

# **Japan-U.S. Leadership in the Asia-Pacific: Outlook and Challenges Ahead**

**Report of the 5th Japan-U.S. Joint Public Policy Forum  
October 2, 2013 • Tokyo, Japan**



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## 笹川平和財団

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## THE SASAKAWA PEACE FOUNDATION

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# **CONTENTS**

PROGRAM.....	1-2
INTRODUCTION .....	3-4
KEYNOTE SESSION .....	5-10
PANEL DISCUSSION I .....	11-21
PANEL DISCUSSION II.....	22-30
CONCLUSION.....	31-32
SPEAKER BIOS.....	33-36



< PROGRAM >

**OPENING REMARKS: YUJI TAKAGI**  
President, The Sasakawa Peace Foundation

**KEYNOTE SESSION: “U.S. Rebalance toward Asia and U.S.-Japan Relations”**

Keynote Speaker: **Kurt M. Campbell**  
Chair and CEO, The Asia Group/former U.S. Assistant Secretary of State (East Asia and Pacific)

Moderator: **Kamiya MATAKE**  
Professor of International Relations, National Defense Academy of Japan

**PANEL DISCUSSION I: “Sources of Uncertainties in the Asia-Pacific Region and Opportunities for Japan and U.S. Leadership”**

Moderator: **Chikako UEKI**  
Professor, Graduate School of Asia-Pacific Studies (GSAPS), Waseda University

Panelists: **Ely RATNER**  
Fellow and Deputy Director of the Asia-Pacific Security Program, Center for a New American Security (CNAS)

**Hiroshi NAKANISHI**  
Professor for International Politics at Kyoto University

**David GORDON**  
Head of Research and Director, Global Macro Analysis, Eurasia Group

**Yorizumi WATANABE**  
Professor of International Political Economy, Keio University

**PANEL DISCUSSION II: “Domestic Challenges Ahead for Japan and the United States and their Impact on Japan and U.S. Leadership”**

Moderator: **Robert M. HATHAWAY**  
Director of the Asia Program, Woodrow Wilson International Center for Scholars

Panelists: **Vance SERCHUK**  
Executive Director, KKR Global Institute and Principal, KKR / Former senior foreign policy and national security adviser to Senator Joseph Lieberman (I-CT)

**Tatsuhiko YOSHIZAKI**  
Chief economist and executive vice president, Sojitz Research Institute

**Bruce STOKES**  
Director, Global Economic Attitudes, Pew Research Center

**Jun IIO**  
Director of Policy Professionals Program and Professor of Political Science, National Graduate Institute for Policy Studies (GRIPS)

**CLOSING REMARKS: Robert M. HATHAWAY**

〈プログラム〉

開会挨拶： 高木 雄次 氏 （笹川平和財団理事長）

基調講演：「米国のアジア・リバランス政策と日米関係」

基調講演者 カート・キャンベル 氏  
The Asia Group 会長兼 CEO / 前米国務次官補（東アジア・太平洋）

モデレーター 神谷 万丈 氏  
防衛大学校総合安全保障研究科・国際関係学科教授

パネル・ディスカッションⅠ：「アジア太平洋地域の不確実要素と日米のリーダーシップによる対応策」

モデレーター 植木 千可子 氏  
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慶應義塾大学総合政策学部教授

パネル・ディスカッションⅡ：「日米両国内の政治経済と日米リーダーシップの実現可能性」

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# **Japan-U.S. Leadership in the Asia-Pacific: Outlook and Challenges Ahead**

## **Report of the 5<sup>th</sup> Japan-U.S. Joint Public Policy Forum (October 2, 2013)**

By Kazuyo Kato<sup>1</sup>

### **Introduction**

The Asia-Pacific region represents half of the world's population and serves as an engine of global economic growth. The region includes three of the countries with the world's highest population including China, India, and Indonesia, and accounted for 40 percent of global GDP growth in 2012. The United States recognized the importance of increasing its focus on the Asia-Pacific region when President Barack Obama announced his strategic plan in 2011 to rebalance U.S. engagements, activities, and resources toward this region.

While Japan, the United States, and the rest of the world have a major stake in ensuring peace, stability and prosperity in the Asia-Pacific, the region confronts an extremely uncertain and dynamic security environment. The United States and Japan continue to face not only nuclear and missile threats from North Korea and uncertainties stemming from China's military and economic rise, but also the dangers of proliferation of weapons of mass destruction, terrorism, piracy and other maritime security issues, as well as emerging issues of space and cybersecurity. Moreover, the region's growing population and economic activities have generated serious issues of securing and managing competition over energy and other vital resources. Meanwhile, there is increasing trade connectivity in the region, raising hopes for the acceleration of multilateral liberalization efforts.

On October 2, 2013, the Sasakawa Peace Foundation, in cooperation with the Woodrow Wilson International Center for Scholars, convened the 5<sup>th</sup> Japan-U.S. Joint Public Policy Forum on the topic "Japan-U.S. Leadership in the Asia-Pacific: Outlook and Challenges Ahead." This annual forum was launched in 2009 to strengthen cooperation between Japan and the United States on issues of regional and global importance by facilitating policy dialogues between Japanese and American experts. Previous forums addressed other topics of mutual concern, namely: bilateral cooperation on nuclear non-proliferation (2009); economic partnership following the global financial crisis (2010); Japan-U.S. cooperation after the Great East Japan Earthquake (2011); and the future of energy (2012). The theme of the 5th forum was chosen to underscore the need for Japan and the United States to strengthen their partnership as well as leadership in the Asia-Pacific region. The day-long conference brought together a dozen experts from Japan and the United States to discuss appropriate responses and policies for Japan and the United States to address regional and domestic challenges and seize leadership opportunities in the region.

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<sup>1</sup>**Kazuyo Kato** is a Program Officer of the Sasakawa Peace Foundation in Tokyo, Japan.

The forum opened with a keynote speech by former U.S. Assistant Secretary of State for East Asian and Pacific Affairs, Kurt M. Campbell, to discuss the way forward for the U.S. rebalance toward Asia and U.S.-Japan relations. Two panel discussions followed, each featuring two American and two Japanese experts. In the first panel entitled “Sources of Uncertainties in the Asia-Pacific Region and Opportunities for Japan and U.S. Leadership,” panelists examined key features of the current regional security and economic environment, and addressed how Japan and the United States could individually and collectively deal with the risks and dangers that exist. In the second panel entitled “Domestic Challenges Ahead for Japan and the United States and Their Impact on Japan and U.S. Leadership,” panelists discussed whether and how Japanese and American political leaders could sustain domestic support for active diplomacy and regional leadership.

**Keynote Session:**  
**U.S. Rebalance toward Asia and U.S.-Japan Relations**

Kurt M. Campbell, who is widely credited as being a key architect of the so-called U.S. pivot or rebalance toward Asia during the first Obama administration, offered a keynote address on U.S. Asia policy and U.S.-Japan relations.

Campbell began his speech with a discussion of what would have been a “path-breaking” trip by President Obama to Malaysia, the Philippines, Brunei and Indonesia, to attend the meetings of the Asia-Pacific Economic Cooperation (APEC) on October 7-8 and the East Asia Summit (EAS) on October 9-10. The visit would have underscored Obama’s personal commitment to “taking the Asia-Pacific region into the 21<sup>st</sup> century.” In particular, the visit to Malaysia would have been the first by a sitting U.S. president since President Lyndon B. Johnson visited in 1966.

Lamenting the 16-day government shutdown that began on October 1—and subsequently required Obama to cancel his Southeast Asia trip three days later—Campbell argued that U.S. domestic politics is changing dramatically in ways that might affect the future role of the United States as a global player. In recent U.S. domestic politics, he observed a “strong and uncertain undertone” that called into question the idea of U.S. retaliation for the use of chemical weapons by the Syrian government. While it is unclear whether this undertone indicates a long-term trend or an intense domestic opposition to Obama, Campbell suspected that there will not be such a determined U.S. approach to foreign policy and national security commitments in the future as there was in the past. It is uncertain whether this declining enthusiasm for active U.S. foreign engagements pertains only to the “messy” circumstances of the conflicts in the Middle East and South Asia, or will spread into U.S. engagement in the Asia-Pacific region; regardless, Campbell urged not only for U.S. engagement in the region, but also for engagement in the other direction, i.e. he counted on U.S. allies and partners in the region to speak to the Americans “with clarity and conviction” about the continued need for a strong U.S. role in the world.

