the efforts described below should not be subjected to reductions; instead, they deserve priority financing over other less significant programs not mentioned here. Here are some of the international cooperation initiatives that were proposed in the previous chapter:

China should be offered a wide range of economic and technological cooperation depending on the progress it makes toward accepting various international rules and norms. Economic and technological cooperation should be extended to China in individual sectors where China accepts and adheres to international rules and norms relating to those sectors. An international framework for energy cooperation temporarily called Northeast Asia Energy Cooperation Arrangement between China and Russia should be supplemented by Japanese and American membership to facilitate cooperation between the former two countries.

With regard to Southeast Asian nations, capacity-building packages for maritime safety agencies should be promoted. Multilateral ODA schemes for the development of Southeast Asia should be organized to allow for countries in the region to diversify their foreign economic relations. Programs relating to harbor and fishery development should be considered as one area of potential assistance. In addition, Japan together with the United States and other user nations of the Western Pacific should establish and invite Southeast Asian nations to a new international conference (tentatively called the Freedom of the Seas Initiative) that would address freedom of navigation and various other maritime issues.

Combating terrorism will also require international cooperation. Cooperative efforts to tackle potential WMD terrorism as

well as cyber terrorism should be enhanced, and should deserve a substantial share of funding within the allocation. Efforts that serve to investigate and eradicate terror financing as well as efforts to improve nuclear material security should be reinforced. Most importantly, a long-term multinational development initiative aimed at stabilizing and improving conditions in terrorist hotbeds in Iraq, Afghanistan, Pakistan and Yemen should be reinvigorated as well.

International cooperation with North Korea and Iran would depend on their respective actions with regard to nuclear weapons development and their receptivity to special inspections. North Korea's refusal to make a formal commitment to completely, verifiably, and irreversibly dismantle their nuclear weapons, development programs, and facilities would result in further sanctions and deprive it of any opportunity to receive international cooperation that would assist reform in that country. In the case of Iran, Japan and other stakeholder nations should consider offering to hold an inclusive international conference to discuss regional issues, and also consider offering Iran a comprehensive energy cooperation package in return for its acceptance of an intrusive inspection and a new energy supply system. The content and scale of assistance to Iran and North Korea will depend on the extent to which these countries adopt prevailing norms of external conduct and domestic governance.

## Japan as a Rule-Promoting Power

As has been clarified in the two previous subsections, efforts to institute or enhance deterrence and defense to manage the security challenges posed by a rising great power (China), two overtly revisionist challengers (North Korea and Iran), and extremely disruptive non-state actors (WMD/cyber terrorists) are daunting. All of these challenges will have to be managed against a domestic backdrop where substantial national resources will have to be devoted to ever-expanding social security, the reconstruction of Northeastern Japan, and the resuscitation of Japanese business and industry. As major political decisions on key public policy issues will come about slowly as more diverse interests are represented in the Diet, it makes it all the more important that we invest wisely and efficiently in national security. The project team found that the above-mentioned security challenges deserve priority attention. This obviously does not mean that other issues should be left untouched. Instead, our argument is that strategic goals set out in chapter 3 are ones that deserve sufficient resource and should be given strong political attention and should not be sacrificed to other competing policy goals.

The reason is quite simple. Unless Japan embarks on a new



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national security strategy to manage the ongoing international power shifts and globalization, Japan will be forced to give up core national interests either by endlessly appeasing rising and revisionist powers or by severely confronting or even fighting them. Japan should learn from the past, including its own, that rising powers turn revisionist and resort to force when they are denied the right to legitimate growth or when they are given no opportunity to reform themselves by accepting and binding themselves to shared rules and norms. Thus, Japan, as a former major revisionist power, should provide opportunities for the next generation of rising challengers to choose between a peaceful rise and a disruptive decline. Japan can facilitate this by taking the lead with the United States and other key nations to organize sets of incentives (deterrence and international cooperation) that would encourage rising and challenging nations to adopt international rules and norms relating to external conduct and domestic governance. However, domestic constraints compel Japan to embark on this endeavor primarily in areas where its strategic interests lie. In other words, Japan should not be spending time and political attention to international security issues that have no “direct” bearing on its strategic interests.

As was demonstrated in the previous chapters, Japan’s vital zone and strategic horizon run from the Pacific to the Indian Ocean. Japan’s geopolitical space faces two nuclear-ambitious revisionist states on both ends, and a major rising competitor that is capable of extending influence over the central mass of this space. Thus, the overall aim must be to (a) deter revisionist actions that harm Japanese national interests through a network of maritime partnerships to keep the maritime commons open, (b) demand the adoption of key international rules and norms, and (c) offer valuable and meaningful cooperation for those that adopt the relevant international rules and norms. Rule compliance, no doubt, will have to be underpinned by sustainable architectures that will deter violations. We thereby conclude that a new Japanese national security strategy should comprise three strategic concepts: Rule Promotion, Deterrence, and International Cooperation. This triad should be the defining concept of a new Japan in the age of power shifts, globalization, and resource constraints.

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## Appendix 1

# Detailed Descriptions of the Vital Zone and the Strategic Horizon

### 1. The Vital Zone

Japan is comprised of an extensive network of thousands of islands off the coast of East Asia, including four main islands of Honshu, Hokkaido, Shikoku, and Kyushu, as well as numerous smaller islands including the Okinawa chain. The total area of Japan's territory is approximately 380,000 km<sup>2</sup>, but the waters under its jurisdiction extend about 3,000 km from Etorofu in the north to Okinotorishima in the south, and another 3,000 km or so from Yonakunijima in the west to Minamitorishima in the east. The area of its internal waters, territorial seas, contiguous zone and EEZ is roughly 4.47 million km<sup>2</sup>, and its coastline stretches for about 35,000 km, both of which rank as 6th largest in the world. This expanse of sea, air and land comprises Japan's vital zone. In addition, the Japanese government currently has only claimed as its territorial waters 3 nautical miles in the Tsushima Strait, Tsugaru Strait, Soya Strait, and Osumi Strait, and since there are international waters in the center channel of each strait, foreign vessels have free use of those waters and foreign aircraft can freely fly over those straits as well.

Japan touches its Asian neighbors in the ocean, and the ocean forms its national borders, but that is not to say that all borderlines with its neighbors have been settled. Two Japanese territories, the Northern Territories and Takeshima, are under the effective control of Russia and South Korea respectively, while China and Taiwan are both asserting territorial rights to the Senkaku Islands. China does not recognize the existence of a medium line in the East China Sea, claiming the area up to the Okinawa Trough as being under its jurisdiction. Thus, there is an ongoing dispute between Japan and China over the development and ocean surveys of the gas fields that lie close to the medium line. In addition, Okinotorishima is the base point for an EEZ that covers 400,000 km<sup>2</sup>, but China and Korea claim that Okinotorishima is not an "island" capable of supporting human habitation, and therefore is not eligible to be the base point of an EEZ.

In recent years, there has been a marked increase in incursions by neighboring countries into Japan's vital zone. China's maritime activities have been particularly evident in the areas around the East China Sea and the Southwestern (*Nansei*) Islands. In November 2004, it was confirmed that a Chinese submarine

had been navigating the territorial waters around Ishigakijima, and in April 2010, a People's Liberation Army (Navy) – PLAN— flotilla of 10 Chinese warships passed through the Miyako Channel. There have also been examples of Chinese vessels fishing in Japan's EEZ, and of PLAN warships and submarines conducting operations through both the Tsushima and Tsugaru Straits, and one could infer that they are devising ways to cut through the Japanese archipelago and advance to the open ocean. Cases of foreign aircraft flying in close proximity to Japanese airspace are also on the rise. In 2010, Japan Air Self-Defense Force (JASDF) scrambled its fighters 386 times to intercept foreign military aircraft, and of those incidents, 68 percent involved Russian aircrafts while 25 percent were Chinese. In 1998 and 2009, North Korea conducted ballistic missile tests, launching missiles through the skies above Japan, and splashing test vehicles in waters under Japanese jurisdiction.

### 2. The Strategic Horizon

This project specified the countries and regions that hold strategic value for Japan based on data of 2009 related to trade, investment, mineral resources, energy resources, and sea lines of communication<sup>29</sup>. (For information on the geographic distribution of Japan's strategic interests, see the Horizon Map.)

#### (1) United States

*Overwhelmingly the most important country for Japan in terms of economy and security.*

The United States represents 31.2 percent of Japan's outward foreign direct investment (FDI) and 37.5 percent of its inward direct investment—in monetary terms, both amounts are two to three times those of the second-ranked Holland. With regard to trade, America is Japan's second largest partner behind China, but Japan relies on the United States for 16 percent of its exports and 10.7 percent of imports. Japan's major export products to the U.S. are motor vehicles (25.8 percent of all exports to the U.S.), parts of motor vehicles (5.9 percent), and power generating machines (4.3 percent). The products for which the United States is the largest export market are motor vehicles (33.7

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29 All trade statistics are drawn from the Japanese Ministry of Finance's *Trade Statistics of Japan*, and investment statistics from the Bank of Japan's *Balance of Payments Statistics*. All investment data refer to stocks of foreign direct investment.

