

# U.S.-Japan Commission on the Future of the Alliance

Interim Report

July 14, 2014

## *Introduction*

In 2013, the Sasakawa Peace Foundation and the Center for Strategic and International Studies (CSIS) established a bilateral commission of distinguished policymakers and scholars to develop common goals, a shared vision for the U.S.-Japan Alliance and Asia through 2030, and recommendations on how to achieve that vision and those goals across a wide spectrum of possible future developments. Co-chaired by Richard Armitage, John Hamre, and Ryozi Kato, the Commission has met three times, most recently on July 14, 2014 in Tokyo, to discuss emerging medium and long-range security challenges and steps that might be necessary to upgrade the alliance and U.S. and Japanese strategies going forward. Thus far, expert papers and briefings have been prepared for the Commission on: Chinese strategic drivers, the Chinese economy, the future of Chinese military power, current U.S. and Japanese security policies and reforms, the Korean Peninsula, energy cooperation, and broader bilateral issues such as the Trans-Pacific Partnership (TPP). This interim report introduces current assessments of the Commission.

The following papers are attached as annexes to this report.

- Decoding China's Emerging "Great Power" Strategy in Asia
- Final Report: Research on PLA Modernization
- The Future Economic Growth of China and Security in East Asia
- Maritime Expansion by China as it Pursues Changes in Order
- Report on Energy Security
- Japan's Democracy Diplomacy

## *An Alliance Based on Common Values and Interests*

For over six decades the U.S.-Japan alliance has been the cornerstone of security and prosperity in the Asia Pacific. Despite dramatic changes in the international system and the relative distribution of power between the two countries, the Treaty of Mutual Cooperation and Security between Japan and the United States remains the centerpiece of both U.S. and Japanese strategy in Asia. Indeed, the drafters of the Treaty presciently included Article II specifically linking security to broader concerns over economic cooperation and institution building. The core strategic bargain struck between Japan and the United States over a half century ago—a U.S. commitment to defend Japan in exchange for access to bases in Japan for the maintenance of peace and security in the Far East—remains valid today, but is in need of significant re-examination and modernization in response to changes in the Asia Pacific, the broader international system, and political and economic developments in both countries.

### *The Evolving Security Environment: General Characteristics*

Asia stands out as the world's most dynamic region where increasing economic interdependence and prosperity coincide with intensified friction among the major powers. The United States will continue to be the world's strongest power for decades to come and will remain central to the balance of power in East Asia. While there is broad support in the region for establishment of an Asia Pacific community built on mutual interests and a new array of multilateral fora for security and economic cooperation, the ability of the region to produce security based on mutual trust has not kept pace with the challenges derived from changes in relative power balances, territorial disputes, historical animosities, and nuclear proliferation. This has put a continued burden on the United States and Japan to ensure regional stability and a higher expectation on Japan to be a proactive contributor to peace and security. With new questions about the extent to which China will use its growing economic and military power to challenge the current rules-based system or coerce smaller neighbors, the United States, Japan, and like-minded states are seeking ways to reinforce rule-making and preserve a favorable balance of power without inhibiting China's contribution to economic and political development in the region. Successive American and Japanese governments have been focusing on this challenge for almost two decades, with other regional states increasingly looking to the U.S.-Japan alliance to guarantee a favorable strategic equilibrium, yet understandably cautious about incurring hostility from Beijing or breaking the pattern of favorable economic interaction with China. The intensifying pace of Chinese pressure on neighboring states has suggested to the Commission the importance of reassessing the drivers of China's strategy toward the region and re-evaluating the most effective tools for engagement, deterrence, dissuasion, and reassurance with Beijing. A successful strategy would help shape the strategic environment to provide incentives for responsible Chinese behavior and disincentives for destabilizing behavior.

### *China's Strategic Intentions*

The Commission has been examining the diplomatic, military, informational, and economic components of Beijing's unfolding strategy in Asia and the range of potential political, military, and economic futures for China. While the leadership of the Chinese Communist Party (CCP) is committed to further sustained economic growth and there are indications that it generally appears to be seeking positive engagement, particularly with the United States, recent developments suggest the need for an ongoing evaluation of Beijing's strategy based on a careful and objective analysis of (a) China's capabilities (particularly military), (b) its behavior pattern, and (c) its intentions. The Commission agreed that, ultimately, a major conflict in East Asia would be devastating for the entire region, but would pose the greatest threat to China and the legitimacy as well as survival of the CCP itself. The Commission continues to examine how Beijing calculates the risks of a potential conflict in political, diplomatic, economic, and military terms and to consider how frontline states can better contest and deter Chinese provocations, including by taking more proactive steps rather than trying to respond to each successive step taken by Beijing. The Commission notes that many East Asian countries have expressed

concern about the recent remarks and actions of Chinese leaders about China's expanding role and influence.