After those introductory remarks, Campbell explained the context around the so-called U.S. pivot or rebalance to Asia. Campbell stressed that the Obama administration’s motivation behind the pivot was the recognition that Asia will be the center of global politics in the 21<sup>st</sup> century by every measure—rising middle classes, economic performance, national security challenges, impact of climate change, etc.—and the belief that the United States has to play a role in this region. Whereas the Middle East and South Asia are regions where the United States “spends capital,” the Asia-Pacific is a region where the United States can expect to “build a remarkable amount of capital,” according to Campbell. The United States must therefore shift its focus away from the great challenges in the Middle East and South Asia and more toward the Asia-Pacific.

Campbell attested he has never seen a period in his 25-years of experience working on the Asia-Pacific region where Asian countries have been more welcoming about the United States playing a strong role in the area than they are today. He attributed their enthusiasm about this enhanced U.S. role to the rise of China: “Clearly, it is the United States that, along with the rise of regional architecture, plays the most important role in providing a strategic context for China’s rise.” According to this view, the U.S. rebalance to Asia is a “strategic statement” about U.S. engagement in the region.

However, Campbell cautioned that this shift must take place gradually, responsibly, and subtly; and thus expressed his preference for the word “rebalance,” which suggests an “ever-changing process that constantly requires fine-tuning,” as opposed to the word “pivot,” which suggests a dramatic shift. He maintained that many Asian countries do not want the United States to “cut and run” from the Middle East, as many of them have invested in the Middle East together with the United States, including Japan, who has made one of the most generous and significant contributions to building a strong civil society in Afghanistan and Pakistan.

Campbell identified two major challenges of implementing the U.S. rebalance to Asia. The first challenge is to obtain the time and attention of senior U.S. officials on Asia-related issues. Campbell described the United States as seeking to accomplish an unprecedented challenge with its rebalance to Asia, as the attention of the senior-most officials in the United States are currently being pulled by two very strong corresponding pressures: on the one hand, there is the undeniable pressure to pay attention to the continuing and urgent demands of the Middle East; on the other hand, there is the strong pressure from domestic groups calling for more attention on domestic issues after decades of major U.S. military engagement in the Middle East. The second challenge relates to the strategy for implementing the U.S. rebalance to Asia: building the human capital associated with rebalancing efforts. There is a great need to nurture a new generation of so-called “Asianists” who focus on Asia as a region and think about strategic options associated with U.S. engagement.

Campbell then described the different schools of thought in the United States about U.S. strategy in Asia. One school is led by a bipartisan group of people who believe and act under the concept that, “if you get China policy right – that China is like a pinwheel—that the rest of Asia will fall into place.” Another school of thought is led by those who believe that the best way to manage the complex issues of the day, whether it is instability on the Korean Peninsula or tensions across the Taiwan Strait, is to have effective alliance structures. This school believes that strong alliances with Japan, South Korea, Australia, and the Philippines enable the United States to better engage and deploy across the region. Noting that there are other variants of these two schools of thoughts,

Campbell argued that these two groups were the ones that have generally cooperated on Asia over generations.

Compared to the strategic approaches of these previous schools of thought, however, Campbell contended that former Secretary of State Hillary Clinton put forward a much more comprehensive strategy with the U.S. rebalance to Asia, a strategy that is “much more engaging and dynamic.” In this light, Campbell highlighted what he considers are the enduring features of the strategy behind the rebalance.

The first feature is in regards to alliances. There is recognition that alliances are consistent with other engagements—multilateral or single-country—and requires a strong commitment to maintain and “garden” these relationships. Among these, Campbell believed that “there is no relationship in Asia that is harder and more challenging to garden than the U.S.-Japan relationship,” while also adding that there is no relationship that is more rewarding to work on.

The second feature is the recognition for a strong and enduring relationship with China that does not “pull punches,” is clear about areas of disagreement, and is consistent about wanting a good relationship in the future. There is an understanding that the region wants the United States and China “to get along somewhere in the middle” between a U.S.-China condominium and outright confrontation. According to Campbell, the region expects the United States and China to have a deep strategic engagement across every vector, i.e. economic, political, and security, and take steps to prevent accidents as well as focus on common economic endeavors. Campbell explained that the U.S. government under the first Obama administration has thus made conscious efforts to “engage China in a 21<sup>st</sup>-century conversation,” or conversations about the need to find common norms and values about cybersecurity, economy, freedom of navigation, peaceful settlement of disputes, and encouraging the Chinese to see that they have their interests at stake in these areas. Conversely, the United States should avoid “19<sup>th</sup> century conversations,” which are conversations centered on the idea of spheres of influence and areas where larger countries have more roles over smaller countries.

The third critical feature of the rebalance is an “active, outward, and optimistic” regional trade agenda. Campbell expressed his support for the Trans-Pacific Partnership (TPP) and the Korea-U.S. Free Trade Agreement as foundational commitments that are essential to a strong U.S. role in the region. In particular, Campbell saw a potential for the TPP to be a “groundbreaking” achievement despite the difficulties he foresees in completing the negotiations. Going forward, Campbell maintained that a true and effective rebalance would require an economic and commercial rebalance at the core, and considered the flow of investments between Asian countries and the United States to be essential.

The fourth feature is U.S. engagement with Southeast Asia. Campbell insisted that Southeast Asia is a region on par with the economic performance of Europe, but where the United States has under-invested and under-committed for decades. In particular, he noted that the United States has failed to sufficiently recognize the importance of Indonesia. Pointing out that Secretary Clinton was the first Secretary of State to visit all the countries of the Association of Southeast Asian Nations (ASEAN), Campbell also frequently underscored the importance of committing to a more robust ASEAN and stronger relationships with ASEAN countries.

The fifth feature of the rebalance is the recognition of the need to establish strong regional institutions in the years ahead. These institutions and consultative processes will be required for the United States to build the foundations for a 21<sup>st</sup> century Asia-Pacific community, including trade norms and proper mechanisms to deal with difficult maritime disputes. Moreover, Campbell asserted that the United States is no longer ambivalent about wanting a seat at the table of regional forums, as indicated by the U.S. decision to join the EAS and its subtle linkage of the ASEAN Regional Forum to the EAS.

The sixth feature is inclusiveness. Campbell insisted that the United States needs to include other countries and regions to have an effective Asia policy. He explained that the rebalance was never meant to exclude Europe as it might have been interpreted in its initial outreach, and commented on the importance of the United States building stronger and deeper relations with Europe regarding Asia. Campbell urged the United States and Europe to have more discussions about Asia, particularly on trade issues such as intellectual property rights issues, referring to U.S. engagement with Europe for subtle lifting of sanctions on Burma/Myanmar. He also put a spotlight on India, describing the U.S.-India relationship as one that will “define the 21<sup>st</sup> century.” He argued that India and the United States have many common strategic interests such as building a constructive relationship with China, engaging more in Southeast Asia, or being pioneers in connecting the East and West. In emphasizing the need for the United States to continue its efforts to articulate and support India’s so-called “Look East” policy, Campbell recognized Japan as having done the best job at building a strong relationship with India.

The final feature of the rebalance, which Campbell recognized would be extremely important but also very challenging, is the rebalancing of the U.S. military forces in Asia. In addition to putting a rotational group of Marines in Darwin, the capital city of Australia’s Northern Territory, he saw a lot more opportunities for the United States to strengthen cooperation with Asian countries, including China, on multilateral pursuits such as anti-piracy and disaster relief efforts.

Campbell concluded that all of the seven features discussed help build a comprehensive framework for U.S. engagement in the Asia-Pacific, and underline the importance of the United States working

more closely with Japan in establishing this framework. Campbell then went on to discuss views on the future of Japan and U.S.-Japan relations.

According to Campbell, the hardest element of the U.S.-Japan relationship going forward would be to build its people-to-people dimension. He explained that the relationship has always been taken care of by an extraordinarily small group of extremely dedicated Japanese and American policymakers and diplomats. For the U.S.-Japan relationship to be successful into the 21<sup>st</sup> century, Campbell argued that the two countries must build a broader and stronger group of people to work on this bilateral relationship. In this regard, Campbell expressed concern regarding the declining number of Japanese students at universities in the United States, and called for U.S. and Japanese institutions to pay more attention to this issue and work towards increasing the number of Japanese youths who learn and study in the United States and vice versa. In addition, regarding U.S. relationship with Japanese political leaders, Campbell underscored the importance of the United States and other democratic governments to respect the people who manage to win elections, including the Abe administration and the members of the Democratic Party of Japan (DPJ) administrations.

