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June 9, 2011

Straight Talk on Disaster Recovery

Yutaka Harada

Rebuilding from the Great East Japan Earthquake is a daunting task, but funding should not be a major problem—as long as the government uses its resources to empower local residents instead of micromanaging reconstruction from Tokyo and splurging on grand public-works projects.

These days everyone seems to be weighing in on government plans for post-disaster reconstruction, yet for some reason the discussion has failed to address a number of crucial points concerning the economics of recovery. In the following, I attempt to clear the air by asking and answering five key questions.

1. Will it really take that much money?

In a statement issued March 23, 2011, the Cabinet Office tentatively valued the loss of tangible assets from the Great East Japan Earthquake at between 16 trillion and 25 trillion yen. It seems to me, however, that the price tag for reconstruction should be considerably lower.

The accompanying table shows the estimated capital stock of the three hardest-hit prefectures in the Tohoku district (Iwate, Miyagi, and Fukushima) as of the end of 2009.

Capital stock in the three prefectures prior to the March 11 earthquake and tsunami is estimated at 57 trillion yen. In a region with a population of 57.1 million and with 2.37 million housing units (Housing and Land Survey, 2008, Ministry of Internal Affairs and Communications), the disaster resulted in 157,122 victims—including 14,622 dead, 11,019 missing, and 127,076 displaced—and damaged or destroyed 366,731 buildings (National Police Agency Emergency Disaster Headquarters figures, April 30, 2011).

Physical damage from the quake and tsunami has been estimated at 10%–20% of the region's total fixed assets (57 trillion yen). If we take the upper figure, 20%, this yields losses of 5 trillion yen in the private sector and 6 trillion yen in the public sector. Even if the government were to cover half of private-sector

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losses, it would need to spend only 2.5 trillion yen for the private-sector losses in addition to the 6 trillion yen in public-sector losses, yielding a total recovery cost of 8.5 trillion yen. (Costs will be higher, though, if damage from the Fukushima nuclear accident is included.)

Pre-Quake Capital Stock in Iwate, Miyagi, and Fukushima Prefectures (year-end 2009)

(trillion yen)

		3 prefectures	Japan
Private sector	Housing	8.9	224.8
	Nonresidential buildings	9.0	215.0
	Transportation equipment	1.1	27.2
	Other	6.3	149.4
	Private total	25.4	616.5
Public sector	Structures (roads, bridges, etc.)	29.2	508.3
	Facilities & other fixed assets	2.4	59.0
	Public total	31.7	567.2
Total		57.0	1,183.8

Note: Estimated value of fixed assets in three Tohoku prefectures derived by multiplying gross national fixed assets for 2009 by the three prefectures' share of the national total in each sector (shares calculated from cumulative gross fixed capital formation between fiscal 1955 and fiscal 2007).

Source: Compiled by Daiwa Institute of Research from Cabinet Office statistics.

There are two closely interrelated reasons for inflated reconstruction costs: inefficient use of funds and over-reliance on public works. To illustrate the first point, I need only cite some of the (impracticable) schemes that are already being floated—rebuilding shopping districts that were largely shuttered before the tsunami hit; removing the tops of mountains to create high ground for new housing; and building super-high tsunami walls off the coast.

Supporters of such projects point to Japan's shortage of usable land. But like most rural areas of the country, the Tohoku district has been plagued by demographic aging and depopulation over the years. As a result, abandoned farmland and empty farmhouses abound just a few kilometers inland from the ravaged coast. They can be offered to displaced victims quickly, at low cost, and without destroying the natural environment. For workers in the fishing industry, this would mean commuting to the coast by car; but those relocating to high ground would have to drive to work anyway; it might take slightly longer from an inland farm, but a few more kilometers for such a commute would make little differ-

ence. The real issue, according to some sources, is that the villagers want to be able to see their boats from their homes.

Another inefficient use of public funds is the construction of tens of thousands of temporary homes for the evacuees. Winters are cold and snowy in northern Japan, so a single 32-square-meter unit capable of withstanding the elements costs close to 5 million yen. Under the circumstances, might it not be cheaper just to offer each displaced household a subsidy for the down-payment on a new home? Providing people with permanent places to live gives them hope for the future and helps them resume normal, productive lives. Furthermore, the construction of all those new homes would provide a huge boost to industry in northern Japan and create thousands of jobs—jobs that displaced farmers and fishermen could fill in many instances. Of course, construction of permanent housing takes time, and fairness must be ensured. To this end, the government could also extend grants to those who put up friends or relatives for a certain period of time, say two years. Instead of making temporary housing available all at once, people can then take their time building their own homes.

The foregoing helps illustrate why financing reconstruction solely through public investment results in higher costs. Traditionally, the Japanese government has made it a rule not to use tax money to pay for the recovery of personal property, such as private housing. While there is a certain logic to this principle, it makes little sense to insist on it if this results in higher expenditures. And the fact is that direct assistance to help people recover their personal assets is likely to end up costing the government and the taxpayers less.

2. What are the goals?

The basic goal of post-disaster reconstruction should be a return to normal living and working conditions for the residents. At the most basic level, this means homes and jobs. We have touched on housing; now let us consider jobs.

Returning the Tohoku district to normalcy means rebuilding the industrial base that provides jobs and income. The industrial base of this district long consisted of agriculture, fishing, and tourism, but since the second half of the 1990s, an important additional source of jobs has been created through investment in factories that supply parts for the automotive and electronics industries. Post-disaster reconstruction means rebuilding both the new and the old industries.

To revive the electronics and automotive parts industries, the government can rely on the big manufacturers, supporting the effort by assisting subcon-

tracting firms as needed. Rebuilding the farming and fishing industries is a more complicated matter.

The fishing industry is supported not merely by the people who catch the fish but also by those working on and around the docks, at the fish market (including those catering to tourists), and at fish-processing facilities. To revive the industry, these people must agree on a common goal and cooperate to achieve it. This is a delicate process—since many older residents will be unable to make a significant contribute if they are placed in completely unfamiliar surroundings—and not something the government can orchestrate from Tokyo. But the government can give it a boost by providing individuals with the basic means to rebuild.

Given the means to buy new boats and homes, the people who make up the core of the fishing industry will do whatever else it takes to rebuild their lives and communities, and their determination will inspire others with the confidence and motivation to rebuild as well.

Fishermen, for instance, have skills that give them value as human capital: They know how to navigate fishing boats, choose the time and place to fish, haul in their catch, and keep the fish fresh until it they get it to market. However, without physical capital in the form of fishing boats, this human capital is wasted. So the most cost-effective way for the government to support the recovery of the fishing industry is to empower the people who work in it to recover their personal property.

If, on the other hand, the government insists on not assisting the recovery of personal property, the only alternative would be to provide new sources of income and jobs through massive and costly public works projects. Would a departure from this rule not be justified if it meant accomplishing recovery more efficiently and at lower cost to the taxpayer?

The truth is that the government has been moving in that direction for some time now. In the wake of the January 1995 Great Hanshin Earthquake, the government broke with precedent by providing direct financial assistance to those whose homes had been damaged or destroyed. Later the Act on Support for Livelihood Recovery of Disaster Victims instituted subsidies of up to 3 million yen per household for those who lose their home in a disaster. To cope with the March 11 disaster, the government now plans to increase those subsidies. In addition, it intends to reduce the burden of double mortgage payments for victims who want to buy a new home while paying off the mortgage on their destroyed home; raise to 4 million yen the maximum amount a person can retain in cash or bank deposits when filing for bankruptcy (according to

March 31 newspaper reports); and provide debt relief to disaster-hit businesses with government loans (*Nihon Keizai Shimbun*, April 5). The opposition Liberal Democratic Party is unlikely to resist these measures. In short, many administrators and politicians have already come to the realization that providing assistance to individual disaster victims is a more efficient use of public funds than public works.

3. How should we fund it?

A basic principle of public finance is that long-term spending increases should be covered by tax increases, while temporary expenditures can be met by issuing government bonds. Raising funds for temporary expenditures through bond issues encourages efficient spending, while establishing a permanent new revenue source by raising taxes increases the likelihood of wasteful spending. Since the post-quake reconstruction qualifies as a temporary expenditure, there should be no objection to financing it with government bonds.

Moreover, assuming that the total cost of reconstruction is 8.5 trillion yen, even if Japan were to experience a comparable disaster every 15 years, the annual cost would still amount to only 600 billion yen—scarcely enough to merit a permanent tax increase.

Furthermore, if the funds are used efficiently, the fiscal multiplier—that is, the ratio of additional GDP generated to additional government spending—should be substantial. Spending to repair or rebuild roads, for example, will have a dramatic effect on production, since factories are unlikely to resume production unless there are passable roads for transporting what they produce. Under the circumstances, every 100 million yen spent repairing roads is likely to yield several times that amount in increased production. In other words, the long-run multiplier effect of government spending on roads could be as high as 5 or even 10.

But what about concerns over the national debt? Japan's cumulative debt as of the end of fiscal year 2010 was 637 trillion yen, while its nominal GDP in fiscal 2010 was 474 trillion yen—a debt-to-GDP ratio of 134.4 %. Let us suppose that the government issues 10 trillion yen in bonds to finance a recovery program. The bond issue causes the debt to rise to 647 trillion yen. On the other hand, the government spending boosts the GDP. Assuming the multiplier is 1, then GDP rises to 484 trillion yen, and the resulting debt-to-GDP ratio is 133.7%—an improvement, albeit a minimal one. The higher the multiplier, the greater the drop in debt-to-GDP ratio.

Now, some will doubtless wonder how Japan's debt-to-GDP ratio ever got as high as it is if the ratio falls even when the fiscal multiplier is only 1. There are two ways to explain this. The first is that the fiscal multiplier has in fact been less than 1 over the long run, indicating that use of public funds has been inefficient. This is not hard to imagine. If the government were to spend funds to restore shuttered shopping strips to their pre-quake state, for example, the costs of construction would add to that year's GDP, but the growth effect would stop after that, and the long-run multiplier would be less than 1. On the other hand, if the same amount of money were used to restore roads, making it possible for factories to resume production, the contribution to GDP would include not merely construction costs but also the volume of factory production—a contribution that would continue year after year.

Another explanation for the ballooning debt is offered by the Mundell-Fleming model. Under this model, when government expenditures increase under a system of floating exchange rates (which is what we have now), interest rates rise relative to those of other countries, causing capital to flow in, which strengthens the local currency. A stronger local currency leads to a drop in net exports, which cancels out the positive effect of government spending. This means that government spending does not lead to higher GDP unless accompanied by an expansionary monetary policy.

In either case, it follows that government must use public funds efficiently and loosen credit at the same time. Higher taxes, on the other hand, would create new, permanent sources of revenue that could lead to wasteful infrastructure investments.

4. Do we need a central agency to plan reconstruction?

Some people are of the opinion that a new agency should be set up within the government to plan and oversee post-quake reconstruction. It is true that the Imperial Capital Reconstruction Agency—formed and headed by Home Minister Shinpei Goto, a highly able statesman—successfully oversaw Tokyo's reconstruction following the Great Kanto Earthquake of 1923. But that does not mean that a comparable agency would be a good idea today.