At this stage and as part of this examination, the Commission engaged in an assessment of People's Liberation Army (PLA) doctrine and capabilities, focused mainly on the PLA threat to maritime East Asia. The general thrust of Chinese doctrine is clear in the development of capabilities for anti-access and area denial in the first and second island chains with a steady move towards increased PLA power projection capabilities. The research suggests that while sea and air space will remain open to all in peacetime, in the event of widespread conflict, China would likely attempt to deny their use to the United States, Japan, and their friends and allies. Although the United States and its allies have the capability to defeat such efforts, the continued growth of China's capabilities means that this task will require a costly investment in the years ahead. Moreover, the risk of accidents or incidents in the East and South China Seas is increasing in correlation with Beijing's own strategy for "grey zone" coercion with respect to Chinese territorial claims.

The United States, Japan, and like-minded countries will have to approach this "grey zone" challenge, as well as the long-term challenge to the balance of military power in East Asia, conscious of the need for deterrence, escalation control, and with a proactive strategy. Toward this end, strengthening the United States' position in Asia is necessary and President Obama's "pivot to Asia" was welcomed by most countries in the region. President Obama's April 2014 trip to Asia was also successful in confirming the U.S. commitment to its security partners. Yet, the Commission believes that more substance and resources will be needed to make the U.S. rebalance truly credible and reassuring. The United States and Japan will need to actively support their own interests in the region, whether they are territorial claims, freedom of the use of the seas (including exclusive economic zones), or the more general principle of peaceful settlement of disputes. In regional conflicts the United States and Japan are currently in a strong position to control and use sea and air space in East Asia. Undersea control will remain a particular edge for the U.S.-Japan alliance. In contrast, China can attempt to deny the United States or Japan use and control, but cannot control and use sea and air space for its own purposes. Ultimately, if the alliance is modernized and made more robust across a range of possible futures for China, the basic power equation will remain the same through 2030 (the timeframe of this Commission's study): together, the United States and Japan present a partnership that can prevent China from achieving its territorial ambitions through military force. The higher risk to China in a general conflict does not in itself mean that Beijing will be deterred in future scenarios from seeking quick victories in the maritime domain, counting on its adversaries to accept them as *faits accomplis*. U.S. and Japanese strategies for the full spectrum of challenges, from peacetime "grey zone" intimidation to more consequential escalation, will remain a major focus for the Commission's work.

At the same time, and as a matter of course, the objective of U.S. and Japanese strategy is not to presume or expect conflict with China. As China develops economically and assumes its position in the international system as a full partner, the

United States and Japan have much to gain. Effective deterrence supported by a favorable military balance remains an essential component to maintain stability in the Asia Pacific. To achieve a more peaceful and prosperous Asia Pacific, however, the integration of China into a rules-based Asia Pacific community is of the foremost significance. In this context, the emergence of a broad regional consensus in favor of that rules-based community will naturally have an important effect on China's own future choices and internal debates. Toward this end, proactive and well thought out diplomatic and economic strategies, on top of the effective deterrence mentioned above, will be required. In other words, to get China strategy right, the United States and Japan, through close mutual consultation and policy coordination, must get their Asia strategies right.

### *The Strategic Chessboard*

Commissioners have examined opportunities to work with other like-minded states to reinforce regional solidarity, dissuade unilateral coercion, and build greater capacity to provide common security in the Asia Pacific. Networking of the U.S.-Japan alliance with Australia, India, and the Republic of Korea (ROK) will be particularly important, while recognizing the unique perspectives of each of those important democracies. Japan and the United States also have a shared interest in deepening diplomatic, economic, and security ties with the Association of Southeast Asian Nations (ASEAN) given the importance of cohesion in regional diplomacy and ASEAN's own limited ability to maintain consensus and resist coercion stemming from maritime sovereignty claims and territorial disputes in the South China Sea. The Commission will continue examining ways that the United States and Japan can help to reinforce the resilience of ASEAN and to develop new cooperation with key states such as the Philippines, Vietnam, Malaysia, and Indonesia. The Commission will be particularly focused on ways the United States, Japan, and other like-minded states can promote regional security cooperation in non-traditional areas such as humanitarian and peacekeeping operations and assist with capacity building measures that make smaller states less vulnerable to great power pressure and encourages those states to take the initiative to support their own interests.