Campbell also shared his views on the way forward for Japan's economic policy. While he supported Prime Minister Abe's economic policies, or otherwise known as Abenomics, and congratulated Tokyo for winning the 2020 Olympics bid, he agreed that the so-called third arrow of Abenomics, associated with structural reforms, would be the key step in reinvigorating the Japanese economy. Noting that positive sentiments between the people of the United States and Japan are very high, Campbell cautioned Japan to not return to a situation of using macroeconomic policy to spur long-term exports to the United States.

Looking ahead, Campbell suggested Japan and the United States to take more time to think and work through strategic issues in the region such as North Korean provocations, maritime security issues, and shared perspectives on the implications of China's rise and how better to coordinate. Though he admitted that the prospects are low for it to happen, he also endorsed the United States and Japan holding a trilateral strategic dialogue including China, arguing that no grouping would send a more positive signal and could create more harmony. Campbell also hoped to see Japan and the United States cooperate in their engagement in Southeast Asia, as he observed when he was in government that the allies often competed with each other and searched for advantages in various commercial and political pursuits across this region. Finally, Campbell advised the two countries to expand their areas of cooperation to not only regional issues such as the Korean Peninsula or issues associated with the maintenance of the U.S.-Japan alliance, but also to larger pursuits outside of the region.

In closing, Campbell stated that the key to the U.S. rebalance to Asia is not its labeling—whether it is “rebalance” or “pivot” to Asia—but the subsequent explanation about it. He emphasized that the

rebalance is not to contain a country, but “a determination to underscore a stronger American commitment to Asia going forward,” where he believes the destiny of the United States and Japan lies.

## **Panel Discussion I:**

### **Sources of Uncertainties in the Asia-Pacific Region and Opportunities for Japan and U.S. Leadership**

In the first panel, panelists assessed the dynamics and elements of uncertainty in the regional security and economic environment, and offered their thoughts on the opportunities and risks presented to Japan and the United States to ensure regional peace, stability, and prosperity.

#### **Dynamics and Elements of Uncertainty in the Security and Economic Environment**

The security environment of the Asia-Pacific region is dynamic and uncertain. Panelists identified several trends and sources of uncertainty in the region whose outcomes and impact are still unclear; they could indicate either potential opportunities for more cooperation and therefore greater stability, or potential risks for more competition resulting in greater insecurity in the region. China was cited as a major element of uncertainty in both the regional security and economic environment. In all of the issues that were addressed, the ultimate question was how Japan and the United States could engage and involve China in the region to ensure stable development and prosperity in the Asia-Pacific.

#### ***China's rise and greater intra-Asia connectivity***

##### *Expansion of security ties*

Partly as a result of regional concerns over China's fast-growing maritime and missile capabilities and uncertainty of its strategic intentions, panelists observed greater intra-Asia connectivity in the past decade on the security front. Individual states are not only increasing their military spending and modernization efforts and strengthening their bilateral security ties with the United States, but also deepening security ties with each other in the form of high-level defense visits and military diplomacy, bilateral security arrangements, arms sales, military exercises and training, and joint operations. According to this view, the regional security environment is gradually shifting away from the Cold War hub-and-spoke system of U.S. bilateral alliances with Japan, South Korea, Australia, Thailand, and the Philippines toward a more networked security environment where Asian countries are increasingly interconnected with one another.

A more networked security environment could imply more robust multilateral institutions and greater multinational cooperation leading to enhanced deterrence against aggression and provocation. More specifically, one may see stronger deterrence against China's assertiveness and diminished intensity of U.S.-China competition as a result. Conversely, one may see more security competition resulting in heightened risks of conflict or a small crisis escalating into a larger one. While panelists did not expect major conflicts to occur in the short-term, they cautioned that regional security competition is becoming more complex in this uncertain security environment and creating additional risks. In

recent years, countries are not only preparing for major power wars and deterrence by acquiring and developing high-end capabilities such as advanced fighters, ballistic missiles, nuclear weapons and missile defense capabilities, but also competing in the lower-level domain of law enforcement and coast guards. Including Japan, who is facing this type of low-level competition with China around the disputed islands of the East China Sea, referred to by Japan as the Senkaku islands and Diaoyu in China, countries in the region are recognizing the importance of investing in maritime domain awareness and civilian maritime capabilities in order to deal with daily provocations by Chinese coast guard vessels in the maritime domain, which aims to advance China's interests while avoiding a response from the U.S. military. On top of these high-end and low-end competitions, weaker countries are now increasingly looking to obtain asymmetric means to deter stronger adversaries. Recently, not only the People's Liberation Army (PLA) which adopted the anti-access/area-denial strategy to challenge the U.S. military, but also countries such as Vietnam and the Philippines are developing indirect military means to impose high costs on China without waging an all-out war against the PLA.

While it is not yet evident how these dynamics will play out, participants agreed that the risk of crisis escalation has become greater now that more countries have more capable militaries, thereby increasing the number of potential players and complication in a crisis. Participants also recognized that countries in the Asia-Pacific region are still in the process of figuring out what an effective deterrence and coercion mechanism would look like in the law enforcement and coast guard domain, and how existing alliances and new technologies would fit in to this mechanism.

#### *Enhanced trade connectivity*

On the economic front, panelists perceived greater momentum for regional economic integration in the absence of a strong international trade agreement. They pointed to the failure of the Doha Development Agenda and its liberalization procedures under the World Trade Organization (WTO), and argued that the international community has not been able to reach global, multilateral agreements on trade issues such as investment, competition, government procurement, state-owned enterprises (SOEs), or labor and environmental standards. The lack of Trade Promotion Authority for the U.S. government negotiators, as well as the absence of explicit support given to the new WTO Director-General by the developed countries, were also raised as reasons to doubt the potential emergence of a strong international trade system supported by multilaterally agreed trade rules. Panelists also saw a greater need to establish Free Trade Agreements (FTAs) and Economic Partnership Agreements (EPAs) in the Asia-Pacific region, as data showed greater trade discrimination and protectionism among East Asian countries than among European countries.

Nevertheless, panelists contended that a "business-driven regional integration" has already taken place in the region, and that this type of integration would bring about the "multilateralization" of

various liberalization efforts within the Asia-Pacific region as well as between the Asia-Pacific and other regions, and in effect reinforce the multilateral efforts of the WTO.

Panelists explained this global multilateralization process as follows: A region-wide expansion of supply chain and production networks, which occurred as companies in the parts industry took their manufacturing sites abroad to produce locally, has propelled business-driven regional integration. This integration then motivated countries to form bilateral FTAs/EPAs to lock-in and consolidate the benefits of this de-facto integration through a legal framework, including Japan who has concluded 13 EPAs. By establishing rules and dispute settlement mechanisms, countries expected the FTAs/EPAs to enable countries to manage trade frictions in a business-like manner, and prevent any protectionism that may arise in the future from reversing this integration. This impetus to form bilateral FTAs/EPAs has subsequently facilitated the development of a number of wider, regional FTAs/EPAs: five different versions of ASEAN plus 1; ASEAN plus 3; and ASEAN plus 6, which Japan proposed in 2006 and is now called the Regional Comprehensive Economic Partnership (RCEP). The growth of regional FTAs/EPAs has then led to a discussion on the TPP, which panelists believed has a great potential to become an inter-regional FTA that connects Asia and the Americas, especially now that Japan has joined in the negotiations.

In this regard, panelists concluded that there is no single institutional answer to the question of regional economic integration in the Asia-Pacific, and did not see any problems in having a number of institutions with overlapping memberships in this region. They maintained that the different regional trade groupings could be mutually reinforcing; for example, lessons and achievements of TPP negotiations could feed back into negotiations in RCEP or RCEP's missing piece: a trilateral EPA among Japan, China and South Korea.

According to panelists, Japan is a key player in facilitating this regional and global multilateralization process. As a potential member of both the RCEP and TPP, Japan could play a vital role in combining the liberalization and rules-making efforts of different trade groupings within this region, and pave the way for the establishment of the Free-Trade Area of Asia-Pacific by 2020. Panelists raised specific merits for Japan to pursue both the RCEP and TPP. For instance, if South Korea joins the TPP, Japan could bypass the difficulties of negotiating a bilateral EPA with South Korea, which has been stalled since November 2004, and still negotiate a free trade deal. There is also an opportunity for Japan vis-à-vis the CLMV countries (Cambodia, Laos, Myanmar and Vietnam) to encourage more trade and capacity-building in the trade area, and help them catch up with the development of other ASEAN countries such as Singapore, Malaysia, and Indonesia.

Panelists explained that Japan could then further multilateralize these regional efforts into a global one, i.e. converge the liberalization efforts of the three mega-FTAs: the TPP; the Transatlantic Trade

and Investment Partnership agreement; and the Japan-EU bilateral EPA. These FTAs would cover two-thirds of the world economy and will therefore reinforce the liberalization efforts of the WTO.