Recovery from the Great Kanto Earthquake centered on Tokyo, the nation's capital. There was no doubt regarding Tokyo's potential to develop and emerge as a world-class modern city. But its infrastructure was woefully inadequate. The Imperial Capital Reconstruction Agency's task, therefore, was not merely to rebuild the city but also to equip it with the modern urban infrastructure it lacked.

The officials and staff of the agency, from Goto on down, all lived in the city they were rebuilding, and the key planners were experts who understood Tokyo and its requirements as the Japanese capital far better than ordinary residents did. Under these special circumstances, top-down centralized planning by a small, elite group functioned effectively.

The situation today is very different. The region hit by the March 11 disaster is scarcely an area with high growth potential and inadequate infrastructure; in fact, its population has been aging and dwindling for years. And people in Tokyo are not in a better position to know how reconstruction should proceed.

The idea of creating a separate, centralized administrative organ to take charge of reconstruction is predicated on two fallacies: the notion that reconstruction requires intensive investment in large-scale projects, and the idea that a Tokyo-based group of experts is best qualified to plan Tohoku's reconstruction. In fact, such a group would have little idea how to proceed. We have already seen that intensive spending on big-ticket public-works projects may not be the most cost-effective way of helping people get back on their feet.

Indeed, centralized planning agencies of this sort are all too apt to draft grandiose civil engineering schemes—such as projects to remove mountaintops to create new tableland, use the rubble as landfill to create more high ground, and relocate whole communities to these artificial plateaus.

Shearing off the top 100 or so meters of a mountain and building up high land from the rubble is a monumental project. Furthermore, while hills built from landfills may have the advantage of height, they are inherently unstable. Many communities built on reclaimed land in the relatively gentle hills around Sendai were destroyed by landslides in the recent earthquake. Meanwhile, the cost of building homes on the rugged mountains of the Sanriku district could amount to several hundred thousand yen per square meter—and this in an area where a square meter of typical residential land sells for about 15,000 yen. This is scarcely a prudent investment.

The basic role of any reconstruction authority should be that of designing a system for the restoration of Tohoku's assets equitably and overseeing that system to ensure that it operates as designed. Surely this role can be performed by existing administrative organs.

5. How can we replace nuclear power?

One major reason for the slow recovery from the March 11 disaster is the accident at the Fukushima Daiichi Nuclear Power Station. I do not claim great ex-

pertise in the field of nuclear power, but I do believe people are fundamentally misguided when they call for drastic cuts in energy consumption and use of alternative energy as replacements for nuclear power.

The way to provide the power we need is to build conventional thermoelectric power plants. Yes, this will lead to an increase in carbon dioxide emissions. But Japan is responsible for only 4% of the world's CO_2 emissions. If we replaced our nuclear plants with conventional thermoelectric power facilities, our share would rise to 5%, and global emissions and fossil fuel consumption would rise 1%. This can be covered through reductions in other countries, with Japan providing technologies to enhance the energy efficiency of those countries with high CO_2 emissions. This, from Japan's perspective, would be the most cost-efficient way of reducing greenhouse gas emissions.

Switching from nuclear energy to fossil fuels might increase energy costs, but probably by less than people suppose. According to the March 2004 issue of the *Genshiryoku hatsuden shikiho* (Nuclear Power Quarterly), an industry publication, the cost of generating one kilowatt-hour of electricity with liquefied natural gas is only slightly higher than the cost of nuclear power, 6.3 yen as opposed to 5.3 yen (although recent increases in the price of LNG have probably increased the differential). Moreover, some have questioned these figures, citing dubious assumptions concerning capacity utilization rates and a failure to factor in the costs associated with the decommissioning of reactors, the reprocessing of spent fuel, incentives paid to local governments and communities, distribution, and pumped storage for load balancing, not to mention the budgets of Japan's nuclear regulatory bodies.

It seems to me that if nuclear power were as cheap as the industry claims, then the power companies would not have hesitated to invest in safety measures that would have prevented the Fukushima accident. While the plant itself cannot be moved, say, 20 meters higher, it should have been possible to situate crucial electric generators and pumps on higher ground, place critical equipment in waterproof buildings, and build ample freshwater storage tanks—all for not more than several billion yen.

Conclusions

1. Projected reconstruction costs are too high

The cost of recovery and reconstruction from the March 11 disaster should be no more than 8.5 trillion yen. The reasons for inflated costs are inefficient use of funds and over-reliance on public investment.

2. Supporting recovery of personal assets is an efficient use of reconstruction funds

Rebuilding from the Great East Japan Earthquake means restoring the industries that provide jobs and income. In the case of the fishing industry, the most cost-efficient way to do this is to support the restoration of lost personal property. It will cost far more to maintain income through public works.

3. Public bond issues are a legitimate way to fund the recovery

Since post-disaster reconstruction is a one-time expense, it is acceptable to finance it with government bonds. This will increase Japan's national debt, but if reconstruction funds are used efficiently, the debt-to-GDP ratio will fall.

4. A central reconstruction agency is a bad idea

No central government agency can adequately grasp the situation on the ground in Tohoku. Furthermore, central planning authorities are apt to embrace overly ambitious and costly reconstruction plans. The job of the reconstruction authority should be creating and overseeing a system for restoring personal assets lost in the disaster, and this role can be performed by existing agencies.

5. Replace nuclear energy with fossil fuels

The best way to make up for the loss of nuclear power in Japan is not to conserve energy or to use alternative energy sources but to build thermoelectric power plants that burn fossil fuels. Replacing nuclear energy with fossil fuels will only increase total global emissions by 1%, which can be covered by providing energy-saving technologies to countries with low energy efficiency.

June 15, 2011

Protecting Our Land from a Post-Quake Fire Sale

Hideki Hirano and Shoko Yoshihara

In the wake of the March 11 disaster, Japan's precious land resources are more vulnerable than ever as policymakers seek to encourage investment through deregulation, and immediate economic needs trump long-term national interests. Now is the time to begin building a sensible regulatory framework to preserve our land for future generations.

As Japanese policymakers deliberate the best way to go about rebuilding northeastern Japan in the wake of the March 11 earthquake and tsunami, land use and land rights have emerged as important issues. Members of the prime minister's Reconstruction Design Council have called for changes to land-use policy and deregulation of land use in the regions affected by the disaster.

Council Chairman Makoto Iokibe, speaking at a May 10 press conference, suggested that one focus of deliberation should be the rules governing conflicts between public needs and individual property rights.[1] And several newspapers, reporting on Tokyo Electric Power Company's need to pay damages for the Fukushima nuclear accident, have mentioned the possibility of TEPCO's selling off company-owned land in Oze National Park.[2]

Land is not just individual property but also national territory, and land-use policy is one of the most basic tools of national development. Because land is by nature a public asset, there is a need to ensure that it is bought, sold, and used in a manner consistent with the good of society and the interests of the nation, regardless of whether it is privately or publicly owned.

The Tokyo Foundation's Conservation of Land Resources in Japan project has been pointing out for some time the inadequacy of Japan's regulation of land use and sales, specifically in connection with the accelerating sell-off of Japanese fo-

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[1] *Nihon Keizai Shimbun*, May 15, morning edition.
[2] *Yomiuri Shimbun*, April 30, evening edition; *Mainichi Shimbun*, regional edition, May 12, morning edition; *Nihon Keizai Shimbun*, May 24, evening edition, and May 26, morning edition.

restland to foreign investors. Here we would like to revisit the topic in the context of post-quake reconstruction, making the case that now is the time for fundamental reform to ensure that the long-term public interest is not sacrificed to immediate economic needs and short-term profits.

A Laissez-Faire Approach to Land

The following points sum up the problematic character of Japan's land system:

- The national cadastral survey (to determine and register the area, boundaries, and ownership of all the nation's land) is still only 49% complete.
- Japanese law provides for inadequate control of land transactions and land use even in areas essential to national security, such as the land around airports, harbors, and defense installations; land containing important water resources; and remote islands.
- The property rights of private landowners are strong enough to block the government's right of eminent domain in many situations.
- The Civil Code guarantees adverse possession of land (title based on continuous use).[3]

In all of the above, Japan sets itself apart from most of the advanced industrial world, where land is generally accepted as a public good.

Apart from agricultural land, Japan imposes virtually no regulations on land sales, and land-use regulations are quite loose in practice. In the ease with which land changes hands in Japan—as well as in the strength of owners' property rights—the status of land is scarcely different from that of a financial product. Despite its importance as a public good, any given tract of land (or national territory) may change hands and undergo commercial development at any time

[3] Article 162 of the Civil Code states that a person can claim ownership of any property that he or she has possessed peacefully and openly for 20 years (or for 10 years providing he or she took possession of the property in good faith) with an intention to own. This principle goes back to the Goseibai Shikimoku, the legal code promulgated by the Kamakura shogunate in 1232, which grants persons the legal right to control land on the basis of long-term de facto control, whether legitimate or not. In principle this means that in one of the many areas of Japan that has yet to be officially surveyed, if a person arbitrarily encircled a tract of land and claimed ownership under this adverse possession rule, neighbors would have no legal basis for complaint. As depopulation trends continue in the Japanese countryside, including areas affected by the recent disaster, the percentage of sparsely populated and unutilized lands is bound to increase, raising the possibility of an outbreak of land disputes.

without so much as a legal determination of its boundaries, as long as the seller and buyer agree on the terms.

Such a system may have passed muster in an age when economic transactions were localized and concluded between people who knew one another by sight, but in our day, when the global economy is expanding and local communities are shrinking (owing to migration and an aging population), it is hardly adequate to protect the public interest.

Don't Sell Off National Parkland

TEPCO is currently considering selling off some of its assets to cover compensation and other costs stemming from the nuclear accident at the Fukushima Daiichi Nuclear Power Station, and according to several newspaper reports, one of the assets that could go is company-owned land located in Oze National Park.[4] The fact is that TEPCO owns a full 16,000 hectares of Oze, 43% of a park that covers 37,200 hectares spanning Fukushima, Gunma, Niigata, and Tochigi prefectures.

Since land use inside national parks like Oze is regulated under the Natural Parks Act, commercial interests would not be at complete liberty to develop or build there, and for this reason some have maintained that private investors would be unlikely to buy up the land even if TEPCO put it on the market. One could argue, though, that even undeveloped parkland would have great commercial value, given the 300,000-plus tourists who visit Oze every year. The average market price of Japanese forestland—having fallen for 20 consecutive years owing to the long decline of the country's timber industry—stands at about 200,000 yen per hectare, according to a major home builder. At this price, TEPCO's Oze holdings could be had for about 3.2 billion yen, not a bad investment when one considers Oze's natural beauty and tourism value. At present anyone can hike over the Oze moors free of charge, but by charging an entrance fee of 500 yen per person, the owners could expect annual earnings of 150 million yen. And since neither the Natural Parks Act nor the Forest Act regulates the extraction of groundwater, the owners might also find a way to exploit the land's water resources.