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percent of all imported motor vehicles) and power generating machines (20.2 percent). Japan's major import goods from the U.S. are cereals and cereal preparation (8.8 percent of all imports from the U.S.), power generating machines (7.0 percent), and aircraft (6.7 percent). The imported goods for which the United States is the largest source include medical products (15.6 percent) and scientific and optical equipment (27.4 percent).

In terms of the mineral resources that support Japan's major industries, Japan relies on American exports for 37 percent of its lead (2nd largest supplier), 23 percent of its lithium (2nd), and 14 percent of its zinc (4th). In terms of energy resources, 29 percent of Japan's uranium imports come from the United States. The United States is the only country with which Japan has an alliance and is an indispensable security partner.

## **(2) China**

*Japan's largest trade partner.*

Japan relies on China for 18.9 percent of its exports and 22.2 percent of its imports. Japan's major exports to China include semiconductors and other electronic parts (8.3 percent of all exports to China), iron and steel products (5.9 percent), and parts of motor vehicles (5.4 percent); those products for which China is the largest export market include semiconductors and electronic parts (24.8 percent), parts of motor vehicles (24 percent), plastics (28.4 percent), organic chemicals (32.3 percent), scientific and optical equipment (25.1 percent), and electrical apparatus (29.7 percent). Japan's major imports from China include clothing and accessories (17.1 percent of all imports from China), computers and units (7.7 percent), and audio-visual apparatus (58.8 percent). The imported goods for which China is the largest source include clothing and accessories (82.9 percent), computers and units (67.4 percent), audio-visual apparatus (58.8 percent), and seafood (17.4 percent). In terms of the mineral resources required by Japan's major industries, Japan also relies on China for 92 percent of its rare earth elements, 84 percent of its tungsten, and 50 percent of its chromium. China also ranks fourth in terms of Japan's outward FDI destination (7.4 percent) and just over 70 percent of that is geared toward the manufacturing industries. Japanese firms have developed international production networks encompassing Japan, China, Korea, Taiwan, and Southeast Asian countries in such fields as motor vehicles and home electrical and electronic appliances.

## **(3) Persian Gulf Region**

*Widely known to be an extremely important region for Japan as a supplier of petroleum.*

If we look at the 2008 ratio of the components of the primary energy supply, oil was the largest energy source for Japan (47.0 percent), coal was second (22.0 percent), gas was third (16.8 percent), and nuclear power was fourth (9.9 percent). That same year, 87.8 percent of Japan's crude oil imports came from the Middle East. The top countries supplying that oil were Saudi Arabia (28.2 percent), the UAE (22.8 percent), Iran (11.9 percent), and Kuwait (8.3 percent).

## **(4) Australia**

*Holds an important position as a source of Japan's imports of mineral resources.*

Japan relies on Australia for 58 percent of its bauxite imports (#1 supplier), 45 percent of its lead (#1), 37 percent of its manganese, 34 percent of its zinc (#1), 24 percent of its titanium, and 21 percent of its cobalt. Also, on the trade and investment front, Australia ranks 12th as an export destination for Japanese goods, accounting for 2.1 percent of Japan's total exports, and it ranks second after the United States as an export destination for Japanese motor vehicles, accounting for 7.8 percent of the total. Meanwhile, it is the third largest supplier of Japan's imports (6.4 percent), following behind the second-ranked United States. The majority of the imported goods from Australia are mineral fuels (62.6 percent of all imports from Australia), raw materials (19.5 percent), foodstuff (10.7 percent), and so on. The product for which Australia is the largest source of import is coal (66.8 percent), and in terms of energy resources, Japan imports 18.5 percent of its natural gas from Australia. Australia ranks fifth as a recipient of Japanese FDI (4.4 percent).

## **(5) Southeast Asia**

*The region is important to Japan for trade and as a source of energy resources.*

The countries of Southeast Asia are among the major receivers of Japanese exports, including 6th-ranked Thailand (3.8 percent), 7th-ranked Singapore (3.6 percent), Malaysia at 10th (2.2 percent), Indonesia at 14th (1.6 percent), the Philippines at 15th (1.4 percent), Vietnam at 18th (1.1 percent), and so on. In terms of Japan's imports, Indonesia is the 7th largest supplier (4.0 percent), Malaysia ranks 10th (3.0 percent), Thailand 11th (2.9 percent), Vietnam 18th (1.3 percent), the Philippines 19th (1.2 percent), Singapore 23rd (1.1 percent), and Brunei 30th (0.6 percent). In terms of mineral resources, Japan relies on Indonesia for 60 percent of its nickel (#1 supplier), 21 percent of its copper (#2), and 18 percent of its bauxite (#2); on the Philippines for 25 percent of its nickel (#2); and on Malaysia for

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11 percent of its bauxite (#3). And in terms of energy resources, Japan imports 4.4 percent of its crude oil, and about 50 percent of its natural gas (Malaysia 20 percent, Indonesia 21 percent, Brunei 9 percent) from Southeast Asia. And Southeast Asian countries also appear among the ranks of the largest receivers of Japanese outward FDI, with Singapore coming in at 7th (3.2 percent) and Thailand at 8th (3.1 percent).

## **(6) Western Europe**

*Site of key partner countries for trade and investment—the Netherlands, England, Germany, and France.*

Among Japan's major partner countries for its outward FDI are the Netherlands, which is ranked 2nd and accounts for 10.5 percent of Japan's FDI (of which 65.7 percent is in manufacturing), 6th-ranked UK with 4.2 percent (of which 68.9 percent is not in manufacturing), 9th-ranked France with 2.3 percent (80.2 percent in manufacturing), 11th-ranked Germany with 2.0 percent, and 12th-ranked Belgium with 2.0 percent. Meanwhile, in terms of Japan's inward FDI, Holland ranks 2nd with 18.0 percent (71.9 percent in manufacturing), France ranks 4th with 7.6 percent (64.2 percent in manufacturing), the UK ranks 6th with 3.7 percent (51.4 percent in manufacturing), and Germany comes in 7th with 3.6 percent. Looking at trade, Germany received 2.9 percent of Japan's exports (ranked 8th), Holland 2.3 percent (9th), the UK 2.0 percent (13th), and France 1.1 percent (22nd), while on the import side of the picture, 3.0 percent of Japan's imports came from Germany (9th), 1.7 percent from France (15th), 1.2 percent from Italy (20th), and 1.0 percent from the UK (24th).

## **(7) South Korea and Taiwan**

*Important trading partners for Japan.*

South Korea accounts for 8.1 percent of Japan's exports (ranked #3) and 4 percent of its imports (#6). Japan's primary exports to South Korea include chemicals (23.9 percent), manufactured goods (23.3 percent), and electrical machinery (16.5 percent), and South Korea was Japan's largest export destination for iron and steel products (14.6 percent). Japan's primary imports from South Korea were electrical machinery (27.7 percent), manufactured goods (19 percent), and chemicals (11.2 percent), and it was Japan's largest source of petroleum product imports (17.7 percent). Approximately 1.7 percent of Japan's outward FDI went to South Korea, divided up in a 6 to 4 ratio between manufacturing and nonmanufacturing investments. Taiwan is also an important destination for Japanese exports. It is the fourth largest market for Japanese exports (6.3 percent), with electrical machinery and chemicals being the predominant items it purchases. Above all, it ranks second behind China as an export destination for Japanese semiconductor and other electronic parts.

As a source of imports, it ranks eighth (3.3 percent), with electrical machinery being the primary import, and it is the number one source of Japan's imported semiconductor and other electronic parts (29.8 percent), well ahead of the United States at number two (17.0 percent).

## **(8) India**

*While its economic ties with Japan remain underdeveloped, given India's enormous population, those ties are expected to grow in the future.*

In the area of mineral resources, Japan is currently relying on imports from India for 27 percent of its titanium (#1 supplier) and 33 percent of its chromium (#2). Also, trade with India currently accounts for 1.1 percent of Japan's total exports (#20) and 0.7 percent of its imports (#28).