The Commission will also deepen discussions regarding developments on the Korean Peninsula, recognizing the diminishing returns from diplomacy with North Korea, the need to repair Japan-ROK relations, the importance of U.S.-Japan-ROK trilateralism to cope with the evolving proliferation and missile threats from the North, and North Korea's role as an increasing strategic liability for China.

Commissioners recognized the positive role that Japan-Russia cooperation on Russian energy resources can have on stability in the Pacific over the longer term. At the same time, Commissioners agreed on the need for international solidarity and close U.S.-Japan coordination in the face of destabilizing Russian actions toward Ukraine and Eastern Europe.

Across these themes the Commission will look for opportunities to expand cooperation and confidence building with China. There is a need to explore how the region can work with China in a productive manner and in what areas. China's growing influence could be an obstacle to resolution of challenges (such as North Korea's nuclear and missile proliferation), a source of leverage, or something in between. In the view of the Commission, strong U.S.-Japan collaboration with like-minded states to resolve such challenges is more likely to encourage China's collaboration and discourage Beijing from enabling regimes like North Korea that threaten regional peace and stability. Ultimately, an inclusive and stable regional order will depend upon China's support for the rules and norms that have underpinned security and prosperity since the Second World War, and the United States and Japan should develop strategies that move us toward such a relationship with China.

### *Assessing Progress in the Alliance to Deal with these Challenges*

The U.S. and Japanese governments have initiated important reforms and modernization of the U.S.-Japan alliance to deal with the new security environment and to reflect major changes in technology, resources, and political dynamics. Opinion polls indicate that Americans have high trust in Japan, that Japanese strongly support the U.S.-Japan alliance and recognize the need for more proactive and pragmatic Japanese security policies, and that the international community holds Japan in high regard. There will be difficulties with China and sensitivities in Korea that merit careful consideration, but there has never been such a robust international consensus for a strong U.S.-Japan alliance and new responsibilities for Japan in the fields of security and diplomacy.

As noted earlier, the United States has important additional work to do to put substance into the rebalance to Asia announced over two years ago. In addition to the military initiatives it has taken to maintain deterrence against aggression in the region, the United States and Japan need to lead the successful completion of the Trans-Pacific Partnership in order to rekindle the momentum for a Free Trade Area of the Asia Pacific. Using the network of bilateral and multilateral fora in the region, the United States and Japan need to re-establish the shared vision of a peaceful and prosperous Asia concentrated on improving the lives of its citizens and dealing with common threats such as environmental damage, crime, and terrorist groups. Both need to help the countries of the region peacefully resolve disputes over small island claims and historical resentments, rather than allowing them to dominate relations in the region.

In its relations with Japan, the United States needs to welcome and initiate real consultation on all important issues. Japan is its most powerful ally in the region and all important U.S. security and economic policies toward the region should be decided in close consultation with Japan, and these policies should be executed in careful coordination. There should be no surprises in the relationship and there should be a shared vision of the future so that the independent actions of both countries contribute to achieving it.

President Obama's state visit to Japan in April 2014 was an important step forward in this regard. The President endorsed the defense reform agenda of the Abe government, including consideration of the exercise of the right of collective self-defense and the establishment of a National Security Council and legal framework for information security to facilitate intelligence and policy coordination between the two governments. Prime Minister Abe expressed Japan's support of the U.S. strategic rebalance to the Asia Pacific region, and the two leaders issued a joint statement reaffirming the importance of the alliance in that context.

Commissioners have discussed the need for further efforts to strengthen the alliance in the face of expanded challenges and constrained internal resources. On the security front, it will be particularly important to complete the new bilateral U.S.-Japan Guidelines for Defense Cooperation by the end of the year and address cooperation in "grey areas" of coercion that fall short of military conflict, as well as other issues such as cyber, space, missile defense, and enhanced defense industrial cooperation following the relaxation of Japan's three arms export principles. The new Guidelines also provide the two governments a golden opportunity to illustrate expanded areas of security cooperation based on the Abe government's Cabinet decision to exercise the right of collective self-defense, a critical ingredient for joint U.S.-Japan contingency planning. The July 1 Cabinet decision in Japan with respect to collective self-defense was historically important, but must be followed by specific legislation in the Diet and deliberate planning between the United States, Japan, and other like-minded democracies. It will also be important to continue promised and long overdue realignment of U.S. bases and to examine future scenarios for realignment that might include options such as combined use of bases. Commissioners welcomed Prime Minister Abe's effort to increase steadily Japan's defense capability.