With regards to challenges in pursuing multilateral trade agreements, panelists admitted it is unlikely that the U.S. Congress would give Trade Promotion Authority to Obama and enable him to negotiate the final elements of the TPP. They also mentioned the caveat that BRICS (Brazil, Russia, India, China, and South Africa) are not yet included, but agreed that doors should be open to them and remained optimistic that these countries would be inclined to join.

### *Energy-driven integration and cooperation*

In addition to growing security ties and trade connectivity, participants raised energy as another source of greater integration in the Asia-Pacific. Panelists addressed the potential impact of the revolution in unconventional energy, i.e. shale gas and tight oil. According to the panelists, this revolution would result in a dramatic increase in North American energy production and exports compared to Organization of Petroleum Exporting Countries' (OPEC), and drive down oil prices. Consequently, this downward pressure on oil prices will free East Asian countries from traditionally oil-linked natural gas prices and allow them to seek competitively priced energy from the United States. Panelists concluded that there is an opportunity for the United States to engage in greater diplomatic efforts with East Asian countries to create a regional energy market that is much more beneficial to the region.

### *Consequences of the new leadership in Japan and China*

Another element of uncertainty in the regional security environment is the consequences of the simultaneous leadership changes in Japan and China in 2012.

Panelists first considered the implications of the new leadership for Japanese and Chinese economies. They agreed that there is a strong commitment by both the Xi administration of China and the Abe administration of Japan to address economic issues at home, and in extraordinary ways. With regards to China, panelists observed that the new leaders are less risk averse on economic reform and more willing to launch a tough anti-corruption campaign, though they maintained their efforts to enhance the authority of the Chinese Communist Party. Panelists contended that the leadership's intense focus on internal change has caused a shift away from its over-assertiveness in the region; China's assertiveness became very prominent in 2010, and drove the U.S. rebalance to Asia as well as Japan's efforts to strengthen security ties with other countries in the region.<sup>2</sup> Panelists also stated that the Xi

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<sup>2</sup>For example, at the ASEAN Regional Forum in July 2010, Chinese Foreign Minister warned Southeast Asian states against coordinating with outside powers in managing territorial disputes with Beijing. Vis-à-vis Japan, Beijing demanded an apology and compensation after Japan detained the captain of a Chinese fishing boat which had collided with a Japanese coast guard vessel, causing Japan to release him. Vis-à-vis the United States and South Korea, China twice spoke against their joint naval exercises in international waters near China. \*Source: Thomas J. Christensen, "The Advantages of an Assertive China: Responding to Beijing's Abrasive Diplomacy," *Foreign Affairs*, March/April 2011

Jinping government is much more interested in engaging the United States than the previous Hu Jintao regime, and expected more opportunities to improve U.S.-China relations. However, panelists argued that there is now a greater risk that the leadership's possible failure to carry through difficult economic reforms would result in major domestic instability and greater inclination by the leadership to use anti-Japanese rhetoric. They also did not deny the possibility of similar developments occurring in Japan should Abenomics fail.

Panelists then discussed the direction of Japan's security policy under the Abe administration and its impact on the country's future security role and leadership ability in the region. The panel debated at length the potential for Japan to emerge as a regional security provider given the rapid development of Japan's security policies under the Abe administration including the establishment of a Japanese National Security Council and a National Security Strategy, along with a bill to protect state secrets; review of the legal basis for security including a potential change in the interpretation of the Constitution to allow for the exercise of the rights to collective self-defense; and the subsequent revision of the National Defense Program Guidelines (NDPG) and review of the Japan-U.S. Defense Cooperation Guidelines. In this regard, panelists agreed that there are some positive outcomes of Japan's experiences under the DPJ administrations. They contended that, in the three years of DPJ rule, after witnessing the turmoil caused by the Hatoyama administration over the Futenma issue and the enormous support of the U.S. military in the aftermath of the Great East Japan Earthquake and Tsunami on March 11, 2011, the current opposition party members gained greater understanding of the importance of having a strong U.S.-Japan alliance.

Panelists also addressed the claims of the critics of the Abe administration in Beijing and Seoul who argue that Abe's proactive stance to reinvigorate Japan's security policy signals Japan's move toward the right and is thus destabilizing to the region. In response to such claims, panelists drew attention to the fact that these plans, such as reinforcing the Self-Defense Forces' (SDF) posture in areas including Japan's southwestern islands, reviewing the Three Principles on Arms Exports, and strengthening Japan-South Korea defense cooperation, began to move forward under the previous DPJ administration, admitting, however, that the Liberal Democratic Party (LDP) uses stronger rhetoric. One panelist contended that it is inaccurate to describe the Abe administration's security policy agendas as indication that the Japanese society or the current administration is turning to the right or becoming more hawkish and nationalist, as these plans have been in discussion since the end of the Cold War. With the end of the Cold War, Japan needed to adjust its security policy in order to adapt and respond to the changes in the international system, revolution in military technologies, and the deterioration of the security environment surrounding Japan with respect to the Korean Peninsula and China's rise. For example, the issue of the exercise of the rights to collective self-defense emerged out of the necessity for the Japanese and U.S. forces to conduct more joint operations, such

as the joint operation of the ballistic missile defense system they built together and joint maritime surveillance operations. Likewise, the NDPG is being revised to enhance SDF mobility, such as the integration of the Ground, Maritime, and Air Forces and consideration of the purchase of Ospreys from the United States.

Even if the Abe administration's security policy agendas do not signal Japan turning to the right, panelists agreed that Japan's ability to exercise a greater regional security role hinges on whether the government could pursue these policies in an appropriate diplomatic and political context. In the case of Japan, one participant stressed the importance of the Japanese government factoring in the political context in which it mulls issues such as changing SDF's exclusively defense-oriented posture and allowing it to possess preemptive strike capability. According to this view, discussions on such changes, when combined with inappropriate behavior and rhetoric or with false perceptions of intentions, could potentially be destabilizing. Indeed, participants agreed on the importance of the political and diplomatic context for all countries in the region, including China and the United States, in pursuing military modernization or increasing military spending without causing alarm.

Panelists differed in their assessment of Japan's ability and willingness to create a political context that is conducive to its plans to enhance SDF capabilities. One panelist expressed doubt, stating that LDP politicians' unapologetic rhetoric and comments on history have exacerbated regional concerns that Japan is turning to the right. According to this view, critics of the Abe administration in Beijing and Seoul are relatively accepting of SDF modernization in and of itself, but they voice concern when it is presented in the context of such rhetoric and comments. Another panelist advised Japan to "strategize the diplomacy of its own peaceful rise," so that other countries are more comfortable about the country's initiatives. Although panelists admitted that China's characterization of Japan's initiatives as hawkish or nationalist is a "gross overstatement," they also warned that China's explanation is gaining traction in the region, particularly in South Korea. The panel thus encouraged Japan to put their SDF modernization efforts in the context of the normalcy of military modernization and highlight SDF capabilities that are in discussion as non-extreme, average and basic capabilities. Panelists explained that the challenge is not in public relations, but in coming up with a strategy for engaging allies and fundamentally counter anti-Japanese rhetoric.

Others put less responsibility on Japan for the current political context, arguing that it is only since the 1970s that historical and territorial issues have gotten greater political weight in Japan's relationship with China and South Korea. One panelist contended that, although nationalism has traditionally been deeply rooted in East Asia, it did not surface for a period of time after World War II during which countries in the region experienced rapid economic growth and greater equality in the distribution of income. From around the 1970s, however, these countries could no longer rely on economic performance alone to satisfy their people, and became prone to employ nationalist rhetoric.

This reliance on nationalism then became a structural problem. According to this explanation, the main problem in East Asia is not Japan's inability to set an appropriate political context, but such structural forces causing the extreme worsening of Chinese and Korean sentiments toward the Japanese, and vice versa. One panelist added that the notion of the potential re-rise of Japan, with the success of Abenomics and a more capable and active SDF, is a particularly challenging one for China to accept because there had been a consensus until the re-emergence of Abe that Japan is undoubtedly a waning power. However, this participant suggested that the concerns in Beijing about Japan could be minimized in the context of improved U.S.-China relations.

In the view of one panelist, the major security issue in the region for the foreseeable future is the danger of a crisis caused by a small-scale arms attack or conflict escalating into a larger conflict due to these nationalist sentiments. Nationalism may prevent peacetime communication channels from functioning effectively in times of a crisis. According to this panelist, it is unlikely that countries in East Asia would be able to nurture public opinions that support restraint and compromise with others, or that a neutral third party would be able to mediate between conflicting parties—at least in the near future. Japan and the United States should thus expect to deal with an unstable political situation for the foreseeable future.