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## Appendix 2

# Synopses of the Scenarios

## 1. High-Impact Vital Zone Scenarios

### *Low-intensity military attacks by North Korea on South Korea and/or Japan*

#### ● Interaction of strategic currents

##### <Underlying factors>

- Nuclear development by North Korea, resulting in isolation from international community
- North Korea is increasingly dependent on the Chinese economy
- Increasing Chinese military and economic power

##### <Mediating factors>

- Kim Jong-un chooses a course toward economic reform (creation of “special economic zones” relying on Chinese investment)
- North Korea develops and deploys a long-range nuclear missile; jingoistic faction emerges within the military

#### ● Evolution of the process

- With the North Korean economy on the brink of collapse, Kim Jong-un takes a page from China in the 1980s and decides to steer the country toward reform and opening to the outside world, but he only opens the country’s economy and society to China and Russia. North Korea develops nuclear weapons, and since China is rising both militarily and economically, North Korea acts like the proverbial “fox that puts on airs when it is accompanied by a tiger”. Kim also believes that China will have to protect North Korea as it has invested heavily in developing special economic zones and some major harbors in North Korea. North Korea carries out limited military attacks on South Korean and Japanese vessels and islands while demanding that sanctions be lifted and economic assistance be given or else there will be more casualties.

**● Interaction of strategic currents**

## &lt;Underlying factors&gt;

- Operational deployment of nuclear weapons by North Korea, resulting in its further isolation from the international community
- North Korea's increasing dependence on the Chinese economy

## &lt;Mediating factors&gt;

- Kim Jong-un chooses a course toward economic reform (creation of a "special economic zone" relying on Chinese investment)
- A strongly jingoistic faction formed by mid-age military officers loyal to Kim Jong-un emerges within the North Korean military
- China's sudden economic slowdown due to a financial shock, and an increased need for financial and capital assistance from the United States, Japan and South Korea
- Within the Chinese leadership, a pro-U.S. faction emerges and gains enough influence to implement their preferred policy of terminating economic assistance to North Korea to extract substantial economic cooperation from the United States, Japan, and South Korea.

**● Evolution of the process**

- Due to domestic unrest resulting from a financial crisis in China, the North Koreans initially take a conciliatory stance at the reopened Six-Party Talks. However, negotiations stall because North Korea does not agree to a comprehensive plan to give up its entire nuclear arsenal, facilities, and programs. Japan, the United States, South Korea, and other countries decide to implement additional economic sanctions against North Korea. In the lead-up to a state visit to the United States by the Chinese premier, China begins to consider implementing comprehensive trade sanctions against North Korea in order to extract substantial economic and financial assistance from the United States, Japan and South Korea. Pyongyang becomes aware of Chinese intentions to sever trade relations, and decides to demonstrate its will and prove to the Chinese that they are capable of generating a major crisis that would be even more damaging than a financial crisis. The North Korean leader decides that it wants to avoid a full confrontation with China and South Korea, and thus selects Japan as its target of military attack. Pyongyang calculates that it can deter a full-scale American and South Korean invasion by its nuclear weapons. It also calculates that a high-intensity conventional attack on a Japanese city accompanied by a demand to (a) lift all existing sanctions, (b) provide large-scale economic assistance, and (c) normalize relations would compel the Japanese government and the public to accept those terms. North Korea launches a series of high-intensity attacks against Japan in waves. It announced its demands and began with a cyber attack on local stock exchanges, local governments, and regional branch offices of the national government. The Japanese government refuses to meet these demands. Then North Korea used its covert operatives to contaminate waterworks at multiple locations with large amounts of pesticides and toxic chemicals. Subsequently, several groups that are allegedly North Korean Special Forces barricade themselves in famous tourist sites in major cities including Tokyo and threaten to explode radioactive bombs. North Korea simultaneously launches a ballistic missile against a mountainous location in Central Japan. In Japan, the public initially reacted with extreme anger, but as North Korean attacks escalate, its attitude changes, and an increasing majority begins arguing for conceding to North Korean demands for the sake of limiting further casualties. The Japanese government begins to consult with the five permanent members of the UN Security Council and South Korea to draft a UN resolution calling for a immediate ceasefire, and privately conveys its intentions to negotiate to the North Koreans through a secret diplomatic channel. Pyongyang demands that the Japanese government openly declare its intention to accept all North Korean demands.



● **Interaction of strategic currents**

<Underlying factors>

- Dramatic increase in energy demand in China
- Lack of consensus among East Asian countries on territorial rights and maritime boundaries
- An imbalance between China and other East Asian states in terms of maritime enforcement and naval capabilities
- Increasing asymmetric economic interdependence between China and other East Asian countries as well as major extra-regional powers including the United States
- Reduction in U.S. defense spending and the resulting hesitation to become embroiled in disputes among third parties

<Mediating factors>

- Sudden rise in oil prices
- Increased influence of autarkic hardliners within the Chinese leadership

● **Evolution of the process**

- Within the Chinese government, a faction emerges calling for independent energy development and prevails over a moderate internationalist faction that argued for purchasing oil from the international market. The Chinese government begins to rapidly and unilaterally develop energy resources in the South and the East China Seas.
- In the East China Sea, China begins drilling at multiple locations east of the median line between Japan and China. The Japan Coast Guard continually urges Chinese operators to stop drilling and leave the site, and the Japanese government makes repeated diplomatic protests against the Chinese government. The Chinese government ignores Japanese protests, and strong anti-Chinese sentiments arise among the Japanese public. The Japanese government dispatches a large number of JCG patrol boats and surrounds a Chinese ship heading to the drilling site. Subsequently, a fleet of Chinese warships is dispatched from the South Sea Fleet in Hainan. The U.S. government delivers a statement to the effect that the dispute should be resolved peacefully. As the fleet gradually makes its way north, the Chinese government announces that it will revoke operating permits granted to major Japanese auto manufacturers. The Japanese government balks and orders the JCG patrol boats to return. The Japanese Prime Minister's approval rating drops dramatically and is forced to resign. His successor declares that Sino-Japanese disputes should be resolved through diplomatic channels and not on the sea.
- In the South China Sea, China occupies a part of the islands and reefs of the Spratly Islands and initiates drilling at several locations. Vietnam responds by implementing a naval blockade, and the PLA Navy begins to provide escort for Chinese vessels accessing drilling platforms in the South China Sea. When a Vietnamese patrol boat disables the screw of a Chinese vessel, hostilities break out, and a Chinese patrol boat is sunk. Vietnamese and Chinese naval vessels and submarines enter into an armed standoff in the South China Sea. Commercial vessels are unable to safely navigate the South China Sea, and the costs of marine transport through that region rise drastically.

**● Interaction of strategic currents**

## &lt;Underlying factors&gt;

- Dramatic rise in China's economic growth and consequent increase in Chinese demand for seafood and energy consumption
- Reinforced effective control of the Northern Territories by Russia and Takeshima by South Korea
- Increasing Chinese military activities beyond the first island chain toward the second island chain
- Increasing number of Chinese ships transiting the Northern Sea Route via Tsushima, Tsugaru, and Bering Straits
- Japan's investment into the development of remote islands, including Okinotorishima
- Increased pressure to reduce Japanese and American defense spending

## &lt;Mediating factors&gt;

- Strengthening of China's self-confidence, particularly within the military

**● Evolution of the process**

- In the East China Sea, Japan seeks to exercise its jurisdiction in Japan's provisional waters over a Chinese vessel that has ignored the Japan-China Fishery Agreement. But the Chinese vessel is guarded by Chinese marine surveillance vessels, so the Japan Coast Guard is unable to control the situation. In addition, in that same area, Japanese fishing vessels are being seized one after another by Chinese patrol boats. The Japanese government demands the release of the Japanese fishing crews through diplomatic channels and protests against the series of forceful actions by the Chinese. The Chinese government rejects Japan's protests, claiming that its actions are justified under Chinese law and international law. The U.S. government urges the Japanese and the Chinese government to reach a permanent agreement over maritime boundaries with regard to fishery. Japanese fishermen and private companies cease their operation and business due to the dangers posed to them by Chinese maritime enforcement authorities. Prices of certain seafood begin to hike, and strong anti-Chinese sentiments arise among Japanese citizens. The Japanese government calls for negotiations, but the Chinese government refuses by stating that it has indisputable legal rights over the maritime zone in question, and thus there is nothing to negotiate.
- Japan plans to construct port facilities in Okinotorishima as part of remote island development plan. China's Foreign Ministry Spokesperson makes an announcement that such a plan will not endorse Japan's claim of Okinotorishima as an "island," and emphasizes China's right to conduct marine scientific research in the waters around Okinotorishima. Accordingly, Chinese survey ships conduct intensive research activities in Japan's EEZ around Okinotorishima escorted by Chinese maritime surveillance ships. A Chinese surveillance ship harasses a Japanese ship engaged in the port construction, and a JCG patrol boat confronts the Chinese maritime surveillance ship. A China's naval fleet is conducting training cruise near the spot and the Japanese Prime Minister prepares the issuance of maritime security order to dispatch JMSDF fleet.