If TEPCO decided to sell off its holdings in Oze, the property would surely pique the interest of investors inside and outside of Japan, including funds from the emerging economies. And once part of Oze changed ownership, that part

[4] *Sunday Mainichi*, May 8 & May 15 combined edition.

could be parceled up and sold off to others. In that case, land on which TEPCO currently spends 200 million yen annually for natural conservation (according to the company's public relations materials) would be left to the fragmented whims of various unrelated owners. Under such circumstances, could we be certain that Oze's natural environment, a crucial part of the Tonegawa watershed, would be carefully preserved as a national land resource?

Key watershed forests, outlying islands, and other territory of importance to the well-being and security of the nation or one of its regions should not be treated like a financial product, capable of being traded at will. It should be protected by basic rules required to prevent uncontrolled sale and development. Yet under current land laws, the government would have no firm legal basis for timely intervention in the event that the Oze parklands are sold and used in a manner no one had anticipated. When we consider the possible repercussions, we can see that great care must be taken to prevent the hasty, ill-considered sell-off of land assets for short-term economic gain.

Preserving Land for the Public Good

The town of Niseko, a well-known Hokkaido ski resort, was prompted last year to take action in response to the accelerating sales of undeveloped land to foreign-owned businesses. In a town where residents get almost all their tap water from underground sources, the township began negotiating last autumn to buy up five privately owned tracts inside its limits—two of them owned by a Malaysian company—located above water sources.[5] In addition, in April this year the local government enacted a groundwater conservation ordinance banning bulk extraction of groundwater without prior authorization and regulating the development of land above water sources. These steps represent an effort on the town's part to establish its own mechanism for conserving important resources while also encouraging investment by foreign developers and tourism companies. It is owing to the lack of a unified national framework for the regulation of land sales and land use that local governments are obliged to devise their own stopgap measures to counter threats after they emerge.

Similar situations could easily arise in the post-quake reconstruction process. In order to rebuild, the stricken areas will need outside investment, and the gov-

[5] Two of the wells were originally owned by the Seibu (or Kokudo) real estate empire. After the collapse of the bubble economy of the 1980s, the land was sold to a US firm, which subsequently transferred it to a major Malaysian tourist enterprise.

ernment is expected to relax regulations in order to facilitate such spending. The government, meanwhile, is hard pressed under the current system to acquire land for public use without the consent of the owner, even if the public good or the nation's interests demand it.[6] In today's global economy, hasty sales of land assets to shore up the bottom line could result in a massive sell-off of national territory, one parcel at a time. While the central government must continue transferring power to the local governments, it must not leave them to deal individually with such a threat. Where land is concerned, deregulation has to be carried out within the context of a national legal framework to protect lands from the standpoint of their long-term benefit to the public, with a far-sighted, objective perspective on national and regional security, as distinct from economic efficiency.

If we neglect to build such a legal infrastructure, trusting to providence or to the goodwill of individual landowners, we could once again find ourselves vulnerably exposed in the face of an "unanticipated" crisis—this time, the loss of our land. It is vital, therefore, that we begin the process of revamping the land management system by initiating a national debate on what should not be sold and what new land-use rules should be instated.

Who owns the harbors and fishing ports (many of which were devastated by the recent tsunami), outlying islands, the land around airports and defense facilities, forests, and arable land could have profound repercussions for public order and safety, the smooth functioning of the economy, and national security. In other words, it is inextricably bound up with the public good and the national interest. However difficult it may be, we must replace the current inadequate system with a new framework that balances the property rights of individuals against the need for rational and reasonable regulation governing the sale and use of such land.

Fortunately, the government has at least begun taking measures to protect forestland from the threat of uncontrolled investment. Opposition parties have submitted two pertinent pieces of legislation to the Diet, including amendments to the Forest Act that were incorporated virtually verbatim in the government's bill to revise the same act. This bill has already become law, passed in April along with disaster-related legislation on which the Diet took swift action. Key

[6] There have been quite a few cases in which major public projects deemed necessary by the government (including the construction of new runways at Narita Airport and the Tokyo Gaikan Expressway) have remained unfinished because a few landowners refused to sell their property.

changes include mandatory registration by any entity acquiring title to forestland,[7] shared management of information on forest ownership by the agencies within each prefectural government, allocation of additional resources for on-site forestland surveys, reform of procedures for establishing land-use rights in forest tracts of unknown ownership, and financial assistance to support the purchase and management of forestland by local governments.

By allowing intragovernmental sharing of information on landowners and limiting private property rights to preserve the public benefits of forests, this legislation takes an important step toward reforming Japan's land management system

Japan's land, water, and forests are the essential foundations on which the nation will build its future, whether rehabilitating disaster-stricken areas or reviving farm and forest industries and revitalizing rural communities. With large areas of land rendered dangerous or uninhabitable by the tsunami and nuclear accident, and with the severe slowdown in economic activity, the temptation is strong to sell off large tracts of unused land. Such temptations, though, must not be allowed to thwart the efforts required to protect the long-term welfare and security of this nation.

Postscript: In late May a TEPCO official visited the Gunma prefectural government office in charge of conservation of Oze parklands, where he stated for the record that TEPCO's Oze property was "an important business asset" and that the company was not considering selling it (Nihon Keizai Shimbun, May 28, morning edition).

[7] The National Land Use Planning Act, which requires that land transactions be reported to the prefectural or municipal government, exempts transactions of land measuring less than 1 hectare. The revised Forest Act does away with this exemption and calls for anyone coming into possession of forestland to report the acquisition after the fact.

April 5, 2011

Financing Reconstruction with a Solidarity Tax

Shigeki Morinobu

The March 11 earthquake and tsunami in the Tohoku and northern Kanto districts were a painful reminder of our vulnerability in the face of nature's terrifying power. They have also left us vulnerable to a disaster of a very different sort: a financial meltdown precipitated by a market tsunami.

After the Earthquake, the Vultures

In his recent book Justice: *What's the Right thing to Do?* political philosopher Michael Sandel launches his discussion of ethics by recalling the ruthless price gouging that marked the aftermath of Hurricane Charley, which ravaged Florida in 2004. Gas stations were selling 2 dollar bags of ice for 10 dollars, and stores were charging 2,000 dollars for household generators that ordinarily went for 250 dollars, he writes. An outraged *USA Today* headline read, "After Storm Come the Vultures."

In Japan, however, one hears no reports of price gouging in the wake of the catastrophic Tohoku earthquake and tsunami, notwithstanding severe local shortages of water, gasoline, and other essential commodities. To the contrary, we read again and again of acts of selflessness on the part of people in the stricken areas—like the shoppers who ran out of a convenience store in a panic when the quake hit but returned afterward to pay for the small items they had taken with them in their haste.

As capitalist economies, Japan and the United States are presumably subject to the same universal free-market principles. And yet our markets respond to similar circumstances in very different ways. The decisions of market participants are conditioned by their cultural backgrounds. When market participants respond differently, the price formation mechanism operates differently as well.

We have already had a taste of the response of international traders. Less than a week after a disaster that is sure to deliver a body blow to Japan's economy, the nation's currency surged to 76 yen to the dollar. The reason for this de-

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velopment, we were told, was that Japanese insurance companies were getting ready to repatriate their foreign assets to yen to pay out insurance claims. In fact no such sell-off of foreign assets has taken place among Japanese companies, but international speculators jumped in anyway, hoping to profit from the misfortune of others. After the storm come the vultures.

The secondary disaster threatening Japan now is a "market tsunami" precipitated by these disaster profiteers. A likely object of their speculation will be the Japanese government bond market. Japan must keep this lurking danger in mind as it considers the best way to finance the monumental project of post-quake reconstruction.

Economic Relief Measures

The cost of Japan's recovery from the disaster has been estimated at more than 20 trillion yen, and the bill could climb considerably higher depending on how the situation unfolds at the Fukushima Daiichi Nuclear Power Station. With this in mind, the Japanese government needs to devise both immediate relief measures to promote a recovery and middle-term fiscal measures for the reconstruction of east Japan. Let us consider each in turn.

From a short-range perspective, the most obvious need is for funding to finance relief and recovery operations. For this the government needs to move quickly to draw up a supplementary budget relying on contingency funds and cuts in other budget items. It should take the money originally earmarked for the child allowance, the approximately 2 trillion yen set aside to finance a reduction in highway tolls, and the 1 trillion yen in contingency funds built into the fiscal 2011 budget and put those resources to work for emergency relief and reconstruction efforts.

Meanwhile, emergency tax-relief legislation is needed to help businesses rebuild their assets and capital, without which important sources of tax revenue will disappear. To help going concerns regain their footing, the government should institute a "loss refund" system, whereby companies that posted a profit last fiscal year but are like to incur an operating loss this year can receive a retroactive tax refund. Policies adopted after the 1995 Kobe earthquake offer precedents for other tax breaks, such as exemptions from the registration and license tax for real estate transactions related to post-disaster rebuilding and reductions in or exemptions from the fixed assets tax.

For individual victims, the government should offer a special income tax deduction beginning in fiscal 2011. Ideally, this should be administered in conjunc-

tion with direct disaster relief benefits in the form of refundable tax credits, but this could prove difficult in the absence of a taxpayer identification number system.

Another important step is to encourage charitable giving through tax incentives. For the fiscal 2011 revision of the tax code, the government has planned a major expansion of this framework, which currently allows tax deductions only for contributions to a narrow category of organizations. We should move quickly to pass the legislation required to implement planned reforms so as to encourage contributions to a wide range of groups, including nonprofit organizations.

Lessons from Germany

The next question is how to finance this costly reconstruction over the medium and long term. The government should draw up a carefully considered recovery master plan and establish a special reconstruction fund. The plan should be designed not only to chart a road to reconstruction for the nation but also to demonstrate to the world that Japan has a viable plan for getting back on its feet.

To cover costs over the next few years, the government will have no choice but to float reconstruction bonds, but it needs to keep the time to maturity within the reconstruction period (say five years). Floating government bonds irresponsibly could encourage the financial "vultures" to begin dumping Japanese government bonds on the market in hopes of a windfall.

As for middle-term financing of this kind of reconstruction program, recent history offers us a model worthy of emulation. This is the German government's approach to funding reconstruction of the former East Germany following German reunification in 1990.

West Germans understood from the beginning that German reunification would mean rebuilding the economy and supporting the people of the formerly communist East. With this in mind, a political decision was taken to treat the currencies of the two nations as being equal. In addition, German Chancellor Helmut Kohl declared that since reunification was the wish of the German people, Germany would raise the necessary reconstruction funds itself.

Germany was as good as its word, and despite the monumental costs of economic reconstruction, unified Germany soon emerged as the strongest economic power in the European Union.

How, then, did German cover the costs of reunification? It managed with a combination of budget cuts and something called the "solidarity tax." Germany's solidarity tax is not actually a separate tax but a surcharge added onto the in-

come tax already levied on individuals and corporations. To spread the burden around as widely and fairly as possible, the government charged wage earners and businesses a surtax equal to 7.5% of their regular tax bill. The fact that the surtax could be administered within the existing tax regime minimized any additional costs.

Germany chose not to add a surtax onto its value-added tax out of concern that a uniform hike in taxes on consumption would have a regressive effect, disproportionately impacting low-income households and hurting the former East Germans they were trying to help. How can Japan learn from Germany's experience?