While it would be ideal to leave history issues up to historians, one panelist pointed out that it was not useful to have a joint project to review history, as history issues are politicized in China and South Korea. The difficulty is evident in the failure of the Japan-China joint history textbook project that began under the Koizumi administration. With regards to South Korea, however, one panelist emphasized the need for Japan to recognize that its history with South Korea is different from that with China: the former is about colonization, whereas latter is about wars and conflicts between two sovereign nations. This panelist asserted that Japan must reflect on its colonization of South Korea as a factor affecting South Korea's inclination to tilt toward China vis-à-vis Japan. Regarding the history issue with China, panelists agreed that a more pragmatic way to deal with it is possible. Panelists also accepted that there is no easy solution to the issues of history, and that Japan must be prepared to deal with these issues for the long-term. The future prospect for Japan to lead the region is therefore very bleak, as countries in the region will not be able to break away from such structural impediments, i.e. built-in historical animosities and nationalism that divide them. They stressed, however, that Japan should not give up. In particular, they hoped that Japan would continue to work on improving its relations with South Korea, a U.S. ally, no matter how difficult it is and regardless of which side Japan believes is at fault for the current poor state of relations.

### ***The role of the United States***

Panelists identified the role of the United States as another element of uncertainty in the regional security environment. One panelist believed that the suspicious people in this region currently have

about the relevance of the rebalance in the second term of the Obama administration are valid—the U.S. rebalance may go into a “diplomatic hibernation.” Indeed, the main architects of the rebalance have all left the government and been replaced by officials who are either much less interested or not nearly as influential. Moreover, in his speech at the United Nations on September 24, 2013, Obama indicated that his foreign policy focus for the rest of his presidency will be the Middle East.<sup>3</sup>

However, panelists agreed that the main notion of the rebalance remained very much in place: the idea that the Asia-Pacific region is a crucial place for the United States to be because of its economic and commercial interests and the unique role that it can play to ensure security for all the other parties. At the same time, panelists lamented the stalemate in the U.S. political system and the congressional dysfunction—epitomized by the U.S. government shutdown that began the day before this forum and lasted for 16 days thereafter—as demonstrating the weakness of Obama despite being in the fifth year of his presidency, and affecting the credibility of his administration to carry through the rebalance. Panelists also pointed to the decrease in U.S. defense spending, which saw the largest decline in 2012 since 1991, as another reason to doubt U.S. ability and intention to continue its rebalance to Asia.

### **Implications and Recommendations for Japan and the United States**

In describing the current regional security environment as more interconnected, panelists asserted that Japan and the United States should prepare for lower-level competition and small-scale crises in the absence of major military-to-military conflicts. In particular, panelists stressed the importance of crisis management in Japan’s relationship with China. Japan and China should find a way for their defense authorities and law enforcement organizations to communicate routinely on a daily basis at the bilateral level in order to avoid miscommunication and miscalculation. In this regard, panelists expressed great concern regarding the lack of communication between the political leaders of Japan and China and between Japan and South Korea in recent years. While the political stakes for these leaders are too large for observers to be optimistic, panelists hoped that summit meetings would take place soon between these countries. Panelists also raised other ideas for Japan to increase and expand its communication channels between China. One suggested facilitating exchanges among the younger politicians and bureaucrats of these countries as well as bringing European countries and Southeast Asian nations to participate in regional dialogues.

Panelists also encouraged Japan and the United States to leverage this networked security environment to augment regional multilateral institutions—particularly ASEAN and ASEAN-centered meetings and institutions—and the role of international law. They also urged Japan and the United States to re-examine and hold deep strategic dialogues about the role of the

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<sup>3</sup> President Barack Obama, “Remarks by President Obama in Address to the United Nations General Assembly,” (speech delivered at the United Nations General Assembly, New York, NY, September 24, 2013).  
[http://gadebate.un.org/sites/default/files/gastatements/68/US\\_en\\_0.pdf](http://gadebate.un.org/sites/default/files/gastatements/68/US_en_0.pdf)

U.S.-Japan alliance in this evolving security environment. In their view, the two countries should focus not only on bilateral issues, but also discuss what constitutes a regional strategy in terms of the alliance and the ways in which Japan and the United States connect with other partners and institutions. Panelists also found the need to close the gap between Washington and U.S. allies in Asia when they engage in a dialogue about the U.S. rebalance to Asia or about building a regional order based on rules and institutions. One panelist observed that Washington tends to discuss lofty, big-picture goals, whereas the Asian allies are more inclined to address very local, tactical, and specific issues related to their immediate security environment.

Specifically regarding Japan, panelists discussed how the country could create a more amenable diplomatic and political context that is conducive to stable SDF modernization. In order to alleviate regional concerns about a more active and capable SDF, panelists hoped that Japan would make efforts to “socialize” the idea that a more active and capable SDF would contribute directly to regional security in order to gain regional support for SDF modernization efforts. Panelists also advised Japan to pursue a multifaceted regional strategy by balancing its security initiatives with regional engagements on economic, social and development issues, and think broader than in a strictly military sense. According to panelists, a multifaceted regional strategy would involve the TPP, engaging proactively in regional multilateral institutions, strengthening the role of international law, building the capacity of other partners in the region, and drawing connectivity between East Asia and Southeast Asia. Specifically regarding trade, one panelist referred to U.S. Secretary of State Cordell Hull under the Franklin D. Roosevelt administration who believed that two nations engaged in peaceful trade never go into war and free trade promotes international peace and prosperity.

Panelists advised Japan to strengthen its ties not just with the United States, but also with key regional powers such as Australia, India, Indonesia, and Singapore. Ties could be strengthened by building and sharing interoperable military platforms, engaging in multilateral training, and designing agreements on information-sharing and intelligence about common threats and challenges. Panelists contended that working with capable partners in the region would reduce redundancy in regional security activities and increase synchronization of purpose and resources in security cooperation. They cautioned, however, that Japan’s focus on strengthening its relationship with Southeast Asian countries, who tend to be less concerned about the possible re-emergence of Japan as a security provider in the Asia-Pacific, should not come at the expense of Japan’s more difficult relationship with China and South Korea in Northeast Asia; Japan’s relationship with these countries in Northeast Asia has a profound effect on U.S. strategy and interests. To bring together Japan, the United States, and China, panelists argued that other countries in the region could play a vital role, as it could be difficult for initiatives led by Tokyo or Washington to gain traction. However, panelists added that there has always been reluctance among these countries to play proactive roles to avoid getting involved in U.S.-China security competition, and advised Japan and the United States to

engage in strong and smart diplomacy to generate a sense of responsibility and desire from these countries to play this role to help create a peaceful and stable regional environment.

In considering the future regional security architecture, panelists also advised the United States and Japan to think at a region-wide level and in an inclusive sense, and argued against so-called mini-lateral security arrangements, i.e. thinking in terms of a specific set of countries or a coalition such as the “concert of democracies.” Moreover, panelists encouraged Japan and the United States to seek opportunities to cooperate, rather than compete, in helping to build the capacity of other partners in the region; in reference to Japanese Maritime Self-Defense Force’s first port call to Myanmar on September 30, panelists questioned whether Japan and the United States are maximizing opportunities to work together in their capacity building efforts in Southeast Asia.

Panelists agreed that the main opportunity for Japan and the United States to take leadership in the region is in the area of trade negotiations, and in particular engaging China in the multilateral liberalization process. Panelists acknowledged that some regional economies consider the TPP as an alternative to a China-centered regional integration as well as for strategic hedging purposes against China. One panelist explained that China is no longer at the center of the regional supply chain integration, as regional economies believe that China’s growth model has begun to expire and they began to de-couple themselves from the Chinese economy. Moreover, in addition to China’s future economic prospects, there are questions about China’s ability and willingness to play by the rules that other countries, including Japan and the United States, have encouraged through the WTO. Despite China’s efforts to lead and address issues such as judicial cooperation and anti-terrorist cooperation in the Shanghai Cooperation Organization, which was established in 2001 and includes Russia and other countries in Central Asia, one panelist doubted the extent to which China and other member states understand the meanings of concepts such as the “rule-of-law” and “anti-terrorism” as understood by the Western democracies.