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## ***Escalatory Action by Chinese Authorities to “rescue” Chinese activists who have landed on the Senkaku Islands***

### ● **Interaction of strategic currents**

#### <Underlying factors>

- Rising nationalism and an increase in Chinese right-wing activists and their supporters
- Rising demand and prices for fishery resources in China, and the resulting increase in fishing activities by Chinese fishermen
- Increasing asymmetric economic interdependence between China and Japan as well as major extra-regional powers including the United States
- Reduction in U.S. defense spending and the resulting hesitation to become embroiled in disputes among third parties

#### <Mediating factors>

- Elevated discourse stressing the battle for resources in the area surrounding the Senkakus

### ● **Evolution of the process**

- During when a U.S.-China Strategic and Economic Dialogue is taking place in Beijing, Chinese right-wing activists intentionally land on one of the islands of the Senkakus, build a shelter, hoist the Chinese flag, and broadcast their image over the Internet. The Japanese government decides to send members of the Okinawa Prefectural Police force to the island to arrest the activists; a Japan Coast Guard (JCG) patrol ship forcibly boards the Chinese fishing vessel that was carrying the activists and arrests the captain and crew. The Chinese government uses diplomatic routes to repeatedly demand the prompt extradition of all those in custody. The Prime Minister’s Office gets word that a Chinese patrol ship escorted by a Chinese naval vessel is steaming toward the Senkakus in the name of rescuing its citizens. It also gets information that a number of other PLA naval ships in the East Sea Fleet are starting to move out of their base. In order to ensure the safety of its police officers and Coast Guard vessel, the Japan Maritime Self-Defense Forces (JMSDF) dispatch an escort vessel to the site, and orders are given to strengthen patrols of the ocean region with P-3C aircraft that are stationed at the Naha base. However, before the Maritime Self-Defense Force can arrive, the Chinese ships arrive on site. The Chinese vessels warn the JCG ship that they must handover the activists and the captain of the fishing boat, and they surround the JCG patrol ship. In the meantime, JMSDF ship and the P-3C arrive at the scene, and begin circling around the island and the Chinese vessels. Word is received in Tokyo from the Chinese government that they are prepared to accept behind-the-scenes negotiations to resolve the situation. The U.S. ambassador to Japan delivers a message from the American President to the effect that Japan should take this opportunity to reach a mutually agreeable resolution with China. The Japanese cabinet engages in a lengthy debate over whether to enter into negotiations with the Chinese. The opposition party criticizes the Prime Minister, and warns that if he were to accept this negotiation, he would be officially conceding that there is a de jure territorial dispute over the Senkakus.

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## 2. High-Impact Strategic Horizon Scenarios

### *Terrorist attack on the U.S. mainland using WMD and cyber weapons*

#### ● Interaction of strategic currents

##### <Underlying factors>

- Efforts by the international community to address nuclear security make progress, but safeguard mechanisms for relevant facilities in countries that possess the materials for WMDs are still not perfect
- Proliferation and diffusion of high-level computer technology
- The continued existence of anti-American terrorist organizations

##### <Mediating factors>

- A major international terrorist organization acquires collaborators within the United States and successfully get hold of CBNR-related materials as well as cyber weapons

#### ● Evolution of the process

- Offices and laboratories of U.S. Center for Disease Control and factories and laboratories of major pharmaceutical companies are bombed by powerful explosives, and computer networks running the public health systems in most States as well as networks of major pharmaceutical companies suddenly crash or disabled. Large amounts of health records and chemical formula for crucial medication are lost in the process. Large numbers of elderly citizens and infants suffer from high fevers. Hospitals have a difficult time determining the cause, and cannot obtain the necessary medication from the pharmaceutical companies as the networks administering the distribution of medication are disabled. The U.S. Department of Homeland Security subsequently determines that a large-scale terrorist attack using a biological weapon had taken place in several major cities in the United States. In order to prevent a further wave of biological terrorist strikes, the U.S. government raises its domestic terrorism alert to the highest level. Public hysteria ensues throughout the United States – schools are closed down, and private sector companies are recommended to close down their business for a week in order to contain the contagion until effective means are found to manage the situation. Meanwhile, the number of casualties continue to grow. Several days later, “al-Qaeda of the Arabian Peninsula” issues a statement claiming responsibility for the attack and warning of another attack within the next few days. The U.S. government gets solid confirmation that some of the perpetrators have entered the country from Yemen and appeals to the Yemeni government to attack their base of operation in that country. The press reports that the United States might possibly intervene militarily if the Yemeni government refuses to conduct a sweep of the terrorist organization. The U.S. government requests national governments around the world including Japan to support a large-scale aerial bombing followed by an assault by U.S. Special Forces on terrorist targets in Yemen. Patients with similar symptoms begin to rapidly increase in Japan, South Korea, and western European countries, and computer networks in these countries also experience widespread dysfunction.

**● Interaction of strategic currents**

## &lt;Underlying factors&gt;

- Israel's possession of nuclear weapons and the resulting military balance in the Middle East/Persian Gulf region
- Iranian fears of Israel and the United States
- Prevailing influence of the Iranian leadership that is seeking to increase the country's national prestige and gain popular support
- As sanctions against Iran gradually succeed, Iran's economy starts to collapse

## &lt;Mediating factors&gt;

- Rapid developments in uranium enrichment technology and successful development of nuclear warheads
- Successful development of long-range missiles capable of delivering nuclear warheads

**● Evolution of the process**

- The U.S.-Israeli cyber attack in the fall of 2010 failed to slow Iran's nuclear development. Iran announces to withdraw from the Nuclear Non-proliferation Treaty, and information spreads in 201X that Iran is close to conducting a nuclear test. The UN Security Council begins deliberations on a resolution that would include an embargo of oil companies tied to the Iranian Revolutionary Guard Corps. As speculation abounds that Israel will launch an airstrike against Iran's nuclear facilities, the New York Times runs an article stating that the U.S. military is also preparing for an airstrike on the Iranian nuclear facilities. Oil prices begin to hike. The Iranian government declares that an oil embargo will be viewed as declaration of war, and that any act of aggression will be met with reprisals. The commander of the Revolutionary Guard mentions the possibility of blockading the Strait of Hormuz. The United States enters into consultations with its allies to ensure safe navigation in the Strait of Hormuz. When a UN Secretary Council sanction resolution on Iran is vetoed by China and Russia, Israel launches an airstrike against Iran's city of Natanz and Qom, but fails to destroy the alleged underground nuclear facilities and arsenals at the latter. Oil prices reach unprecedented levels. Iran launches retaliatory conventional missile attacks against Israel, and threatens to use "extreme measures" unless Israel (a) unilaterally pledges to permanently refrain from further military attacks on Iranian soil, (b) makes an official apology, and (c) compensate for all the damages that resulted from the airstrike. Meanwhile, Iran demands the United States to lean on Israel. The United States remains silent. Iran begins to sporadically harass U.S.-related vessels in the Strait of Hormuz. Insurance prices on maritime transportation and shipping through the Persian Gulf region skyrocket. A special session of the UN Security Council is convened and passes a resolution that calls for a ceasefire.

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### 3. Low-Impact Vital Zone Scenario

#### ***Outbreak of a global pandemic of a highly virulent disease***

● Interaction of strategic currents

<Underlying factors>

- Global movement of people and goods.
- Disparity in medical systems of wealthy countries and poor countries

<Mediating factors>

- Outbreak of a lethal human virus

● Evolution of the process

- In the spring of 201X, the HxNx virus, which can be transmitted to birds and people (death rate 5 percent) breaks out in Southeast Asia, and the global outbreaks are brought under control. In the fall of that year, the HxNx strain of the virus mutates, and outbreaks of this more virulent HzNz strain (death rate 15 percent) appear in various locations around the world. Throughout Asia, the number of infected patients quickly rises, and uncertainty about Asia's economic future leads to a major crash of stocks worldwide. The G8 launches a funding plan called "Project Savior" to jointly develop a vaccine, and countries are asked to voluntarily participate. India and China initially declare that they will participate, but insist that the vaccine be distributed and allocated on the basis of population. The G8 responds by declaring that participating nations must accept "victims per population" as being the criteria of distribution during the initial stages of vaccine production. The Indian and the Chinese governments begin work independently on developing a vaccine, but their publics become exasperated with their governments' response, and vent their displeasure through antigovernment demonstrations. Those in the upper classes of India and China leave their countries for the United States, Canada, Japan, South Korea, and elsewhere. Social disturbance arise in India and China, and their respective economies experience a dramatic slowdown.