Toward a Japanese Solidarity Tax

I believe that the funds needed for long-term recovery from the earthquake and tsunami should be raised primarily by means of just such a "solidarity surcharge" on the income tax paid by Japanese individuals and corporations in addition to cuts in other government programs. Domestically, affirming our intention to shoulder the full burden ourselves, instead of passing it on to future generations, will enhance the sense of solidarity between the victims of the tragedy and those called on to assist them. Internationally, it will send a strong message inspiring confidence in Japan's ability to come back strong.

Under the fiscal 2011 budget, combined revenues from income and corporate taxes were approximately 20 trillion yen. On the basis of this figure, a surtax of 10% should generate an additional 2 trillion yen a year. If the government cost of the recovery comes to 10 trillion yen as projected, revenues from the surtax should be enough to cover the full amount in five years.

Because income and corporate tax rates are graduated according to income level, a relatively small surcharge levied as a percentage of the ordinary tax bill would ensure that the burden was imposed in proportion to one's ability to pay. It would also enable the government to readjust the tax rate according to the pace at which the recovery was progressing. That said, the government will need to state clearly when the recovery period is scheduled to end and make the solidarity surtax a closed-ended measure of limited duration.

In all likelihood such a surtax will have to be supplemented by increases in various commodity taxes, such as for gasoline. We should begin by reviewing the preferential tax treatment for financial income, such as stock sales and dividends.

Some have proposed raising the consumption tax from 5% to 6%, but in Japan's rapidly aging society, the intergenerational balance of burden and benefits

should be a key consideration when setting the consumption tax rate. It seems to me that we can focus more lucidly on this problem if we keep the consumption tax separate from the issue of financing Japan's post-disaster reconstruction. The final decision on consumption tax rates should be made in the context of an integrated plan to reform the social security and tax systems, as the current government has promised.

The direct damage from the March 11 earthquake and tsunami was limited to the eastern half of Japan. But east and west must stand together if we are to avert another disaster. With the threat of a market tsunami looming, our generation needs to demonstrate solidarity and show the world that it is committed to working together in support of a recovery.

May 2, 2011

Prognosis for the Post-Tsunami Economy

Hideo Kumano

Although direct damage from the March 11 earthquake and tsunami was largely limited to the northeastern area of Japan, the economic fallout is expected to blanket the entire nation. What are the risks of a secondary economic disaster, and how can Japan minimize the damage?

The magnitude of the economic impact from the March earthquake and tsunami has come into focus in recent weeks. Already the disaster's impact has spilled out beyond the stricken area and is spreading across the country. The ultimate effect on business conditions will depend to a large degree on how Japanese industry and government cope with five sources of secondary damage: (1) suspension of production at disabled industrial facilities, (2) constraints on electric power consumption in eastern Japan, (3) the prevailing mood of economic austerity, (4) exaggerated fears of radiation from the Fukushima nuclear reactors, and (5) sources of funding for the government's relief and reconstruction budget.

Identifying the Threat

Some six weeks since the Great East Japan Earthquake and tsunami that devastated much of Japan's northeast coast, people are coming to understand the full extent of the disaster's likely impact on the Japanese economy.

Initially the focus of the nation's concern was the direct damage from the tsunami in the Tohoku district and the spread of radiation from the damaged facilities at Fukushima Daiichi Nuclear Power Station. Only later, as businesses attempted to resume routine operations, did it become clear that various bottlenecks were seriously impeding normal economic activity.

For example, even factories remote from the hard-hit Tohoku region have been forced to suspend operations because essential parts have stopped coming in from Tohoku plants. Automobile and electric equipment manufacturers have been particularly affected by this breakdown in the supply chain, but similar problems have cropped up among manufacturers of food, steel, chemical, petro-

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leum, and pulp products, all relatively important industries in the Tohoku region. This is an example of indirect, or secondary, economic damage resulting from the disaster, but it is only one example among many. In the following I would like to consider a wider range of secondary effects and their possible impact on the Japanese economy in the months ahead.

Five Sources of Secondary Damage

The secondary economic damage from the earthquake and tsunami can be divided into five basic causes. In the following, I will examine each in turn.

1. Interruption of Production

The first source of damage is the aforementioned disruption to manufacturers' supply chains. In Japan's manufacturing sector, the major corporate groups often have subsidiaries and suppliers scattered all over the country. As a result, even companies headquartered far from the Tohoku district are likely to have suppliers located there. In a March 14–18 survey of companies in and around Osaka, far from the immediate disaster, close to 90% of respondents indicated that they were concerned about the impact on their own business—with 75.6% saying that the damage was already in evidence and 12.2% directing their concerns toward the future—while only 12.2% said that they did not expect to be hurt. A comparable survey in the relatively unscathed Nagoya area yielded similar results. A major reason companies outside the Tohoku district are this concerned about the impact of the disaster on their own businesses is that they are connected to the Tohoku region through their supply chains.

2. Restrictions on Power Consumption

The nuclear accident at the Fukushima Daiichi Nuclear Power Station seriously compromised the generating capacity of Tokyo Electric Power Company, which operates the facility. During March, TEPCO began implementing rolling blackouts in the densely populated Kanto district, which includes Tokyo, in a bid to avert massive outages by keeping electricity demand from exceeding the utility's much-reduced generating capacity. These measures appear to be sufficient to avert a worst-case scenario through April.

But businesses know they are not out of the woods yet. They understand that as the demand for electricity rises in the summer months, they will be forced to

adopt ever more stringent measures to limit power consumption. Initially the government had called on big businesses to prepare for a 25% cut in peak power consumption during the summer, based on TEPCO's own forecast of 46,500 megawatts in generating capacity. Since then, TEPCO has upped its estimate to 55,000 megawatts by securing a variety of additional power sources. But since the new forecast still falls well short of last year's peak load of 60,000 megawatts, the government is calling on big corporations to cut consumption by 15%.

Even a 15% reduction in electricity usage by big manufacturers could have a negative impact on corporate profits and affect employment. By my own estimate, the slowdown in production and sales caused by a 15% cut in electricity consumption in the Kanto and Tohoku districts will lead to a 22% drop in business profits and a 0.25 percent point increase in the unemployment rate.

3. Mood of Austerity

Non-manufacturing industries are also facing serious aftereffects, but for different reasons. In this case the main culprit is a national mood of austerity, in which consumers feel compelled to deny themselves luxuries or frivolous expenses. In part this reflects an atmosphere of mourning, but fear of further aftershocks is also a factor. The tourism sector has already been hit hard by mass cancellations of travel, lodging, and other reservations from abroad. As of April 8, some 560,000 such cancellations had been recorded. These trends are bound to have a profound impact on business profits in the non-manufacturing sector. Indeed, the effect on employment may be more severe here than in the manufacturing sector. Once factories are up and running again, manufacturers can go back to producing and exporting their products as before, but non-manufacturing industries must wait for domestic demand to recover, and that cannot happen if consumers are reluctant to spend.

4. Lingering Fears and Prejudices

Of all the trials facing Japan in the wake of the March 11 disaster, none is more difficult or daunting than the ongoing spread of radiation from the damaged nuclear power facilities in Fukushima. Recent government statements have indicated that it could be six to nine months before workers are able to cool down the reactor cores and stanch the leakage of radioactive material. Most people's immediate reaction was that this is far too long. The longer the crisis continues, the more difficult it will be to dispel rumors and lingering fears of radiation. This

has already had a devastating effect on Japanese exports of agricultural produce. At the same time, all the work that has gone into reviving regional economies by promoting international tourism has been undone overnight. Between the time of the earthquake and the end of March, the number of foreign travelers visiting Japan plummeted 75% from the same period the previous year. If this situation persists for a year, it could cost Japan as much as 860 billion yen in domestic consumption.

Reconstruction Costs and Fiscal Risk

Government spending to aid reconstruction cannot be considered secondary damage per se, but the repercussions of massive increases in government spending and debt could create serious obstacles to Japan's economic recovery. This is why fiscal risk must be counted among the less obvious sources of secondary damage. Let us examine this hidden threat.

The Japanese government is currently drafting plans to increase spending on public works under a series of supplementary budgets for post-quake reconstruction. It seems that the first such budget, allocating upwards of 4 trillion yen for emergency relief and reconstruction needs, is to be financed without recourse to deficit-covering government bonds, but the next one is almost sure to rely on such bonds and result in further expansion of Japan's already massive fiscal deficit. In terms of fiscal risk, the key question now is whether Prime Minister Naoto Kan can make up his mind to push through a tax hike a little farther down the road.

Prior to the earthquake, Kan had been meaning to call for an increase in the consumption tax to finance social programs, a plan he was to announce in June this year. As soon as the earthquake and tsunami hit, however, the prime minister changed course and tabled the tax hike, ostensibly out of a need to focus on the disaster. This was a critical strategic blunder on Kan's part. Instead of raising taxes and easing international concerns over the Japanese government's debt risk, the prime minister is now seen as using the disaster as a pretext for putting off tough but necessary measures. Kan had a golden opportunity to secure the world's confidence by standing firm on taxes amid the pressure of emergency conditions. Instead, he took the easy way out.

Now the big concern is that the same politicians who are stressing the need for massive government outlays to prop up the economy in the disaster's aftermath will insist that Kan abandon all thought of a tax increase and embark on a policy of financing the reconstruction with deficit-covering bonds alone. In that

case, Kan will find it difficult to withstand the pressure. The post-disaster crisis has made it more important than ever for the government to take a strong stand and show the world that it is capable of raising taxes and rebuilding its finances.

How Long?

It will take time for Japan's stricken economy to turn itself around. Economic growth can be expected to linger in negative territory through the first half of 2011 and remain flat in the third quarter, during the summer months, with growth resuming around autumn. The magnitude of the contraction in the first half of 2011 will hinge largely on the severity of electric power rationing. The strength of the rebound later in the year will depend primarily on the efficacy of the government's supplementary spending packages.

One important variable is the extent to which falling corporate profits caused by the temporary suspension of production are reflected in capital-investment and employment trends. If the effect is greater than expected, then the second-half recovery will be a weak one. The current forecast for fiscal 2011 calls for 0.1% real growth in GDP. Depending on how the situation unfolds, that estimate might have to be revised downward.

Over the past 15 years or so, the Japanese economy has had to struggle mightily after each major recession to regain its pre-slump strength in terms of real GDP. After the 2008 financial crisis, the Japanese economy did not make up the ground it had lost until the end of 2010. After the IT bubble burst in 2001, it took nine quarters for real GDP to return to pre-bubble levels, and it took approximately the same amount of time after the East Asian financial crisis of 1997. Because the potential output of the Japanese economy is in decline as a result of a shrinking population, it is all the more difficult for Japan to recover lost economic ground.

As the foregoing suggests, there are any number of reasons for pessimism with regard to the Japanese economy. But it is important to understand that there are grounds for optimism as well. The Japanese economy may be facing a crisis of historic proportions, but over the years it has been just such occasions that have spurred the nation to throw off the chains of the past and implement bold and successful reforms, thereby emerging stronger than before. Let us hope that the current crisis provides the impetus for the changes that Japan needs to thrive in the years ahead.