However, panelists insisted that the TPP should not be a policy to contain China, and emphasized the importance of actively engaging China in the TPP. They discussed the need for Japan and the United States to combine their knowledge and experience to establish trade rules, such as competitiveness policies or government procurement policies for dealing with abuse of power by SOEs. Panelists also suggested that there is room to engage China through energy cooperation, as China is starting to develop a “non-zero sum” view of its relationship with the United States on energy. According to their assessments, as a result of the North American energy revolution, China has begun to look eastward, shifting its strategy away from a focus on its investment in Central Asian countries and towards enhancing its cooperation with the United States on energy issues. Panelists contended, however, that even under the most successful scenario of China utilizing U.S.-based technology for its own shale gas revolution, China will be increasingly dependent on Middle East oil in the near

future. Panelists speculated that this growing reliance on Middle East oil might encourage China to develop a more collective and collaborative view of security in East Asia as a way to support continued U.S. security presence in the Middle East. However, they were uncertain if U.S.-China energy relations would improve to this extent.

Regarding the possibility of U.S.-Japan-China cooperation, panelists considered it premature to expect trilateral cooperation on emerging security issues such as climate change, cyber security and unmanned systems or drones. They pointed out that Japan and Southeast Asian countries are experiencing difficulties cooperating with China even on traditional maritime security issues, in which there are decades of international law and practice to build upon. One panelist explained that, in order to preserve its nationalist credentials as it seeks rapprochement with the United States, the Chinese leadership will seek to maintain a degree of tension with Japan. In the long-run, however, panelists expected China to try to reap the benefits of cooperating with Japan, noting the strong interest among Chinese businesses in working with Japan as well as the growing demand of Chinese provincial governments for Japanese investments in the face of reductions in fiscal revenue from the central government.

## **Panel Discussion II:**

### **Domestic challenges ahead for Japan and the United States and their Impact on Japan and U.S. Leadership**

The second panel examined domestic challenges ahead for Japan and the United States as factors influencing their foreign and security policies.

#### **Domestic Challenges in the United States and their Impact on Foreign and Security Policy**

According to U.S. public opinion polls conducted by the Pew Research Center, a non-profit, opinion-polling firm in the United States funded by the Pew Charitable Trust, the political leadership in the United States is relatively weak under Obama. The president's public approval ratings averaged 44 percent, which panelists underscored as being less than 50 percent and quite low for a president in his fifth year. The president's performance on foreign policy issues received a lower approval rate of 33 percent, and his approval rating went down significantly for each specific issue he has worked on since 2009. The approval rate of the Republicans in Congress is even lower than the president's, though the approval rate of the Democrats in Congress is not much higher. Panelists argued that the gerrymandered political system in the United States has resulted in an increasingly less contestable Congress; the number of "safe seats" has grown in every election since 1992, on both the left and the right.

#### ***U.S. response to Syria***

To illustrate the politics of U.S. foreign and security policy, panelists analyzed the U.S. response to the Syrian conflict, specifically regarding Obama's decision to request the Congress for authorization to use military force and the strong opposition of the Congress. According to panelists, the U.S. response surprised Washington observers, and the president's handling of Syria received only a 29 percent approval rate from the American public.

Panelists identified a couple of factors that led to the president's decision to seek approval from the Congress: a division within the Obama administration and a certain ambivalence from the president about the degree of U.S. national interest at stake in Syria; the president's sense that it was the right thing to do in terms of the U.S. Constitution; and a belief that the president could indeed obtain authorization from the Congress. Panelists also analyzed the reasons for the strong opposition in the Congress. First, the idea of another military intervention was unacceptable to many Democrats who were fatigued over wars in Iraq and Afghanistan and frustrated that the Obama administration's national security policies have not changed much from the Bush administration policies. Second, panelists attributed the opposition among the Republicans to the historical tendency where the power balance within a party tends to shift in favor of the internationalists when their party is in power but in favor of the skeptics of a strong U.S. role in the world when their party is in opposition. According

to this assessment, the very fact that the Republican Party is in opposition shifted the internal balance of power in favor of the anti-intervention groups over the pro-intervention groups. In addition, they argued that Obama failed to obtain the support of the Republicans who otherwise would have supported military intervention because they perceived his proposal to be halfway in nature, falling somewhere in between those who thought it went too far and those who thought it did not go far enough.

While panelists agreed that there is growing resistance among the American public as well as policy and political elites toward military intervention in the aftermath of Iraq and Afghanistan wars as well as the global financial crisis and the U.S. recession, they did not believe that the Syrian case indicates a groundbreaking shift in the paradigm of the U.S. role in the world or a turn towards greater isolationism or greater difficulty for the United States to exercise the use of military force in general. While recent opinion polls did find that the American public is more focused on domestic issues than they are on foreign policy issues, panelists argued that this inward focus does not prove greater isolationism. They cautioned that the Syrian example should not be over-generalized or used to draw conclusions about how U.S. foreign and security policy is affected by domestic politics, as politics differ for different cases. In this regard, panelists argued that there is a very strong bipartisan consensus about the importance of the Asia-Pacific region to U.S. interests and that the United States should remain engaged in this region.

Instead, panelists explained the Syrian case as falling under a broader trend in the U.S. history as a global power. The United States tends to oscillate between decades of active engagement with the world and decades of retrenchment; the 1930s, 60s, 80s, and the 2000s are arguably periods of active U.S. foreign policy whereas the 1990s and the 2010s are periods of U.S. retrenchment. At the same time, panelists argued that this oscillation should not be exaggerated, as there have always been elements of constraint during decades of expansion and elements of engagements during decades of forward-leaning engagement.

Panelists highlighted American attitudes toward trade, which they thought would come as a surprise to the people in Asia. Trade issues are not one of the biggest issues for the United States; only 60 percent of Americans state that trade is good for the country, which is the lowest among advanced economies, while less than 30 percent of Americans believe that trade lowers wages but not prices. Polls did find that 60 percent of the Americans would like to increase trade with Japan, which panelists interpreted as a positive development given the anti-Japanese sentiments in the 1980s when Japan was considered a trade enemy. Finally, polls showed that Americans, in addition to the Chinese, are the least concerned about climate change as a major threat. They argued that the lack of concern among the people of the two major emitters of carbon dioxide poses a major challenge ahead for these countries to take leadership in addressing climate issues.

### ***A divided political environment***

Panelists characterized the current U.S. political environment as highly divided and polarized along party lines. One panelist described the situation as, “Republicans have become more Republican, and Democrats have become more Democrats,” resulting in less conservative Democrats and less liberal Republicans. They argued that a strong political division exists not just in the Congress or between the Congress and the White House, but among the American public as well.

Despite the American public’s desire for the government to operate in a bipartisan way, panelists found that the people are as equally divided along party lines as their government when it comes to specific issues. Panelists pointed to the partisan division on issues of values as one of the fundamental problems in U.S. politics today: in polls conducted since 1987, panelists found that the attitudes of the Republicans versus the Democrats are becoming increasingly different on issues such as the social safety net, environment, labor unions, and equal opportunity.

Partisan division also exists in American attitudes towards the economy, according to panelists. Whereas Republicans are more pessimistic and convinced that the U.S. economy will not improve, Democrats are not pessimistic and are divided in their view on the future prospects of the U.S. economy. Panelists admitted that the greater optimism among the Democrats could be due to having a Democratic president. However, they emphasized the lack of bipartisan agreement on the current state of the U.S. economy as well as its future trajectory. Polls also indicated a strong partisan divide on what people considered were the biggest economic problems facing the United States today: whereas Republicans worried more about the debt and did not recognize inequality as an issue at all, Democrats overwhelmingly considered inequality as one of the biggest issues.

Foreign policy is not immune to partisan divergence among the American public, either. In the case of Iran, for example, panelists found greater support from Republicans than from Democrats to use military force against Iran, though the American public overall is willing to use military force if needed. In another example, Republicans were more likely to see North Korea as a major threat, whereas Democrats were more likely to see climate change as a major threat. With regards to China in particular, Republicans were more concerned about economic issues than Democrats, although 75 percent of the Democrats were worried about specific issues such as the U.S. debt that China holds. Panelists argued that, despite its stronger rhetoric for free trade, the Republican Party’s core constituents are more protectionist than Democrats and want to be tougher on China. Panelists also observed divergence of views between the public and the elites: while the public was more concerned about trade relations with China, elites were more concerned about cybersecurity issues with China. At the same time, elites were no longer concerned about security issues such as Taiwan and no longer concerned about the sovereignty issues in the East and South China Seas. Panelists

also found that the public was more supportive of the U.S. government getting tougher with China, whereas elites were more supportive of building a stronger relationship.

### **Domestic Challenges in Japan and their Impact on Foreign and Security Policy**

In contrast to the United States, panelists agreed that the current political leadership in Japan is relatively strong and stable. This is compared to Japan's political leadership in the past six years between the end of the Koizumi administration and the beginning of the current administration—during which Japan had six prime ministers—and particularly under the three DPJ administrations. In this regard, panelists explained that the frequent change of prime ministers in the past six years is due to the fact that Japan has too many elections and the political parties changed their leaders every time there was a new election, in hopes that putting a new face to their party would increase the chances of winning.