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## 4. Low-Impact Strategic Horizon Scenario

### *Increase in and Intensification of Acts of Piracy in the Indian Ocean and the South China Sea*

#### ● Interaction of strategic currents

##### <Underlying factors>

- Success of anti-piracy measures off the coast of Somalia, in the Gulf of Aden, and in the Strait of Malacca
- Increasing Chinese naval force and maritime enforcement capability
- Increasing asymmetric economic interdependence between China and other East Asian countries as well as major extra-regional powers including the United States
- Somalia continues to be a failed state; poverty deepens in coastal regions of Indonesia; China-based organized crime spreads

##### <Mediating factors>

- International community has its hands full with patrols of the Gulf of Aden and the Malacca Strait

#### ● Evolution of the process

- As it is difficult for European countries, the United States, Japan, and others to dispatch additional military vessels, China sends anti-piracy units to the Arabian Sea, the Cape of Good Hope, and the South China Sea, strengthening its presence in the Indian Ocean and the South China Sea. The dispatch of Chinese military vessels does not lead to a slowing down of piracy. Instead, the number of non-Chinese vessels assaulted by pirates in the western Indian Ocean and the South China Sea continues to gradually increase. China's advance into the Indian Ocean provokes India, while its stronger presence in the South China Sea causes the United States and ASEAN countries to be wary. Some ASEAN countries become hesitant of carrying out anti-piracy activities as the risks of encountering a Chinese maritime enforcement vessels and naval ships grows.

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## Appendix 3

# Outlooks on the Security Environment and their Implications for Japan

### 1. North Korea

The possibility that North Korea will suddenly find itself embroiled in a civil war and “collapse” is not necessarily very high. North Korean leaders in Pyongyang would not wait for the collapse of their effective control given the strong likelihood that they can get the necessary support from China and Russia to avoid such a situation. North Korea probably will, or already has come to the conclusion that it is essential to reform and open up to certain other countries in order to rebuild its economy and attain national survival. Even so, it would obviously not accept capital from a broad range of countries, but would rather try to obtain the necessary capital and assistance primarily from China and secondarily from Russia.

The issue is the situation that may arise as a result of the simultaneous expansion of Chinese aid to North Korea, rise of China, and advancement of North Korea’s nuclear weapon development. In other words, there is a strong possibility that North Korea will recognize the fact that it has a rare opportunity to exploit the fact that China is investing heavily in North Korea and has placed strategic priority on its continued existence. It believes that it has the “protection” of an increasingly powerful China. Based on this notion, North Korea may threaten or use force in pursuit of its foreign policy objectives, namely to eliminate the various sanctions against it, and receive large-scale economic assistance in the form of grant aid. There is a fear that if North Korea actually deploys long-range ballistic missiles, it will further elevate low-intensity military provocation.

If North Korea were to take provocative actions, then China would find itself struggling to respond in a narrow space between the pressure from an international community demanding stronger sanctions and the strategic consideration to allow North Korea to exist as a buffer state—although not run amok. However, China not only provides various aid and investment to North Korea, but it also enjoys a great number of rights, such as the rights to preferential use of some of North Korea’s harbors and investing in certain economic zones, so basically there is a strong possibility that it will choose the option of “defending” North Korea. This implies a higher likelihood that North Korea will use low-intensity force or will threaten the use of force against South Korean and Japanese vessels, islands, and other

offshore interests.

However, if for some reason the conditions arise where China decides to abandon its “defend North Korea strategy,” instead pressuring North Korea, and demanding that it abandon its nuclear weapons, then North Korea would be completely isolated and would find itself in a real dilemma. It would have two options in such a case: (1) concede and abandon its nuclear weapons; or (2) use conventional weapons, special forces and cyber attacks to carry out high-intensity acts of force against third countries, and thereby demand the total removal of sanctions and total compliance of its demands. If the political system of North Korea remains unchanged from its current “military-first regime,” then there is a good chance it will select the second option. In that case, there is a strong possibility that it would be the Japanese mainland rather than China or South Korea that would be its target of choice.

In other words, as long as the present system continues to exist in North Korea, Japan must prepare for the two contingencies described above, namely (1) low-intensity armed attacks on Japanese and South Korean vessels and islands, or (2) high-intensity armed attacks on the Japanese mainland.

No matter how the situation on the Korean Peninsula unfolds, the most ideal resolution for Japan would be the incorporation of North Korea into South Korea and the application of the US-South Korean alliance to the entire Korean Peninsula. Obviously, it is unclear how a unification process will unfold, much less its outcome. Nevertheless, the conditions of unification of the peninsula will probably be determined through negotiations with the relevant countries, including the two Koreas, China, the United States, Japan, and Russia.

However, from Japanese, American and South Korean perspectives, what matters most of all will be the attitude of the Chinese government. In other words, achieving the unification of the Korean Peninsula in a situation where the conditions encourage China to accept North Korea’s incorporation into South Korea is crucial. For that purpose, it will be necessary for a number of conditions to be lined up: (a) China will need to be declining and have lost the economic capacity to support North Korea by itself, making economic and financial support from Japan,

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the United States, and South Korea essential; and (b) leaders must have emerged in China who can actively pursue cooperation with Japan, the United States, and Korea. If the Korean Peninsula can be peacefully unified through a “German-style” process of incorporating North Korea into South Korea, then the nuclear arms that North Korea possesses would be disposed of. In such instance, dismantlement of DPRK-made nuclear weapons would be achieved through unification.

## 2. Unlawful Actions by China in Japan’s EEZ

While China’s degree of foreign dependency has been increasing through its integration into the international economic system, it has been investing a portion of the profits it has gained through those external economic ties and domestic economic growth into augmenting its military armaments. China has become more aggressive than in the past in exercising its jurisdiction over maritime interests that it claims as its territory. Its enhanced military capability and strengthened maritime security capabilities have been factors that have spurred this kind of hardened approach to the exercise of its jurisdiction and the claiming of territorial sovereignty. Just how hard of a line the Chinese leadership takes will be influenced by a number of factors.

First, Chinese leadership’s anticipation of the future of the Chinese socioeconomic conditions will heavily influence Chinese external actions. There is a strong sense of concern among the Chinese leadership that before its workforce begins to decline and its society grays to a significant degree, the country must secure its various offshore interests. China’s workforce (15–64 years old) will start to decline around 2015; from 2010, the senior citizen population (65 years of age or older) will see an annual increase of 3.6 percent, so by around 2040 China will be facing a graying society in which one out of five people will be a senior citizen.

Therefore, what is a particularly serious issue for China is that it will be facing their own graying society before the country’s per capita income and productivity levels reach those of advanced industrialized nations that have begun experiencing the same in the past. As China makes that transition, it will experience various supply and demand gaps on the socioeconomic front, which can easily lead to countless people experiencing insecurity and dissatisfaction. The Chinese leadership is already aiming to cope with this challenge through a number of major domestic reforms, but the pension system is still very underdeveloped, and the prospects are still not good for reform of the state-operated corporations (redistribution of income to workers, etc.). In addition, because of the sudden rise in single men, there could be a

further population decline in the future. As a result, the Chinese government will eventually have to devote large amounts of national effort to remedying this potentially massive socioeconomic dislocation.

If the Chinese leadership anticipates that at a certain point in the future it must devote substantial amount of national resources to redress the domestic socioeconomic supply and demand gap to a permissible degree, then it will feel compelled to vigorously acquire offshore or external interests before such a serious domestic situation is upon them. In addition, China will see a window of opportunity for realizing its external security goals during a period in which the United States will face increasing domestic constraints. In short, China will harvest whatever they can while they can in the next decade or two – before their society become introverted, and while American actions abroad will be constrained by its fiscal difficulties at home.

The possibility is high that China will become increasingly eager to secure its various external interests before gaps in socioeconomic supply and demand widen to the extent where it leads to heightened social dissatisfaction. Faced with this kind of environment, the Chinese leadership can present the logical justification that China has the right to acquire resources and interests in keeping with its population, and it is therefore appropriate that it possess the military capability to guarantee the safety of those “legitimate” fishing and energy resources. Such an argument can be a factor in concurrently promoting a military build-up and a harder-line approach to claims of dominion over territories and islands and to the exercise of its maritime jurisdiction.

Second, Chinese external actions will also be affected by the balance of political forces within the Chinese leadership that will reflect China’s growing national power and expanding foreign interests.

The Chinese Navy, as well as its maritime safety authorities, the governmental departments in charge of developing energy resource and ocean resource, all have the potential to form a “cartel” based on their common interest in expanding China’s unique maritime interests, and based on the above-mentioned logic, it is expected that they will firmly demand the expansion of their interests and are prepared to employ unilateral actions to alter the status quo if necessary for the sake of national security. This possibility will become more likely if an unprecedented change in relative power in the Western Pacific between the United States and China were to accelerate.

In contrast, the political forces in China that are supported by

a segment of the state-run companies and others that are profiting from the existing foreign economic relations, including trade and investment, will insist that if China pursues excessively hard-line approaches to embrace its claimed interests, it will face opposition from countries that have competing interests. These internationalists will argue that external hard-line approaches will ultimately lead to a decline in the level of security and welfare in their country, so China should work within the current framework and take a more moderate approach to foreign relations.