April 18, 2011

An Independent Commission to Explore Japan's Disaster Response

Tsuneo Watanabe

From March 25 to 27 I was in Belgium to attend the fifth Brussels Forum. This forum is an annual gathering of major policymaking groups (governments, international organizations, private think tanks, and businesses) organized by the German Marshall Fund (GMF), which is an international partner of the Tokyo Foundation. The forum gives these groups an opportunity to assemble under a single roof to freely discuss world affairs affecting the United States and Europe. Japanese experts have been active participants in the forum, as the country is both a key ally to the United States and an economic partner to Europe.

Many eyes at the forum turned toward Japan in the wake of the recent earthquake and tsunami in Tohoku. A panel was quickly organized to discuss the road forward for Japan. At the panel, Professor Yorizumi Watanabe of Keio University and Deputy Director-General of the Ministry of Foreign Affairs' Foreign Policy Bureau Masafumi Ishii led a clear and forward-looking discussion of Japan's direction now and in the future and shared some of Japan's efforts toward restoration and recovery with Western policy leaders.

During the forum, I personally received many messages of condolence, support, and solidarity toward those affected from Craig Kennedy, president of the GMF, Robin Niblett, director of Chatham House (Royal Institute of International Affairs), and many more friends and acquaintances.

Far from my homeland in crisis, these warm sentiments for Japan convinced me that there is something important that Japan must do now. Japan must, in the immediate future, show to the world an honest analytical reflection on the ongoing response to the disaster. To that end, once the crisis situation has eased, the National Diet should act quickly to create an independent and nonpartisan investigative commission. All the major parties in the National Diet should reach agreement on establishing such a committee now, and the decision should be announced publicly to the world.

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What I witnessed at this conference were two separate and ambivalent feelings toward Japan. The world is worried about the damage to Japan and the weakness of nuclear plant disaster management, but at the same time they are impressed by and optimistic about the underlying strength of the Japanese people. What the world has seen of the government and the people's response to the earthquake, tsunami, and nuclear crisis will affect how the world sees Japan as a whole going forward. "How Japan will handle the ongoing nuclear crisis in Fukushima?" "How will Japan's domestic industrial base and economy as a whole recover from the severe blow it has suffered?" These are the questions the world is asking as it watches Japan with both high expectations and real concern.

Already, in the immediate aftermath of unprecedented destruction, the world has admired the lack of violence and looting, and the calmness, patience and forbearance of those affected. Few countries could expect this sort of behavior from their citizens. There is also a great admiration globally for the technicians and other personnel taking great personal risk to deal with crisis control at the Fukushima Daiichi Nuclear Power Station.

The problem is a question of harnessing and leveraging this ground-level strength, which represents a major strength of Japanese society and institutions. Is this strength being effectively tapped by the leaders of government and industry?

In addition, questions about transparency and disclosure from the Japanese government and the Tokyo Electric Power Co. (TEPCO) feed suspicions in many countries. These issues can be considered one of the most significant issues facing Japan today. Japan has a long history of promoting those who excelled as foot soldiers to positions of leadership. But a wealth of experience in ground-level situations often does not automatically translate into the right kind of strategic capacity at the leadership level. This was discussed at length in academic works like *Shippai no honshitsu* (The Essence of Failure) by Ikujiro Nonaka and others on the shortcomings of Japan's wartime military leadership.

Responsibility for overcoming Japan's current difficulties will fall squarely on the shoulders of current and future leaders and opinion makers. In the wake of major crises, the same story has played out time and again in the history of international relations.

At some point in the future, the current disaster will be a part of the past, and Japan will face new trials. When that time comes, there are two possibilities. If Japan can move forward and surmount the current crisis, it will be stronger in the face of future challenges. But if Japan fails to overcome these issues, the threat of future crises could easily multiply.

For example, in the face of some 30,000 dead or missing, Japan has demonstrated a remarkable societal and communal strength against stress. This could discourage other countries from resorting to acts of violence and intimidation against Japan. This is an element of the country's strength in national security. This strength can extend to the economic domain as well, where this sort of national character can engender greater trust in the nation's products and the national economy itself.

This crisis has seen 100,000 members of Japan's Self-Defense Forces (SDF) mobilized on an unprecedented scale. Their steadfast efforts helping the people affected by the disaster are also likely to act as a significant deterrent to aggression toward Japan.

Through its Operation Tomodachi ("friend" in Japanese), the US military has operated search, rescue and relief aid with 180,000 personnel and 19 vessels on a scale unthinkable in normal times. During the crisis, the SDF and US forces have demonstrated closer coordination, displaying the depth of Japan's security resources to the world. However, if the crisis were to deepen despite such resources, this would expose serious weaknesses at the leadership level. Such weaknesses may attract a number of risks in the years ahead.

It is clear that Japan has innumerable ongoing issues to wrestle with in the near future. However, Japan should consider transparently documenting its response to the earthquake, tsunami, and nuclear crisis?both strengths and weaknesses?a key priority. There is still much that the world does not know about Japan's response to the current crisis, in addition to the many misapprehensions and overreactions.

An objective report evaluating the response, including failures, would be not only a valuable legacy passed on to future generations but also an endorsement of Japan's strengths to the rest of the world. Ongoing issues at the nuclear plant should, of course, not be excluded from the report. A cover-up or a superficial whitewashing would have many negative repercussions.

Once the humanitarian crisis facing the victims of the earthquake and tsunami and the current crisis at the nuclear plant have stabilized, the Diet should create an independent commission of experts to produce an honest and uncompromising report on the response of national and local governments and of TEPCO. The investigation must be approved and organized beyond party lines.

In the United States, a bipartisan commission produced a report on the government's response to the terrorist attacks of September 11, 2001. The report provided much valuable information to both the US government and legislature and

led to numerous improvements. Moreover, the report demonstrated to the world the strength and transparency of American democracy.

In comparison, Japan has a weak history of disclosing information to the public. But if, in spite of this weakness, the Diet were to act now to establish a nonpartisan investigative committee, it could positively impact current relief efforts. Careful recording and transparency of information would lead those responsible to be conscious of the oversight and to act accordingly.

This transparency would also demonstrate the strength of Japan's democracy clearly to the world at large. Whether the world is gazing with approval or disapproval, all eyes are now on Japan. The Japanese people, and especially political leaders, must not forget this.

April 26, 2011

Post-Earthquake Politics: A New Paradigm?

Hiroshi Izumi

The Great East Japan Earthquake of March 11 changed everything. The 9.0-magnitude temblor that struck off the coast of the Tohoku and Kanto districts that day caused a devastating tsunami more than 15 meters high that left more than 30,000 dead or missing. The tsunami also triggered a secondary disaster at the Fukushima Daiichi Nuclear Power Station, which continues to leak nuclear material into the environment as the world looks on in horror. The Tohoku earthquake has plunged the nation into a crisis of immense proportions.

As a result, an extremely volatile political landscape was also transformed, literally overnight. Before the quake, the cabinet of Prime Minister Naoto Kan, leader of the Democratic Party of Japan, was assumed to be on its last legs, plagued by dangerously low public approval ratings and persistent legislative gridlock in the Diet. Now it has been granted a reprieve, as rival parties and factions observe an informal truce in order to deal with the national emergency.

The opposition's persistent calls for Kan to dissolve the House of Representatives and call a general election ahead of schedule have been silenced, and prospects for a change in government have receded.

The top priority now is to provide relief to the disaster victims and bring the nuclear crisis in Fukushima under control. This is the ultimate test of Kan's mettle as a leader and a politician. How he handles himself as the nation's top strategist and commander will determine not only his own political destiny but also the fate of Japan.

Unfortunately, Kan has been subject to harsh criticism since the quake for "missteps that a leader just can't make" (an official of the opposition Liberal Democratic Party), including his poorly timed pop inspection of the Fukushima Daiichi power plant and his tongue-lashing of officials at Tokyo Electric Power Company, which operates the facility. Away from the cameras, Kan is said to be moody and apt to shut himself up in his private office. Ill-advised statements by him and his staff have even been blamed for stoking false rumors and unnecessary fears.

Japan can scarcely take time out from the present emergency to choose a

Hiroshi Izumi *Research Fellow, Tokyo Foundation; political journalist.*

new leader. It should be clear that, at least for the moment, it has no choice but to unite under the prime minister's leadership to face this national crisis. But legislative action is needed to deal with the crisis, and the signs are pointing to a dysfunctional legislature.

Although the fiscal 2011 budget passed the Diet on March 29, the ruling and opposition parties remain deadlocked over a government bill to allow the issuance of deficit-covering bonds to fund that budget. The LDP is calling on the government to abandon a set of expensive "handouts," including the controversial child allowance, while the government remains reluctant to renounce pledges made in the DPJ manifesto.

Increasingly the hopes of both the political world and the general public have focused on the idea of a grand coalition, bringing the rival parties together in a unity government to address the national crisis. Unfortunately, prospects for such a coalition receded after Prime Minister Kan—acting unilaterally with no apparent prior consultation—called LDP President Sadakazu Tanigaki to request that he join the cabinet as deputy prime minister and state minister in charge of disaster relief, and was rebuffed.

Meanwhile, the relationship between the cabinet and the bureaucrats who are supposed to administer its policies remain strained and awkward in the wake the DPJ government's "misguided" attempts to assert political leadership and bring the bureaucracy into line. With the Kan cabinet running about like a chicken with its head cut off—in stark contrast to the calm, stoical demeanor that has earned the disaster's victims worldwide admiration—the public can scarcely feel reassured about the future, particularly the outcome of the continuing nuclear crisis. As things stand now, they can see no light at the end of the tunnel.

The government is operating in uncharted territory. There is no precedent for dealing with damage on the scale of that caused by earthquake-tsunami of March 11, let alone the nuclear accident this disaster precipitated. Even the Great Hanshin-Awaji Earthquake that devastated Kobe 16 years ago pales in comparison. In a situation where past experience offers so little guidance, our leaders need to set aside the conventional political logic. More and more people are giving voice to the belief that the kind of sweeping reconstruction plan needed to galvanize the nation will require fundamental changes in the relationship between the national government and opposition parties, the Diet, and local governments—in short, a new political paradigm.

Is such a change likely—or even advisable—in the months ahead? In the following I offer a pragmatic analysis predicated on the current political agenda, drawing on interviews with a number of political insiders.

An Acceptable Situation

In the context of political thinking, the central question is always how long the current regime can last—in this case, whether the Kan cabinet, as it stands, can weather the storm.

Around the middle of March, Kan and his fellow DPJ leaders assembled a plan to add three cabinet positions. Meanwhile, Kan himself placed a telephone call to the LDP's Tanigaki to ask him to join the cabinet as deputy prime minister and state minister in charge of the post-quake response. Although there were intimations that such a development might be in the works, Kan made the call on his own initiative and caught not only the LDP but also DPJ executives by surprise.