### ***Reasons for the Abe administration's high approval rating***

Panelists offered a couple of caveats regarding the Abe government's current approval rating, which has remained consistently high at around 60 percent and is significantly higher than the previous three DPJ administrations. First, panelists contended that the poor performance of the previous DPJ administrations lowered the expectation of the Japanese people so much that it was difficult for the LDP administration to do worse. The second caveat is that the LDP support base is limited despite its high approval rating. Panelists noted that the LDP enjoyed a very small margin of victory in the 2013 upper house elections in most cases. In their view, LDP won because the opposing forces were divided; there will be different results in future elections should opposition parties be able to unite. The third caveat is that approval rating is an unreliable indicator of how well the administration is performing in terms of effective policies. Panelists insisted that approval ratings only measure the popularity of an administration at a particular moment in time, and can fluctuate over time for reasons that are uncertain. Panelists attributed this fluctuation as a reflection of a changing Japanese societal structure and the way people connect with society and politics since the end of the high-growth era when LDP enjoyed organized votes. On one hand, people are less organized through their employers, schools, or community organizations. On the other hand, individuals are able to connect more broadly with the rest of the world through new media in addition to traditional media. It is thus difficult to deduce any conclusions about the society as a whole in this changing environment.

For these reasons, panelists concluded that LDP's victory in the past two elections does not indicate a return to LDP's one-party rule. In fact, panelists considered that the end of LDP's one-party rule in 2009 brought about a new era in which a change in the administration should always be assumed as a possibility.

However, despite all the caveats, panelists gave credit to Abe and his administration for employing a better strategy than before to pursue his goals and re-emerge as a stronger prime minister.

First, panelists asserted that Abe has been able to exercise stronger political leadership than the previous DPJ administrations which had promised in their manifesto to strengthen political leadership but subsequently failed to do so. Panelists observed that the LDP is much more unified under the leadership of Abe than past LDP administrations. They speculated that the experience of losing to the DPJ and being in opposition gave the LDP an opportunity to break away from its old policies as well as avoid conventional intra-party power struggles, and have a fresh start as a ruling party again. One panelist commented how difficult it would have been in the old LDP days for the Prime Minister to interfere with the appointment of the Governor of the Bank of Japan or to reduce corporate tax rates.

Second, panelists commended Abe for taking proper steps in executing the three pillars or so-called “arrows” of his economic policies, i.e. Abenomics. They agreed that his steps to focus initially on monetary easing and fiscal stimulus were appropriate. They lauded his decision to move forward with growth-oriented structural reforms, including tax reforms, only after the monetary and fiscal stimulus efforts were proven successful. They regarded that this order of steps enabled Abe to endorse the three-party agreement among the DPJ, LDP and New Komeito on a consumption tax hike. Skeptics could have opposed the hike as a step in conflict with Abe’s reflation policy, which implies stimulating the economy by increasing the money supply or reducing taxes. However, by presenting his reflation policy and pro-growth efforts in one package under the mantra of Abenomics and in the order that he did, panelists argued that Abe was able to convince these skeptics to consider the increase in consumption tax as inevitable.

Third, panelists argued that Abe has changed and become more flexible in his policy priorities. According to panelists, in his first term, Abe lost his initial momentum by trying to pursue too many policies at once. Panelists observed that Abe is more cautious this time to focus on the economy, and is testing the water for the popularity of his other initiatives before implementing them. For example, the Abe administration put its energy into TPP negotiations after it confirmed the effects of his monetary and fiscal policies, and held back on discussing the issue of amending the Constitution and collective self-defense rights after witnessing that the public was not ready to discuss these issues.

Despite Abe’s declaration to focus on the economy, panelist agreed that his true desire is to put a priority on strengthening Japan’s national security policy. One panelist endorsed the views expressed in Western media that China’s rise has caused Japan to finally become serious about strengthening its defense and security. According to this panelist, the Abe administration has adopted the Meiji period slogan of “*Fukoku Kyohei*,” (“Enrich the country, strengthen Japan”), which recognizes the need to

rebuild the economy as a prerequisite for stronger defense. According to this view, Abenomics is in fact a security policy like the policy of *Fukoku Kyohei* of the Heisei period.

### ***Survivability and longevity of the Abe administration***

After discussing the factors behind the Abe administration's high approval rating, the big question was: how long will it last?

Panelists agreed that the Abe administration, having won both houses, would enjoy three "golden" years without elections until July 2015, when Japan has upper house elections or possibly a snap election of both houses. After that, panelists expected the LDP to aim to win two elections in a row in order to remain as the ruling party at the time of the 2020 Tokyo Olympics. Regarding the prospect for Abe's term as LDP president, panelists explained that he could serve as long as 5 years and 9 months if he wins the next LDP presidential election in September 2015 and in effect serve more years than former Prime Minister Junichiro Koizumi.

However, for the LDP to win the 2015 upper house elections, panelists agreed that it would be vital for them to deliver results under Abenomics and build enough political capital. One panelist described the daunting task the Abe administration has in its "golden" three years: it must increase the consumption tax to 8 percent in April 2014, thereby raising revenue and improving the fiscal situation, all the while ensuring not to slow down growth and preparing for another tax hike to 10 percent in October 2015. It must achieve the inflation target of 2 percent without causing interest rates to increase significantly, and it must conclude TPP negotiations and subsequently establish and pass an agreement in the Diet.

Moreover, panelists stressed that monetary easing and fiscal stimulus package only have short-term impact, and argued that the Abe administration must implement an effective economic growth strategy, which includes structural reform, for Japan to increase productivity and experience long-term growth. Panelists were uncertain of the administration's ability to implement an effective economic growth strategy, noting that it has not set out any specific measures regarding the third arrow of Abenomics. In this regard, panelists identified four major issues that need to be addressed. The first is the problem of low birth-rates and aging population, which is changing the social economic structure as a result. Panelists urged the Abe administration to take interest in reviewing Japan's social security system to address these changes. The second problem is the maturing of the economy, which has led to the demise of the politico-economic system of the high-growth era and generated new policy issues for employment and growth. Panelists claimed that the Abe administration is showing signs of nostalgia for the high-growth era, and cautioned that it must not raise people's hopes for a growth similar to that era, as Japan's current situation is entirely different. They also added that Abe has raised the people's expectations too high and too quickly, thus

increasing pressure for him to succeed. The third issue is the fiscal deficit, which adds further difficulty to addressing the first and second problems. Finally, there is the issue of Japan's relationship with its neighbors. Panelists discussed the importance of Japan reestablishing its relationship with other countries in the region to enable further cooperation and growth.

One of the greatest difficulties or obstacles for the LDP administration to focus on the economy, according to the panelists, is Abe's revisionist views on history and his "conservative" agendas, including the issue of Constitutional revision and the exercise of the rights to collective self-defense. Panelists agreed that the Abe administration is best advised to address economic issues before pursuing these agendas if the current leadership were to survive past 2015. They contended that people who expect the Abe administration to revise the Constitution in its three golden years, including the Japanese hawks who dream of it and those on the left who worry about it, are not being realistic given the economic difficulties presented. In their view, Abe will end up in a situation of "more haste, less speed" if he rushes to pursue his conservative agendas.

Nevertheless, panelists agreed that Abe will pursue his security and foreign policy agendas if his administration achieves results in Abenomics and wins the upper house elections in July 2015, as he will then have nothing to fear. Some panelists even claimed that Abe hopes to "change the post-World War II international order," and that he might release a statement on history issues similar to the Murayama Statement for the 70<sup>th</sup> anniversary of the end of the Second World War on August 15, 2015.

While some panelists suggested that the prime minister's conservative agendas should be postponed until 2015 to focus on economic issues, other panelists cautioned that these agendas are controversial and are not necessarily popular among the Japanese people at any rate. These panelists argued that Abenomics is the basis for the people's support of the Abe administration, and not Abe's security or foreign policies. One panelist stated that Japanese people are rather centrist if the Abe administration can be characterized as being on the right, pointing to survey results showing less popular support for constitutional amendment when a more detailed explanation is provided. Some panelists expressed concern that Abe and his core supporters do not appear to take the deterioration of Japan's relations with South Korea and China too seriously, and worried that Abe's conservative agendas will raise tensions in East Asia.