Just how hard-line of an approach China takes in asserting its territorial rights and exercising its jurisdiction will be decided by (a) the military balance and trends among China and its neighboring countries, and also by (b) the relative influence of these two forces within the Chinese leadership. Given China's urgent objective of attaining socioeconomic sustainability, it would seem that the autarkic hardliners have the higher ground. Nevertheless, since it is also essential that China sustain and steadily expand the various benefits it can reap from stable external economic relations, the moderate internationalists can also be expected to maintain a certain degree of influence. However, as long as the fundamental issues noted above regarding China's socioeconomic system remain, it is probably most realistic to expect an ongoing situation where the logic of the autarkic hardliners will dominate the debate over national strategy, while the moderate internationalist faction's logic will be reflected only in discussions of diplomatic tactics.

Geopolitics is another important factor that affects Chinese external behavior. Chinese military strategy envisions the first and second island chains as defense barriers, and the PLA develops A2/AD capabilities within these island chains. Since those island chains are occupied by independent countries, China attempts to establish sea control in contiguous seas along the island chains, namely the Yellow Sea, the East and South China Seas, and the Philippine Sea. Those seas are EEZs of littoral countries and therefore China conducts "legal warfare" to obtain uninhabited islands as EEZ base points while denying other countries' possession. China also interprets the Law of the Sea in an arbitrary manner and denies freedom of navigation and overflight by foreign militaries in its EEZ as part of anti-access strategy.

As a result, it is likely that in Japan-China relations, low-intensity revisionist actions by China—such as China's exercise of jurisdiction inside Japan's EEZ, the development of resources on the continental shelf or other waters over which it unilaterally claims jurisdiction, or in very extreme cases, occupation of islands over which it claims territorial rights—will become an

increasingly salient issue.

Japan's ultimate objective is to dissuade China from taking revisionist hard-line approaches and influence China to accept the following: (a) To agree that the optimal outcome for both China and Japan would be to confirm that the Senkaku Islands are Japanese territory, (b) to settle the question of the territorial status quo in the East China Sea by taking the median line as the basic principle for the border demarcation of the continental shelf and, reflecting relevant circumstances, adopt a method that will produce a revision that is fair to both parties, and in that context, (c) to persuade China to recognize the legal status of Okinotorishima as an "island" which can produce EEZ, (d) to mutually respect the rights and obligations defined in the United Nations Convention on the Law of the Sea.

The Senkaku Islands issue relates to national sovereignty, while the border demarcation of the continental shelf in the East China Sea relates to sovereign rights. That combined with the fact that China is now increasing its national power makes it unlikely that China will accept a quick resolution of the issues in a way that is relatively disadvantageous to its interests, and so clearly there will be no easy solution.

However, as long there is no consensus over the territorial status quo, and if the power shift continues in a way that is beneficial to China, it is highly likely that the incentive for China to carry out low-intensity revisionist actions will increase in the next decade or two<sup>30</sup>. Delay of domestic socioeconomic reform will further motivate the Chinese leadership to secure their "legitimate" offshore interests before they reach the apogee of national growth and extroversion.

Therefore, from Japan's point of view, it is becoming strategically urgent that it elicit a firm commitment from China that it will not take unilateral actions to alter the current territorial status quo. In order to do so, it would be advisable for Japan to dissuade China now from altering the status quo, rather than wait until some point in time in the future. In other words, Japan needs to create a situation in which China would determine that not reaching an agreement now would be disadvantageous.

More specifically, Japan's approach should be to guarantee China that if it confirms or agrees to the territorial status quo, then Japan will deepen its cooperation with China on energy

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<sup>30</sup> For an excellent discussion of how low-cost revisionist probing by China, Iran and Russia could be triggered by American retrenchment, see A. Wess Mitchell and Jakub Grygiel, "The Vulnerability of Peripheries," *The American Interest*, Vol.6, No.4 (March/April 2011), pp.5-16.

and marine resources, but if it refuses to reach an agreement, then Japan will apply pressure by quickly moving to develop maritime safety cooperation with the claimant countries in the South China Sea and also with the United States, and if needed will establish a multilateral arrangement for maritime safety cooperation that will not include China. The key is to force China to weigh the potential benefits they can gain from the Senkaku Islands and the East China Sea's continental shelf against the direct and secondary costs they would incur if they fall into a strategically antagonistic relationship with their neighboring countries, and to make them realize that the latter far outweigh the former. Needless to say, as that sort of bargaining proceeds, China may resist and apply pressure on Japan, so there is an urgent need to prepare for the possibility of decreased economic reliance on China.

### 3. Large-scale Terrorist Attacks on the U.S. mainland

The United States is working overseas to clean up the international terrorist organization al-Qaeda, and is taking measures domestically to deal with potential terrorist attacks using WMDs and cyber weapons. It is of course possible for both hostile state actors and violent non-state actors to employ WMD and cyber weapons to launch attacks on the United States. But comparatively speaking, non-state actors or terrorists are much more difficult to deter than a state actor that can be targeted for retaliation.

#### (1) WMD terrorism

In terms of countermeasures against a terrorist attack using nuclear weapons or radioactive materials, the United States is developing its ability to detect and search for nuclear materials and creating a system for those efforts. The Domestic Nuclear Detection Office (DNDO)<sup>31</sup> that was established within the Department of Homeland Security (DHS) in 2005 has constructed a Global Nuclear Detection Architecture and is creating a system for the detection of nuclear terrorism overseas, at the border, and domestically in cooperation with relevant departments and agencies. The DHS's Office of Health Affairs (OHA) is taking the lead on countermeasures for the terrorist use of biological weapons and the natural outbreak of epidemics, establishing a National Biosurveillance Integration Center and launching a Biowatch Program.

<sup>31</sup> They are forming Mobile Detection Deployment Units that carry out joint training in detection and search efforts with the police forces in major cities, and working out other measures to address the threat of terrorist attacks using nuclear or radioactive materials within the United States.

If terrorists did succeed in carrying out a large-scale terrorist attack within the United States using WMD, the issue for Japan would not only be that the lives and the well-being of Japanese citizens in the United States would be in direct danger, but in the case that a virulent bacteria was used in a terrorist attack, those infected could return to Japan, spreading the impact to the Japanese mainland and thus implying that the terrorist attack would have a direct impact on Japan as well. In addition, the United States would have to devote their military force and political attention to counterterrorism, and in extreme cases initiate another intervention – meaning a relative decline in their attention to address China and North Korea that are important to Japan's security.

#### (2) Cyber terrorism

The United States has established the U.S. Cyber Command (CYBERCOM) to deal with threats emanating from the cyberspace, and is vigorously engaged in enhancing its network security. The U.S. government has launched a number of major cyber initiatives to deny the benefit of attack and convince potential attackers that there is not much advantage in taking disruptive measures in the cyberspace to begin with.

Origins of attacks in the cyberspace are extremely difficult to detect, and this very nature of cyberspace provides the attacker with substantial advantage. A traditional notion of deterrence is probably unfit to meet security challenge in the digital realm. If a cyber attack originates within the United States, there could be bureaucratic difficulties between the law enforcement authorities and the military over their respective jurisdiction and response. Delayed response would hinder any subsequent countermeasures to contain the damage caused by the attack.

A major cyber terrorist attack using extremely harmful malware could hinder or disrupt operations of critical infrastructures. The magnitude of damage that could be caused by cyber terrorism will of course depend on the target of an attack, but simultaneous cyber attacks on nation-wide critical infrastructures – electric power grid systems, nuclear facility networks, public transportation systems, financial transaction networks, the military network, and public health systems – could cause substantial damage.

The problem for Japan is that any widely spread computer malware released for the purpose of targeting American critical infrastructures are highly likely to spread to Japanese networks as Japan and the United States have reached a high level of interdependence, and thus regularly exchange massive amounts of digital information.

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#### 4. Revisionist Actions by China in the South China Sea

The claimants involved in disputes over islands and maritime borders in the South China Sea include China, Vietnam, Malaysia, the Philippines, and Taiwan. China and Vietnam claim sovereignty over the Paracel Islands in the northwest region of the South China Sea, while China, Vietnam, Malaysia, and the Philippines and Taiwan claim sovereignty over all or part of the Spratly Islands to the south. In other words, there is no agreed upon legitimate maritime order in the South China Sea, and against that backdrop there are two concurrent trends: China continues to rapidly increase its maritime safety and naval capabilities, while the other claimants are becoming considerably more dependent economically on China.