Appointing the leader of the largest opposition party to a cabinet post is not like asking someone to lend a hand. It would signify a grand coalition between the nation's two largest parties, and any such coalition would naturally require prior agreement on basic policy matters. Yet there is no indication that such policy talks had even begun. Tanigaki's reaction was only natural. "It was so sudden," he explained. "Instead of fiddling around with the government, we should be focusing all our efforts on helping the victims and addressing the nuclear emergency."

That said, Tanigaki has not ruled out the possibility of a grand coalition at some point in the near future. At the end of March, with key legislation moving forward and the fiscal year coming to a close, he said, "We're about to enter a new fiscal year, and there are a lot of things to think about. I'm going to keep evaluating the situation from all angles." Echoing Tanigaki, DPJ Secretary General Katsuya Okada stated that "having a number of parties join the government is also an option."

Within the DPJ leadership there is considerable optimism that the idea of a grand coalition "will eventually become reality" (a DPJ elder). At the same time, many in the DPJ are critical of the clumsy way in which the proposal was floated and agree with the DPJ faction leader who complained to me that Kan "should have listened to what other people had to say." When not only the opposition and the general public but even the DPJ itself recognizes the Kan cabinet's failings, one must conclude that the political establishment as a whole finds the current situation unacceptable.

"Anyone but Kan"

From the standpoint of the LDP and the New Komeito (the other key opposition party), the biggest obstacle to a grand coalition would appear to be Prime Minis-

ter Kan himself. Asked whom the LDP would consider acceptable as the leader of such a coalition, a party official working to facilitate an alliance behind the scenes muttered, "Anyone but Kan," implying that a grand coalition would be possible if only Kan were replaced. But how likely is that?

Even supposing that the prime minister were to announce his resignation tomorrow, a replacement would have to be found from within the ranks of the DPJ—the largest party in the Diet. To be sure, when Prime Minister Keizo Obuchi suffered a debilitating stroke in April 2000, his successor Yoshiro Mori formed a new cabinet in just three days. But that was made possible by intensive back-room negotiations among a small group of LDP heavyweights. Today's DPJ lacks the capacity for that kind of flexible response—and in any case, Prime Minister Kan is not in a coma. If indeed Kan were to announce his intention to resign, the DPJ would have to begin the succession process by selecting a new DPJ leader in a party election open to all DPJ Diet members. Next, the Diet would have to vote to designate the new DPJ leader as prime minister, and finally the newly designated prime minister would have to form a cabinet. Meanwhile, the DPJ would have to be negotiating the conditions for a coalition with the LDP and the Komeito, since that was the whole point of choosing a new prime minister. Clearly, this is not something to be accomplished in few days. "At a minimum, it would take two weeks from the prime minister's announcement to the inauguration of a new cabinet," said an LDP official, affirming the conventional political wisdom. "We simply don't have the time for that now."

When *will* we have time? To begin with, "that will depend on the situation in Fukushima" (a government source). Beyond that, the first major hurdle on the political agenda is to draft and pass a supplementary budget for immediate relief and reconstruction efforts. The government is currently at work on an initial post-quake emergency budget estimated at more than 3 trillion yen, which should be ready for submission to the Diet sometime during the second half of April. Assuming that negotiations between the ruling and opposition parties go smoothly, that budget could pass the Diet around the first week in May.

With the first emergency budget in place and the immediate crisis over, Kan might seize the window of opportunity to step down. After all, the bureaucracy should be able to administer short-term quake-relief efforts during the two- or three-week lame-duck period until the new cabinet is appointed. Indeed, some would argue that post-quake efforts would go more smoothly without Kan and his "twisted brand of political leadership" (a top-level administrator). In this scenario, a new cabinet could be inaugurated by the end of May. The problem is that the Group of Eight Summit is scheduled in France on May 26, and launch-

ing a new administration in time for the summit would be a tall order. Furthermore, on March 31, during French President Nicolas Sarkozy's visit to Japan, Sarkozy and Kan agreed to meet again at the G8, with the Fukushima nuclear crisis on the agenda.

Other Exit Strategies

The next opportunity for a change in leadership would be the end of the current ordinary session of the Diet, which is scheduled to close on June 22. By summer, the government will have to approve not only the initial supplementary budget, focused on emergency relief measures, but also a second supplementary budget required to launch a full-scale reconstruction plan. If this second budget passes by the end of June—allowing for the possibility of a brief extension—Kan will be in a good position to exit gracefully at that point. Whereas dissolving the House of Representatives and calling a general election would leave an unthinkable political vacuum, a resignation announced at the end of the current Diet session would give the parties a chance to hammer out policies at their party conventions in anticipation of a grand coalition, before coming together to negotiate the terms. A new government could then be launched by the end of July.

The foregoing mental exercise is based the premise that the prime minister will agree to resign. But Kan, who calls himself a political "aberration," has said that he will not step down under any circumstances. And the only way to force him to resign against his will is either for the DPJ to remove him as party leader—which would require a revision of the party rules—or for the lower house to pass a resolution of no confidence against him. Either option would entail the cooperation of the large group of DPJ Diet members surrounding political heavyweight Ichiro Ozawa, a rival and critic of Kan's.

In fact, the Ozawa group was at work on a strategy for engineering Kan's ouster right up until the recent earthquake. But few DPJ politicians would care to be seen working at cross-purposes with their own leader under the present circumstances. Besides, any move by members of the DPJ to oust Kan in cooperation with the opposition would surely fracture the party and trigger a wholesale realignment of political forces. And if Kan decided to resist, he could still dissolve the Diet and call a general election. In that case a long political vacuum would be inevitable, and the makeup of the new cabinet would be at the mercy of election results. We are back to where we started. As a source inside the Prime Minister's Office asserted, "a grand coalition under Prime Minister Kan is still the most realistic solution for the time being."

But how realistic is it? According to the same source, the reason Kan is so intent on forming a coalition is that "he's hoping it will allow him to stay in power." Yet as of this writing, the LDP's Taniguchi was unwilling to participate in any coalition government led by Kan. Unless Taniguchi has a change of heart, a new coalition seems highly unlikely. After all, in the absence of mutual trust between the leaders of the participating parties, a coalition would be sure to run into policymaking obstacles and lead to even greater chaos than before.

A Practical Alternative

Given the political realities, one is forced to conclude that all the talk of a grand coalition for "a national salvation unity government" is little more than wishful thinking. For the foreseeable future, the only practical course of action for the Kan cabinet is to enlist the cooperation of the LDP and the Komeito on a case-by-case basis, without bringing them into the government. Kan would have to consult with Taniguchi and Komeito leader Natsuo Yamaguchi on all key policies, including each major component of the reconstruction plan. The opposition parties would then cooperate to facilitate the prompt implementation of those policies on which agreement had been reached. With such an approach, it should be possible to reach a fairly timely accord on how best to fund reconstruction.

In the end, deferring the task of building a genuine coalition cabinet is probably the only realistic option. When the time comes, the formation of a temporary grand coalition and the selection of a new prime minister will need to be negotiated as a package deal.

Several weeks have passed since the Great East Japan Earthquake, and the country entered a new fiscal year on April 1. Around Japan, people are beginning to regain their calm and composure. As of now, the ongoing crisis at the Fukushima plant continues to sow fear and anxiety, but as soon as the radiation leaks are under control, the reconstruction plan will emerge as the top political priority.

Our political leaders must move quickly to lay out a comprehensive strategy and establish their priorities, not only for securing the massive funding required but also for rebuilding stricken areas and preventing another economic recession. A full-fledged debate over the makeup, structure, and leadership of our government will have to come later.

May 2, 2011

Preparing for the Summer Energy Crisis

Kenji Someno

There is expected to be an acute shortage of energy this summer owing to the ongoing crisis at the Fukushima nuclear plant. Bold measures, including some that overturn conventional wisdom, are required to cope with the shortfall in electricity supply.

Expected Shortage Levels

Several nuclear and thermal power units are currently offline as a result of the recent earthquake and subsequent events. As of late March 2011, the Tokyo Electric Power Company (TEPCO) had a supply capacity of only 38.5 million kilowatts. Calls to conserve energy in homes and offices spread soon after the earthquake, but on March 14 TEPCO began implementing rolling blackouts as an additional measure. A tightrope situation continues nonetheless, with the minister of economy, trade, and industry warning on March 17 of a possible large-scale power outage taking place that evening.

Media reports suggest that the rolling blackouts may be temporarily called off around the end of April. But there will no escaping higher electricity demand than current levels in the summer, and stopgap measures will be needed to make it through the summer months.

What, then, will be the extent of the power shortage in the summer?

Peak demand in the TEPCO service area during the scorching summer of 2010 was 60 million kilowatts; in an average summer the figure is about 55 million kilowatts. Supply, meanwhile, is estimated to total no more than about 45 million kilowatts, even counting the thermal power units that are currently shut down due to the disaster or regular inspection. This means that, depending on summer weather conditions, a supply-demand gap of between 10 million and 15 million kilowatts could arise.

According to the media, TEPCO anticipates a shortage of 8.5 million kilowatts, whereas the government gives a somewhat more pessimistic shortfall estimate of around 10 million kilowatts. The March 25 issue of the daily *Nihon Keizai Shimbun* stated that TEPCO has a plan to augment its capacity by over 10

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million kilowatts by newly constructing LNG-fueled thermal power units. But the new units will not go into operation until the winter at the earliest, and on March 28 the *Sankei Shimbun* pointed out that factories needed for the construction of these units were damaged in the quake and tsunami.

Actual Power Usage

Energy demand by use in the TEPCO service area is as shown in Table 1. About 34% of the total is used by households (given as "lighting" in the table), 31% by offices ("power" and "commercial power"), and 34% by industry ("industrial power"). Even if electricity use is cut down in the industrial sector—to which the large-demand customers belong—by such means as limiting total consumption and shifting to nighttime operations, reductions by offices and households will still be needed.

As seen in Figure 1, energy demand peaks in the summer months from June to September, especially July and August. Figure 2 indicates that energy use soars from around 8 am, remains high between 10 am and 6 pm, and gradually decreases thereafter, returning to the 8 am level by around midnight.

If energy use is to be cut back to 45 million kilowatts—compared to 60 million kilowatts last year—the key will be measures to reduce consumption during the peak hours of 9 am to 9 pm from June to August.