While welcoming the U.S. rebalance to Asia and Prime Minister Abe's proactive security agenda, the Commissioners will explore longer-term options to build an alliance by 2030 that is more joint and combined, including combined bases under Japan's flag, and networked with other regional and global partners.

### *Broadening the Foundations for Security*

Rules-based economic growth and integration will be indispensable for both regional prosperity and security. In this context, the success of "Abenomics"—Prime Minister Abe's strategy for sustained growth combining fiscal stimulus, monetary easing, and structural reform—is a predicate for his security agenda and diplomatic initiatives to further Japan's leadership role on the world stage. U.S.-Japan trade negotiations under the rubric of the Trans-Pacific Partnership—designed to enhance economic competitiveness by eliminating market barriers and setting high standards for regional economic integration—also constitute a bellwether for Abenomics and the economic pillar of the U.S. rebalance to Asia. Narrowing gaps between Washington and Tokyo on these issues and enhancing cooperation in other areas, such as energy security, will prove essential in revitalizing the economic agenda of the alliance. Moreover, if completed successfully, TPP will provide a clear path toward a region-wide Free Trade Area of the

Asia Pacific including China. These elements will be a central theme for the Commission going forward.

### *Enhancing Cooperation on Energy Security*

Japan needs a comprehensive energy strategy as a foundation for sustained economic growth and the importance of U.S.-Japan energy cooperation cannot be over-emphasized. There are three issues that both Japan and the United States must address as they seek to maintain stability in Asia at a time when energy demand is expanding in the region. First, Japan and the United States should strengthen cooperation in promoting the peaceful use of nuclear power. After the Fukushima accident, Japan is risking its economic recovery by depending too heavily on fossil fuel imports from the Middle East. Diversification of energy sources is essential. The Commission strongly supports the Japanese government's recent strategy in which nuclear power is critical to base load generation and diversification of energy sources. While many emerging Asian countries plan to use nuclear power, Japan and the United States should have a leading role in promoting peaceful and safe use of nuclear technologies and better management of the nuclear non-proliferation regime in the region. Toward this end, Japan and the United States should work together to recover the lost public trust in post-Fukushima Japan by enhancing cooperation in research and development of proliferation resistant and passive-safe reactors. In addition, the United States and Japan should increase cooperation on nuclear fuel cycle technologies which can help solve nuclear waste issues and exercise urgent decontamination and decommissioning at Fukushima. The Commission recognizes the growing problem of contaminated water accumulation at Fukushima and encourages the Government of Japan to draw upon recognized international experts on decommissioning and disposal of nuclear power plants in order to advance international best practices and reassure the people of Japan of the government's high safety standards.

Second, the Commissioners agree that U.S. exports of liquified natural gas from shale gas to Japan should be a goal of U.S. policy, where market-based approaches to reduce the "Asia premium" are in both countries' national interests.

Third, the United States and Japan should examine how the exercise of the right of collective self-defense can enhance bilateral cooperation to secure sea lanes (e.g., mine clearing activities).

### *Future Research Agenda*

Building on discussions to date, the Commission has identified the following areas for further examination as it works toward developing a shared vision for the future of the alliance:

- Establishment of a working group to refine U.S.-Japan strategy with a focus on cooperation with China and effective means for reassurance, dissuasion, and deterrence;
- Focus on Southeast Asia in the context of the Commission's overall strategy;

- Development of strategic options to deter and denuclearize North Korea and revitalize U.S.-Japan-ROK cooperation;
- Development of an agenda for U.S.-Japan cooperation on cyber; and,
- Recommendations for medium- to long-term options to modernize the alliance in light of new challenges, including measures to enhance jointness and interoperability and options for realignment and strengthening of the U.S. forward presence in Japan and the Asia Pacific region.

The Commission will aim to incorporate findings into a final report to be released by the end of 2015 that will define a common U.S. and Japanese vision and goals for the future of Asia through 2030. This final report will also provide a strategy and concrete recommendations on the alliance and the broader U.S.-Japan relationship to achieve those goals in a robust manner encompassing a wide spectrum of possible futures.