China has grown increasingly assertive over claiming “territorial” rights to reefs, shoals, low-water elevations, and islands within an area equivalent to 80 percent of the South China Sea that is formed by a U-shaped line comprised of nine dotted lines and is claiming jurisdiction over the areas within that zone. It occupies all of the Paracel Islands and seven of the Spratly Islands. For China, the South China Sea holds great importance as a source of energy and marine resources, and is also important from a military perspective as an area of operation for its submarines equipped with nuclear ballistic missiles and as a base for its aircraft carriers. For these reasons, China attaches high strategic significance to placing the South China Sea under its effective control.

China has enacted domestic legislation to clarify their claims<sup>32</sup>. It is also taking various measures to strengthen the capacity of its maritime security departments<sup>33</sup>, and is expanding its system for ensuring the thorough implementation of its domestic laws and ordinances. In particular, with regard to maritime security, the Chinese have indicated that they plan to increase their personnel from 9,000 to 15,000 by 2020, will increase the number of vessels to 520, and will introduce at least 16 new aircraft as well.

In contrast, not only are the maritime security capabilities and naval powers of other claimant countries weak, but these countries are increasing their economic ties with China. In January

2010, a free trade agreement between China and the ASEAN6 (Malaysia, the Philippines, Brunei, Indonesia, Thailand, and Singapore) came into effect, removing tariffs for approximately 7,000 items, and it is generally expected that trade and investment between China and Southeast Asian states will continue to increase.

If China’s superiority in terms of maritime security capability and naval power and the dependency of the South China Sea claimants on the Chinese economy continue in this way, not only will China be able to exert even greater influence over each claimant, but conditions will emerge that make it easy for China to carry out low-intensity revisionist actions such as occupying an island by force or unilaterally surveying and developing resources. On both the military and economic fronts, if the situation continues where China’s relative power is growing, then it is increasingly likely that even if China occupies islands by force using the rationale that it is enforcing its domestic laws, or if it starts to develop natural resources in the South China Sea, other claimants will fear reprisals from China and some of them may even hesitate to take countermeasures on their own. Or even if China does not go so far as to use force, it is not unthinkable that a situation would emerge where in the context of bilateral diplomatic negotiations, China would use its large-scale economic incentives or the possibility of sanctions as leverage to push the other claimant for concessions on territorial rights or border demarcation issues. In any case, from China’s perspective, as it increases its own relative power, the costs and risks associated with “retrieving” the South China Sea islands that it claims as its own will be reduced.

There are two situations that could become problematic for Japan: If China initiates a low-intensity revisionist action in the South China Sea using force, they will be opposed by the other claimants—probably by Vietnam, Malaysia, and to a lesser extent by the Philippines—and military tensions will rise in the South China Sea, which may expose Japanese naval vessels to danger. More importantly, if China occupies the majority of the South China Sea islands and maintains the maritime security capacity and naval power to guarantee effective control over those islands and surrounding waters, then China would rapidly gain political influence over the main users of SLOCs running through the South China Sea such as Japan, the United States, and South Korea. Such a situation would completely offset the leverage needed to carry out the global China strategy described earlier, including the strategy of getting China to acknowledge the territorial status quo in the East China Sea and of carrying out intensive bargaining to convince China to accept existing international rules or negotiate new ones.

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<sup>32</sup> In 1992, China passed the Law on the Territorial Sea and the Contiguous Zone of the People’s Republic of China; in 1998, it passed the Law on the Exclusive Economic Zone and the Continental Shelf. In 2010, it passed the Law on Island Protection—all of which were attempts to secure its claims to territorial sovereignty through domestic laws and ordinances.

<sup>33</sup> These include the marine surveillance of the State Oceanic Administration, the fisheries administration of the Ministry of Agriculture, the Coast Guard of the People’s Armed Police, and the Ministry of Transport’s maritime patrols.



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## 5. Iran

Iran acquired a centrifuge for uranium enrichment from the A. Q. Khan network, and has since been developing centrifuges and building nuclear facilities to house them at Natanz and Qom. It claims that the level of enrichment of the uranium produced there is 20 percent and is intended for peaceful purposes. However, in May 2011 the IAEA announced that it has evidence that the Iranian authorities are carrying out work to develop detonators for nuclear weapons, adding to the proof that Iran is engaged in nuclear development for military purposes.

In an attempt to impede Iran's nuclear program, international economic sanctions have been implemented, and allegedly, a cyber weapon called the Stuxnet worm – which specializes in disrupting and crashing computers at industrial facilities – was deployed, and people tied to Iran's nuclear development program have been assassinated in some instances. As a result, it is anticipated among Israeli and American intelligence circles that it will take Iran until about 2015 at the earliest before it can develop nuclear warheads.

Meanwhile, the Iran Atomic Energy Organization recently announced that they had succeeded in developing the IR-2M and IR-4 (second and third generation centrifuges) and that they will begin operating them at the Natanz facility and in an underground nuclear facility in Qom that is being protected by the Iranian Revolutionary Guard<sup>34</sup>.

In any case, there is a strong possibility that Iran will carry out a nuclear test within the next few years, and it is also possible that they are concurrently planning to mount that on the Shahab-3 missile. While Iran's nuclear development is still in the uranium enrichment phase, Israel is likely to take measures such as crashing Iran's computer programs and networks related to nuclear development through cyber attacks during the development phase, but once Iran conducts nuclear tests, assembles nuclear weapons, and gets to the stage of mounting those on missiles, then in addition to the current efforts to stop Iran's acquisition of materials and equipment through economic sanctions and covert actions, Israel will likely consider the merits of striking the facilities in which those weapons are being assembled and stored<sup>35</sup>.

Once Iran acquires nuclear weapons, then it could start to believe that it can deter Israeli and American use of force, and thereby escalate its support for Hizballah and other subversive forces in the region to undermine regimes that it considers hostile to Iran<sup>36</sup>. Israel will no doubt see substantial merits in reversing Iranian

efforts to acquire nuclear weapons through a surgical airstrike against key nuclear facilities in Iran.

The outbreak of an armed conflict in the Persian Gulf region will result in a temporary stoppage of the country's imports of crude oil, the exposure of oil tankers to dangers in the Strait of Hormuz depending on Iranian actions, and an economic blow due to a sudden jump in crude oil prices during the time until production is adjusted. Since Japan has 200 days worth of strategic oil reserves, it will not run out of oil immediately in the event of an Iran crisis, but oil prices will definitely skyrocket in the short run and impact the already-stricken Japanese economy. The situation is further complicated by the fact that Iran supplies roughly 12 percent of Japan's crude oil imports.

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<sup>34</sup> It has been reported that if Iran succeeds in operating this equipment, the amount of time needed to convert the estimated 4,000 kilograms of stored slightly enriched uranium into 90 percent high-enriched uranium would be reduced to between 9 and 12 months.

<sup>35</sup> The possibility that Israel succeeds in wiping out all the Iranian nuclear facilities is low. This is because (a) Iranian nuclear facilities are dispersed around the entire nation (which is different from Iraq and Syria where nuclear facilities were relatively concentrated), (b) it is unclear whether Israel has uncovered all of Iran's crucial nuclear facilities, and (c) many Iranian nuclear facilities are said to have horizontal tunnels that make it difficult for even penetrating munitions to destroy with high certainty.

<sup>36</sup> Some experts see that Iran is unlikely to engage in conventional invasion against its neighbors due to its lack of sufficient capability to project force beyond its borders, and that it is more likely to support subversion in the conservative states of the Persian Gulf region. See for example Kenneth M. Pollack, "Deterring a Nuclear Iran: The Devil in the Details," Working Paper, Council on Foreign Relations, May 2010, p.5.

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## Appendix 4

# Recommendations regarding Secondary Strategic Goals

### V-3 Fatal Infectious Disease

**Prepare a system for minimizing the damage that would be created by a global pandemic of a highly virulent disease.**

#### Outlook

Needless to say, it is absolutely impossible to predict where or when an outbreak of a highly virulent disease will occur. Accordingly, upstream strategies to prevent the outbreak itself are impossible, and so it becomes increasingly important to ensure that the downstream strategies for dealing with the outbreak once it occurs are highly effective.

#### Downstream Strategy

**(1)The reporting and surveillance system must be expanded and enhanced to make early detection of outbreaks possible.**

There is a need for a system that can provide accurate information on outbreaks of highly virulent diseases. Rather than Japan trying to collect information independently, it would be most effective for the World Health Organization (WHO) to conduct surveillance and to expand the simultaneous alert system to countries around the world. However, the WHO cannot definitively take response measures unless they detect an outbreak or have received a reliable report from the country that is being affected by a potential outbreak. Therefore, countries need to have effective mechanisms for monitoring health data domestically and transmitting that data from their government agencies to the WHO regional branch offices or the headquarter. Such mechanisms are lagging in developing countries, however, and so advanced industrialized nations must actively pursue technical cooperation to assist in creating and expanding outbreak surveillance systems in those countries. In this age of globalization, if notification of an outbreak of a highly virulent disease is delayed, it will lead to a greater spread of the disease, so the creation of reporting systems is crucial.