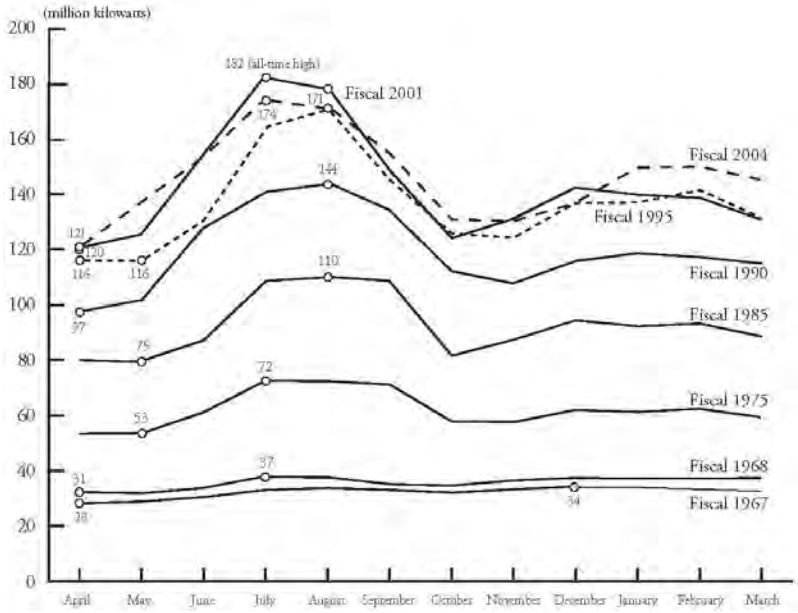
Table 1. Energy Demand by Use in the TEPCO Service Area

(billion kilowatt-hours)

Type of use		Fiscal 2009	Fiscal 2008	Fiscal 2007	Fiscal 2006
Other than eligible customers	Lighting	96.09	96.06	97.60	93.21
	Power	11.39	11.91	12.78	12.63
	Lighting and power total	107.48	107.96	110.39	105.84
Eligible customers	Commercial power	76.54	77.45	77.61	74.79
	Industrial power	96.14	103.54	109.40	107.00
	Eligible customers' total	172.69	180.99	187.01	181.78
Total electricity demand		280.17	288.99	297.40	287.62

Source: Federation of Electric Power Companies of Japan, "Electricity Demand (Confirmed Report)."

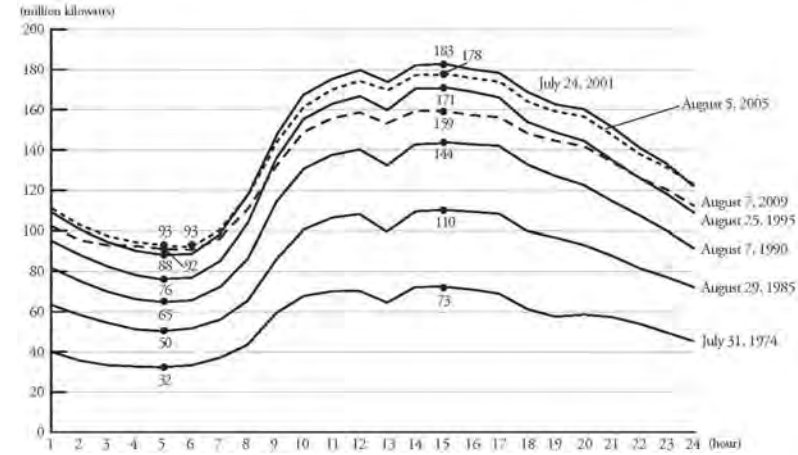
Figure 1. Year-Round Trends in Electricity Use



Note: Figures are combined totals for 10 power companies, except those up to 1975, which are for 9 power companies.

Source: Federation of Electric Power Companies of Japan, *Graphical Flip-Chart of Nuclear and Energy Related Topics 2007.*

Figure 2. Hourly Trends in Electricity Use on Peak Demand Day



Note: Figures are combined totals for 10 power companies, except those in 1975, which are for 9 companies.

Source: Federation of Electric Power Companies of Japan, *Graphical Flip-Chart of Nuclear and Energy Related Topics 2011*.

Rules to Guide Energy-Saving Measures

What sorts of efforts could be made in households and offices? In the government's Team Minus 6% campaign to raise public awareness about preventing global warming, the key concepts were developing risk awareness and making the issue everyone's business. Given the circumstances of the recent disaster, however, we are far past a stage at which such ideas are meaningful. Measures that will quickly yield quantitative reductions need to be taken, with awareness raising and voluntary action plans being given no more than a supplementary role.

What is needed first of all is to gain people's sympathy and understanding so that they will make ongoing efforts to save energy. Furthermore, members of the Diet and government must have the courage and resolve to take the lead in carrying out that which we would ordinarily consider impossible.

For this to happen, it will be important to provide sufficient explanation and information regarding the scientific (effect), economic (burden), and political (lack of disparity) aspects of the measures so that people can make their own judgments. At the same time, the political, administrative, and industrial sectors will need to demonstrate their initiative in energy-saving efforts.

Meanwhile, expecting excessive savings from large-demand customers, such as large-scale manufacturers, could negatively affect employment and the economy. If large-scale manufacturers were to halt operations, small and medium-sized enterprises in the production chain may be forced to do the same, and the resulting economic downturn may lead to shortages in the supplies needed for reconstruction and to lower tax revenues. Such a scenario must be avoided. The measures must strike a balance between energy saving and reconstruction.

Specifically, measures should be regularly checked against the following three fundamental rules to ensure that they are not misguided:

a. Sufficient information is being provided and disclosed regarding the need to save electricity and the burden on each party;
b. Politicians and civil servants are taking the lead; and
c. Regulations are being imposed on industry.

Unilateral measures implemented without sufficient explanation with reference to the above are bound to give rise to suspicions and frustrations over time: Are the measures really benefiting the affected areas? Are efforts resulting in actual reductions? Isn't there a surplus of electricity at night? Aren't greater reductions possible at industrial and recreational facilities? Why must we bear such a heavy burden?

Concrete Proposals

In the following section I will consider what measures are feasible, with the above fundamental rules in mind. A crucial point is whether politicians, civil servants, and industry will be able to undertake bold efforts.

Provision and Disclosure of Information

a. Status of electricity supply and consumption and forecasts of energy use in the TEPCO service area

I suggest encouraging media outlets to redistribute this information disclosed on the TEPCO website; some sources, including Yahoo Japan, are already doing this. During the peak electricity demand period from June to September (hereafter referred to as the "summer period"), in particular, actual consumption levels and total supply capacity can be shown during weather forecasts and regular news programs.

If possible, it could also be displayed permanently in a corner of the television screen or distributed to mobile phones. When the Kashiwazaki-Kariwa Nuclear Power Station was shut down in 2003, electricity forecasts were provided via television, radio, Internet, and other means during the summer period from June 23 to September 5.

b. Disclosure of information on energy use by the industrial, commercial (offices, retail outlets, etc.), and household sectors in the TEPCO service area

In order that no one feels a sense of unfairness, daily energy use by the industrial, commercial, and household sectors can be disclosed, giving everyone an idea of how hard each of these sectors have tried to reduce consumption.

In particular, there are growing demands to disclose information regarding supply and demand adjustment contracts with large-demand customers, of which there are over 1,000. TEPCO may not currently have the organizational capacity to get this done. Alternatively, these customers themselves could disclose information, including their energy-saving efforts, to the extent possible.

It should be noted, however, that several options exist on the menu of supply and demand adjustment contracts and that the energy-saving potential of these contracts is presumed insufficient to overcome the summer energy crisis, as will be discussed below. The options include summer holiday con-

tracts (shifting company holidays and other measures during the adjustment period specified by TEPCO between July and September), summertime operation adjustment contracts (conducting facility maintenance, repairs, and regular inspections, designating extended vacations, and other means during the adjustment period specified by TEPCO), and peak period adjustment contracts (adjusting peak use by 30 minutes or more between 1 pm and 4 pm, as designated by TEPCO).

c. Presentation of standard energy consumption levels (business-as-usual and recommended values) for offices, retail outlets, and households

Standard energy consumption levels can be disclosed—per unit area for offices and retail outlets and both per unit area and per capita for households. This will allow people to check how much energy they are saving and could lead to further efforts, such as changing the ampere capacity of their account.

d. Provision of information

I suggest summarizing and releasing basic data for reporting on energy saving, information on organizations that could be interviewed, examples of best practices in energy-saving initiatives, and other material.

With regard to energy-saving efforts, in particular, the media, private organizations, and individuals are already engaging in various initiatives and information exchange. Fiscal allocations should therefore preferentially go to measures that generate quantitative reductions, and there should be no need for additional funding and personnel for publicity and communication efforts. Publicity should be focused on this summer's energy-saving measures within the constraints of the current budget, such as through the public relations activities by the Cabinet Office, the Ministry of Economy, Trade, and Industry, the Ministry of the Environment, and other existing outlets.

Moreover, the government should make a point of coordinating with private-sector efforts, such as by providing web links to pages on corporate and personal initiatives; visualizing the cumulative energy saved by means of initiatives like the "light down" campaign, conducted on the summer solstice; and cooperating with lifestyle-related industry groups (such as the retail, restaurant and catering, and transport industries), organizations that have a strong impact on society (such as sports and entertainment), and the media.

Initiatives by Politicians and Civil Servants

a. Adjournment of the Diet

I suggest adjourning the Diet and relocating party headquarters outside the TEPCO service area during the summer period. Activities in Tokyo should be limited to regular meetings of the heads of the ruling and opposition parties and the maintenance of minimal party liaison functions.

b. Partial transfer of government functions

During the summer period, some government functions can be relocated outside the TEPCO service area, and the employees' place of work and residence can be moved as well. Priority should be given to singles living alone—who can readily move—and households that have parents or relatives living in the destination area who can take in the whole family.

c. Postponement of the budget request schedule

Preparing budget requests accounts for a large part of the work that is done in the summer. I suggest reconsidering these summertime operations, such as shifting the submission deadline of regular budget requests from the end of August to October or later, with the exception of supplementary budget requests relating to post-disaster restoration and reconstruction.

d. Proactive efforts by politicians and civil servants

Employees' working hours can be strictly managed during the summer period, encouraging them to come to work early in the morning and providing extended lunch breaks from noon to 2 pm, during which lights are turned off and office machines are not used. Air conditioning during working hours can be prohibited; this would involve revising Article 5 of the Ordinance on Health Standards in the Office, made under the Industrial Safety and Health Act, to exempt the Diet and civil service from the requirement to keep room temperatures at 28 degrees Celsius or lower. Meanwhile, the "cool biz" dress code (short sleeves and no jacket or tie) is still not permitted in the Diet (during lower house plenary sessions), but in the light of current conditions, even lighter clothing—possibly T-shirts or polo shirts and shorts—should be allowed for this summer only.

Moreover, employees remaining after hours can gather in a meeting room or designated area so that power can be completely shut down in other areas of the office. Finally, employees can be required to take a paid leave of at least one week during the summer period and encouraged to travel outside the TEPCO service area with their families.

Regulation of Industries

a. Relocation of headquarters

Companies can be encouraged to set up temporary headquarters either in western Japan, including and beyond the Kansai region, or to Hokkaido during the summer period and relocate their offices and employees there. In the case of factories, which are likely to have a higher percentage of temporary workers than administrative headquarters, relocation could cause employment problems, such as layoffs of temporary workers. As a general rule, the office divisions should be relocated, while factories should adjust their hours of operation.

b. Staggering of summer holidays

I propose dividing companies (factories and offices) within the TEPCO service area into eight groups and assigning periods of one to two weeks out of the eight weeks between July and August during which they are to suspend operations, with the exception of some companies, such as those that provide financial and transportation services. During this period, only basic liaison functions should be left in operation. Employees can be encouraged to travel outside the TEPCO service area with their families.

c. Restrictions on energy use

Regarding the peak hours of energy use, time restrictions can be applied to neon signs and television broadcasting; nighttime sporting events rescheduled to daytime; events that attract large crowds (such as live concerts and fireworks displays) altered to reduce energy use, postponed to after the summer, or held outside the TEPCO service area; and hours of operation shortened at recreational facilities. Operation of factories and retail outlets can run on a rotating schedule within each business category or region.