Panelists differed on their assessment of what would happen should Abenomics fail. Some panelists argued that Abe's aspiration as prime minister is to enhance Japan's national security policy, and therefore he will begin to pursue his security and foreign policy agendas before he fully implements Abenomics, even if his conservative agendas might reduce his approval rating. Others believed that there would be pressure from within the LDP for Abe to resign if that were the case, and

stated—rather ironically—that Japan will be able to find other candidates for prime minister as it has done six times in the past six years.

### **Implications and Recommendations for Japan and the United States**

Based on their assessments of the domestic political and economic situation of Japan and the United States, panelists concluded that the political leadership is currently stronger in Japan than in the United States, while the economic fundamentals are stronger in the United States than in Japan.

Panelists agreed that Abe's political imperatives are clearly to implement effective economic growth strategy and structural reforms, and to improve the economy in the next three years, however difficult that may be. If the economic initiatives succeed, however, panelists expected the administration to shift its focus far more heavily on foreign and security policy, regardless of whether there is popular support of its policies. Panelists also acknowledged the importance of Japan improving its relations with both China and South Korea to create a regional environment amenable to economic growth. However, given the current difficulties in both of these relationships, panelists stated that maintaining a solid U.S.-Japan alliance would be the key to Japan's security and prosperity. On this point, one panelist stated that Japan must make conscious efforts to maintain the alliance and not take it for granted, as there is a growing need for the United States to share the burden of defense and security with its allies. Panelists cautioned that Japanese political leaders should ensure that domestic frustrations are not taken out on the alliance and explain to the public the importance of the alliance for Japan's security.

With regard to the prospect of the Abe administration overcoming the opposition of the agricultural sector and joining the TPP, panelists noted that Japan has spent three years discussing the pros and cons of the TPP since its announcement in the fall of 2010 to join TPP negotiations. Therefore, it will be easier for Japan to ratify the TPP agreement itself. Panelists contended that the Japanese government is now at the stage of negotiating with the agricultural sector on the conditions under which Japan signs the final TPP agreement, such as compensation measures to make up for any losses that the TPP might bring to the sector. While panelists admitted that Japan's fiscal situation will not guarantee ultimate success of the TPP, they did not expect much difficulty in gathering support from the agricultural sector over the course of the next 10 to 20 years, pointing out that the agricultural population is already aging and declining.

Regarding the U.S. domestic political situation and its implications, panelists provided short-term and long-term perspectives. In the short-term, panelist admitted that the United States faces serious domestic challenges in implementing its rebalance to Asia. Panelists offered the view that the major challenge to the rebalance is not the possibility of U.S. isolationism or distraction to the Middle East region, but the inability of the U.S. government to get its domestic situation in order. They

highlighted issues such as sequestration and the government shutdown as consuming the attention of senior political leaders and undermining U.S. credibility as demonstrated by Obama's cancellation of his participation to the APEC summit in Bali and the East Asia summit in Brunei. Moreover, panelists expressed concern that the political dysfunction will challenge U.S. capacity to sustain military capabilities that are necessary to maintain peace and stability in the region. Panelists also observed polarization not only within the U.S. Congress or between the Congress and the White House, but also among the American people on a wide range of issues. While they agreed that partisanship will always be a problem and is part of a democracy and an "American experience," some panelists expressed concern over the fact that more women, younger Americans, African-Americans and Hispanic Americans are voting for the Democrats, indicating that the demographic future of the Republican Party is imperiled. According to their view, the U.S. political system functions best when there are two vibrant political parties. They contended that bringing the American people back together will be a very difficult challenge, and will affect the rest of the world in a significant way.

In the long-term, however, panelists agreed that the United States will continue to be better positioned than any other country in the world for the next several decades in terms of economic and demographic fundamentals and strong innovation, particularly considering the North American energy revolution. They did admit, however, that the United States has had fundamental economic issues such as wage stagnation and rising income inequality since the 1970s. Even so, panelists maintained that history demonstrates the United States will remain resilient despite all the shortcomings. Panelists also introduced the average results of surveys conducted worldwide that pointed to the overall strength of the United States in terms of its soft power. In particular, the younger generation remains very supportive of the United States worldwide, compared to the younger generation's view of China. There is also strong worldwide support for Obama, except in the Middle East and China, despite his weaknesses domestically.

## Conclusion

The forum identified key features and elements of uncertainty in the current security and economic environment in the Asia-Pacific region that indicate either greater cooperation and stability or greater competition and insecurity. One of the key characteristics of the current regional environment is greater regional integration in terms of expanding security ties, enhanced regional trade connectivity, and a potential development of a regional energy market spurred by the North American energy revolution. The first panel concluded that Japan and the United States confront major opportunities to facilitate the regional integration process that is underway, particularly by promoting regional and global trade liberalization efforts. At the same time, panelists perceived regional security competition as extremely complex and presenting major risks and challenges of crisis management for Japan and the United States—there are more countries with more capable militaries, including weaker countries with asymmetric capabilities, and greater lower-level competition in the domain of law enforcement and coast guards.

The new political leadership in China and Japan is another major element that is influencing regional dynamics. While both countries are focusing on achieving economic growth, they saw risks of social unrest and rising nationalism should their economic initiatives fail. Regarding the Abe administration, panelists contended that one of the major challenges for the new leadership is to conduct effective diplomacy and create a political context that is amenable to its new security initiatives and SDF modernization efforts. Panelists urged Japan to strengthen its ties with not just the United States, but also other countries in the region. This certainly includes Japan's relations with South Korea and China, despite the difficulties that history brings to these relationships. Maintaining communication channels between China would be extremely important given the greater risks of miscalculation and escalation in the current regional security environment.

The future role of the United States is another element of uncertainty that raises questions about the region's future. As functioning democracies, both Japan and the United States have domestic challenges to overcome and address. While panelists agreed that the fundamentals of the United States are strong, they admitted that there is strong partisan division among both the American public and policy elites. In this regard, the future of the U.S. rebalance to Asia and its role in the world will hinge on its ability to bring the American people back together. With regards to Japan, panelists agreed that the political leadership under Abe is relatively strong compared to the leadership of the previous six years. However, given Japan's aging and declining population, they agreed that the Abe administration's imperatives must be to implement an effective economic growth strategy and not his "conservative" policies such as Constitutional amendment.

As a result of an extensive discussion on the challenges and uncertainties that Japan and the United

States face in the region and at home, participants voiced renewed appreciation for the importance, utility, and appropriateness of continuing to strengthen the U.S.-Japan alliance going forward. While questions were raised as to whether the United States could continue to demonstrate leadership in the world, and doubts were expressed over the potential success of Japan's Abenomics and the Abe administration's ability to continue to exercise strong political leadership, panelists remained confident and optimistic that Japan and the United States were the most thriving democracies in the world, and that this bilateral relationship will play a central role in establishing regional norms, order, and a platform for further economic prosperity.

## < SPEAKER BIOS >

### **KEYNOTE SPEAKER:**

**KURT M. CAMPBELL** is Chairman and Chief Executive Officer of The Asia Group, LLC, a strategic advisory and investment group specializing in the Asia Pacific region. He is also Co-Chairman of the Board of the Center for a New American Security (CNAS) and writes a regular column and book reviews for the *Financial Times* of London. From 2009 to 2013, Dr. Campbell served as the Assistant Secretary of State for East Asian and Pacific Affairs, where he is widely credited as being a key architect of the “pivot to Asia.” He was awarded the Secretary of State’s Distinguished Service Award in 2013. Previously, he was the CEO and Co-Founder of CNAS and concurrently served as the Director of the Aspen Strategy Group and Chairman of the Editorial Board of the *Washington Quarterly*. Prior to that, he was Senior Vice President, Director of the International Security Program, and Henry A. Kissinger Chair at the Center for Strategic and International Studies. He was also Associate Professor of public policy and international relations at the John F. Kennedy School of Government. Dr. Campbell is on the Board of Directors for Standard Chartered Bank of London and MetLife Insurance in New York, and on the board of a number of organizations including the Advisory Board of the UC San Diego School of International Relations and Pacific Studies, the Association of Marshall Scholars, among others. He is a member of the Council on Foreign Relations, the International Institute for Strategic Studies in London and the Trilateral Commission. He has author or co-author eight books on foreign policy and national security. He is currently writing a book about his experiences in the Obama Administration working on Asia, tentatively entitled *The Pivot: America’s Rediscovery of the Asia-Pacific Century*. Dr. Campbell received his B.A. from the University of California, San Diego, a Certificate in music and political philosophy from the University of Erevan in Soviet Armenia, and his Doctorate in International Relations from Brasenose College at Oxford University where he was a Distinguished Marshall Scholar.

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#### **PANELISTS:**

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