**(2)An international arrangement must be promptly negotiated for international cooperation on regulating immigration and customs controls.**

In order to stop the spread of a highly virulent disease once there is an outbreak, an international cooperative arrangement capable of meeting the threat is necessary. More specifically, (1) an agreement should be reached among as many countries as possible that thorough health checks should be conducted at every country's airports, harbors, and border crossings once there has been a determination by the WHO that a pandemic exists, and that limits should be placed on the movement both in and out of the country of those affected; and (2) the staff training and equipment needed for immigration control departments to conduct health checks should be broadly disseminated to countries around the world. Given that the latter involves costs, a technical cooperation scheme should be provided by the advanced industrialized nations, and equipment and other hardware should be provided in the form of offering grant aid.

**(3)An international cooperative framework must be created to develop and distribute a cure once the outbreak has occurred.**

Once a fatal epidemic starts to spread globally, developing a cure becomes an urgent task. However, if the development of a cure is left to market principles and there is no cooperation between governments, then the development of a new drug will be up to a given pharmaceutical company, and the government of the country in which that company is located will give its own citizens preferential treatment in the sale and supply of the new drug.

In order to avoid such a situation and quickly minimize the number of victims around the world, it is essential that the new cure be mass produced globally. Accordingly, while using the principle of market competition and thereby leaving the development of new medicines to each pharmaceutical company; once a new drug has been developed there must be a system for permitting the rapid licensed production of

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the drug outside of that pharmaceutical company's home country. For example, along with having the pharmaceutical company's home government immediately transfer information on the new drug's ingredients and production method to third country governments, the payment of licensing fees would be handled as a government-guaranteed debt. Also, based on humanitarian considerations, the new drug must be provided in the form of grants (or loans) as one element of aid to developing nations.

#### **H-4 Piracy**

##### **Enhance the system for dealing with pirates in the Indian Ocean and the South China Sea.**

#### **Outlook**

The now widely known pirate attacks off the coast of Somalia are shifting in location from the Gulf of Aden to the eastern Somali coast in the western portion of the Indian Ocean. In 2010, there were 219 cases of piracy in the waters surrounding Somalia, which was roughly the same as the previous year. But while the number of incidents in the Gulf of Aden had decreased by more than half over the previous year to 53 incidents (down 55 percent over the previous year), incidents in the Indian Ocean grew tremendously to 141 (64 percent more than the previous year). There were 49 hijackings, 1,016 people were taken hostage (up 17 percent over 2009), 13 people were injured, and 8 people were killed. As of December 31, 2010, there were 28 pirate vessels, and 638 crewmembers were in custody. In January 2011 alone, there had already been 33 cases of piracy in the western Indian Ocean.

In the case of Somali pirates, they are using the ships that they have captured in the past as their mother ships and heading out to deep sea. From there they are using a number of high-speed boats to attack chemical tankers (which have low sides) or bulk carriers. The modus operandi of the Somali pirates is to release the boats and crews in exchange for ransom. Many of the pirates are Somalis who have come from the poorest segments of society, people who have lost their jobs due to the collapse of the Somali government, former farmers who can no longer make a living from agriculture due to the drought, or former fishermen who can no longer make a living that way due to overfishing or contamination of the ocean.

Meanwhile, pirate attacks in Southeast Asia have been shifting from the Malacca and Singapore Straits to the South China Sea. In the Southeast Asian region, the number of incidents rose from 46 in 2009 to 70 in 2010, and particularly in Indonesia, the number rose from 15 to 40. In the South China Sea as well, the number of incidents nearly doubled from 23 to 44.

The main target of Southeast Asian piracy is the ship itself and the cargo, and there have been cases to date of the crews being killed. One of the causes of the piracy is the poverty

problem in Indonesia and elsewhere, but another factor is seen to be organized crime based in China and elsewhere<sup>37</sup>. In 2010, a total of 15 Japan-related vessels sustained damage from piracy, up from 5 cases the previous year. If we break that down by the location in which the attacks occurred, 9 were in the area around Southeast Asia, while 6 were in the Indian Ocean or the seas off Africa. The fact that its vessels and crews are being attacked is itself a problem for Japan, of course, but in addition, frequent occurrences of piracy will lead to an increase in the cost of shipping insurance, which will result in economic losses.

### Strategic Goals

Based on the above points, Japan's basic policy should comprise the following two components. In the short to medium term, Japan should actively pursue antipiracy measures in areas where there are frequent occurrences of piracy and should work to deter such attacks. In the medium to long term, Japan should carry out multilateral efforts to improve or eliminate the underlying causes of piracy through aid and other measures, and should also work to prevent incidents of piracy.

### Downstream Strategy

#### Increase Antipiracy Efforts.

##### (1) Defense

- **Warning and Surveillance. Japan should continue and strengthen its warning and surveillance activities, and ship escort activities in the western Indian Ocean.**

As long as piracy continues in the western Indian Ocean, Japan must continue to have the Maritime SDF use the Djibouti facility and carry out warning and surveillance efforts and escort commercial vessels in that region. Also, from the perspective of expanding the aerial surveillance system, Japan should consider the use of airports in Oman and the Seychelles for basing its P-3C aircraft. Also, Japan should strengthen international efforts through the provision of replenishment support to foreign vessels engaged in antipiracy operations.

- **Capacity-building. Japan should provide support to strengthen the antipiracy capabilities of the South China Sea littoral states.**

There are many islands in the South China Sea and there are many cases of piracy occurring in oceans that are under the jurisdiction of the littoral states. For that reason, it would be appropriate for Japan to aid in the strengthening of the antipiracy capabilities of the littoral states by providing technical assistance, and where possible, hardware as well.

Japan should also promote the expansion of the aerial surveillance system known as "Eyes in the Sky" and introduce the optical satellite surveillance system known as "Eyes in the Space", which combine an Automatic Identification System (AIS) with Long-Range Identification and Tracking (LRIT) to generate information that will enable Japan to identify suspicious vessels.

##### (2) Japan-U.S. Alliance

- **Joint Capacity-building. Japan and the United States should provide joint aid for the strengthening of antipiracy capabilities of Southeast Asian states.**

Japan and the United States must provide various forms of assistance to strengthen the ability of Southeast Asian nations to engage in antipiracy efforts in the South China Sea. In addition to offering the necessary training and equipment, if possible they should also provide hardware such as patrol boats.

##### (3) Diplomacy

- **Enhance Information Exchange System. Japan should aid the development of a piracy incident information system and should expand ReCAAP.**

As noted above, Japan should provide funding along with the United States and other advanced industrialized nations for the development of a piracy incident information system that can constantly track the movements of vessels on the open sea, and should share the information derived from that system broadly with third countries. In terms of Southeast Asia, ReCAAP (the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia) has been producing remarkable results as a multilateral framework for information exchange, so Japan should expand that framework as a way of tackling piracy.

<sup>37</sup> James Kraska, *Contemporary Maritime Piracy: International Law, Strategy, and Diplomacy at Sea*, Praeger, 2011, pp.37-45.

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## Upstream Strategy

### Address the Underlying Causes of Piracy.

- *Multilateral Aid.* **A multilateral development assistance program should be provided to countries where piracy are occurring, and that should be tied to the strengthening of those countries' ability to identify illegal operations and corruption, and to preventing new recruits.**

Piracy has become established as a low-risk, high-return business. While the factors underlying the increase in piracy off the coasts of Somalia may differ from those in the South China Sea, there are some commonalities as well, such as the contamination of fishing grounds by foreign ships, the exploitation of poor fishermen by crime syndicates, and collusion between crime syndicates and government authorities. Although it is impossible to know how much of a direct impact there would be, Japan needs to put together a multinational development assistance scheme for Somalia and Indonesia that would strengthen those countries' ability to expose illegal operations by foreign vessels on the one hand, while also decreasing the recruitment of pirates and aiding those who are out of work. Such a scheme would need to strengthen the rule of law and decrease corruption, all of which will require implementation through a large-scale, multilateral initiative.

- *Legal Capacity-building.* **Japan must assist other countries in establishing laws on the punishment of and measures against acts of piracy.**

It is also important to try pirates in courts of law. Japan established piracy as a criminal act through the Law on the Punishment of and Measures against Acts of Piracy, and in fact the Tokyo Public Prosecutor's Office is now prosecuting pirates, but the number of countries that have passed a similar type of domestic law is still limited. While encouraging the international community to pass domestic laws allowing the prosecution of piracy, Japan should also share issues that each country faces in pursuing such cases, and thereby consider ways to improve and promote the adoption of similar systems.

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# “Japan’s Strategic Horizon and Japan-U.S. Relations”

## Project Members’ Profile

### Leader

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