Furthermore, supply and demand adjustment contracts can be utilized vis-à-

vis large-demand customers (large-scale manufacturers). As for their energy-saving effect, expected savings at the time of the Kashiwazaki-Kariwa plant's shutdown in 2003 came to about 1.4 million kilowatts through planned adjustment contracts and 1.3 million kilowatts through discretionary adjustment contracts, for a total of about 2.7 million kilowatts. But while utilizing the contracts will be imperative for coping with the aftermath of the recent disaster, suspending operations at the factories of large-scale manufacturers could also bring to a standstill the operations of small and medium-sized enterprises in the production chain. In the light of their effect on the provision of goods needed for reconstruction and on the economy and employment, we should not overly rely on supply and demand adjustment contracts.

Other Measures

In addition to the efforts proposed above, economic measures are also conceivable if they could be implemented in time for the summer period.

a. Hiking of electricity prices

TEPCO does not disclose the number of contracts or the amount of electricity sold on a per-contract-ampere basis. In exchanges with a nonprofit organization, however, TEPCO has commented that, with regard to residential accounts, 30-ampere contracts (meter-rate lighting A and B) are the most numerous but the average amperage is 40 amperes. This may mean that, for instance, half of the accounts are on 30-ampere contracts, with 40-ampere, 50-ampere, and 60-ampere contracts accounting for one-third each of the remaining accounts. Economic incentives could be used to drive the contract ampere of each account lower, with a target of 10 amperes per account. In practice, switching from 30 amperes to 20 amperes would probably be difficult. If we suppose that a one-third of 30-ampere contracts are downshifted to 20 amperes, and all 40-ampere to 60-ampere contracts are downshifted by 10 amperes each, this should reduce peak energy by 17%—at least on paper.

Professor Yukio Noguchi of the Waseda University Graduate School of Finance, Accounting, and Law proposes inducing this kind of downward shift in contract amperes by hiking the basic rate of contracts for 40 amperes and over.

The impact of measures tapping into contract amperes hinges, however, on just how the electricity is being used. Downshifting will have little effect if most households use less than the ampere capacity and have a margin of 10 amperes.

Depending on actual electricity use, which is not disclosed, it may be the metered rates rather than basic rates that need revision.

As of the end of March 2011, TEPCO was not accepting changes in ampere capacity due to the disaster. It is to be hoped that this will be resumed soon, so that consumers can change the contract ampere of their own accord even if the electricity pricing cannot be revised in time for the summer.

b. Eco point system

Use of energy-saving products could be promoted by means of economic measures. An "eco-point" program for home appliances is already in place, and whether or not to continue the program will largely be a fiscal decision.

Roughly 70% of the energy used in households is consumed by air conditioners (about 25%), refrigerators (about 16%), lighting (about 16%), and televisions (about 10%). In view of their large share of home energy use, replaceability, and need for uninterrupted use, eco points could be limited to refrigerators. It should be possible, moreover, to keep down the budget by awarding points only to replacement purchases made in, or delivered to, the service areas of the Tohoku Electric Power Company and TEPCO during the three-month period from May through July.

c. "Evacuation" to conserve energy

Even if companies are to suspend operations, measures for children will be needed for families to travel outside the TEPCO service area. Supplementary plans could be introduced to promote these efforts.

I suggest that schools, from elementary school to university, close for the summer holidays from July 1 to September 15. During this period, households having relatives elsewhere can "evacuate" from the TEPCO service area for energy-saving purposes, with all members of the family in tow if possible. Local governments outside the TEPCO service area that are capable of taking in these students can organize summer camps, with special local tax grants (or subsidies) being issued on the basis of the number of students accepted. In the case of students being accepted at other organizations that fulfill certain criteria—examples of which include private entities such as nonprofits and educational institutions such as preparatory schools and language schools—grants (or scholarships) can be given out to participants in their programs.

Additionally, the government and businesses will need to formulate plans for

contingencies by the end of May, such as adjusting regulations for working at home (relaxing restrictions on what documents and data can be taken home), widely distributing manuals to prepare for a higher incidence of heat stroke due to energy saving efforts, and so forth.

In Conclusion

This article has discussed measures to deal with the energy crisis expected in the summer. It is likely, however, that the problem of supply-demand gaps will not be limited to this summer. The crisis at the Fukushima Daiichi Nuclear Power Station is certain to give rise to a grueling nationwide debate on nuclear power. Even if, in the medium to long term, we are to pin our hopes on replacing nuclear power with other energy sources, such as renewable energy and highly efficient thermal power generation fired with coal or gas, curbing energy demand to the greatest extent possible will be a prerequisite to making this happen.

Achieving a low-carbon society to counter climate change is an urgent issue for Japan in the first place. The short-term energy-saving measures implemented to weather the current crisis will also serve as a litmus test for medium- and long-term measures to be taken in the future. In order facilitate smooth implementation, the ruling and oppositions parties will need to reach an agreement on policies, including energy-saving measures, to be taken across party lines.

June 13, 2011

Remembering Ron Asmus: An Atlanticist with a Commitment to Japan

Michito Tsuruoka

American and European foreign policy circles have been mourning the untimely death of Ronald D. Asmus, who contributed so much to NATO enlargement and transatlantic relations. Japan also owes a debt of gratitude to him for reaffirming this country's importance as a partner to the transatlantic community.

GAETAN MICLOTTE FOR GMF

Ronald D. Asmus died on April 30, 2011, at the age of 53. Serving as deputy assistant secretary of state for European affairs from 1997 to 2000 under US President Bill Clinton, Ron Asmus is primarily remembered as someone who pushed for NATO's enlargement toward the former communist countries of Central and Eastern Europe. In 2002 he joined the German Marshall Fund of the United States (GMF), a Washington-based think tank dedicated to transatlantic cooperation, as a senior transatlantic fellow. Named executive director of GMF's Brussels office in January 2005, he oversaw key NATO and EU-related programs and helped launch the Brussels Forum, a large-scale annual policy conference.

Ron's contribution to NATO enlargement has already been much praised in obituaries and eulogies carried in the US and European media. Rather than reiterate what has been so eloquently stated elsewhere, I would like to offer my own personal appreciation of Ron, focusing on his involvement with Japan.

I first got to know Ron in 2006, when I was serving as a special adviser for NATO at the Embassy of Japan in Belgium. Although his work was by no means unfamiliar to me, the sheer energy and dedication he brought to his job each day was a revelation. At that time he had just turned his attention to NATO's role in

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international security and potential partnerships with non-NATO countries. As a result, I fortunately had many opportunities to exchange ideas with him on Japan-NATO relations, and I learned a great deal about NATO from him. Out of this contact came an invitation for Ron to visit Tokyo in November 2006 to speak to the Japan-NATO high-level seminar, hosted by the Japanese Ministry of Foreign Affairs, along with Jamie Shea, director of policy planning at the Secretary General's Private Office, NATO Headquarters. Around the same time, Ron began thinking of organizing a GMF workshop on NATO-Japan/Asia relations, a project in which I became involved in my dual capacity as a scholar and embassy official.

After visiting Tokyo in the company of GMF President Craig Kennedy in the summer of 2007, Ron began to dedicate himself in earnest to building ties with Japan in the context of GMF's Asia program. Tadamichi Yamamoto, then director-general of the Foreign Ministry's Public Diplomacy Department (currently special representative for Afghanistan and Pakistan), arranged for Ron to call on the Tokyo Foundation, and that meeting ultimately led to the current partnership between the Tokyo Foundation and GMF.

Ron was a dyed-in-the-wool Atlanticist with an unshakable belief in the importance of transatlantic cooperation. He was also an open-minded and visionary "policy entrepreneur" who had begun advocating the integration of Central and East European countries into NATO at a time when the idea was still considered unorthodox at best. At the same time, he saw that the rise of Asia—epitomized in the rapid growth and development of China and India—was the single most important trend in twenty-first-century international affairs. He grew increasingly convinced that, even within the context of transatlantic cooperation, promoting understanding and dialogue with Asia was of critical importance. As executive director of the Brussels office, Ron played a key role, along with GMF President Kennedy, in convincing the board members of the need for an expanded Asia program at a time when not a small number of them were wary of extending the organization's scope of activities beyond the transatlantic area.

It is worth noting that it was an American who had spent his whole career working on NATO and US relations with Europe and Russia (Soviet Union)—the mainstream concerns of America's foreign-policy community—that played such a pivotal role not only in widening the scope of GMF's activities to include Asia but also in installing Japan as one of the pillars of GMF's Asia program at a time when many Western think tanks were shifting their Asian resources to China and India from Japan. Given GMF's mission of fostering transatlantic coopera-

tion, the case for developing the Asia program was surely more persuasive coming from a confirmed Atlanticist than it would have been from someone specializing in Asia. The idea to feature Japan in the program, meanwhile, reflected Ron's fundamental belief that the transatlantic community on which he—and GMF as a whole—placed such emphasis was built on shared values like democracy and the rule of law. (It was this same focus on values that drove GMF's involvement in the democracy movements in the Balkans and the Black Sea region.) The basic understanding that the Japanese, too, share these values led to a realization that strong ties with Japan would be more important than ever as Asia's international clout continued to grow. Ron became convinced that an Asia program focused solely on China and India could never be balanced or complete. From the Japanese standpoint, this development could not have been more welcome, coming at a time when many people were fretting that the international community—Europe and the United States in particular—was losing interest in Japan.

In March 2008, a group of Japanese experts and policymakers, including a couple of Diet members, participated in the Brussels Forum for the first time. It was Ron who worked hard to realize it and helped organize a special lunch session devoted to Japan. It was around the same time that people gradually became aware of Ron's illness. Still, Ron remained active, campaigning for NATO's further enlargement and transformation even from his sickbed.

As a special adviser for NATO at the Japanese Embassy in Brussels, I was involved almost from the outset in the Asia program that Ron developed at GMF and above all in the emerging partnership between GMF and the Tokyo Foundation. From January to March 2009, moreover, I was given the opportunity to work under Ron at the GMF's Brussels office as the first recipient of a GMF–Tokyo Foundation Fellowship. It was a tremendously valuable experience, in no small part because it gave me the opportunity to observe at close hand the combination of passion and rigor that Ron brought to his work. My research project, focusing on ways to rebuild links between Japan and the transatlantic community, closely coincided with Ron's own interests, and a portion of my study was later published by GMF (see links below). After a little interval, the fellowship program has resumed, and Ryo Sahashi, associate professor at Kanagawa University, is currently pursuing his own research as a second Japanese fellow at the GMF. Neither this partnership nor GMF's Asia program as it exists today would have been possible without Ron's insight and leadership.

In December 2010, in cooperation with the Tokyo Foundation, Ron's long-deferred plan for a GMF seminar on Japan-NATO relations in Tokyo, first

hatched back in 2006, was finally brought to fruition—albeit in a somewhat different form from that originally envisioned owing to exigencies within NATO. (See <www.tokyofoundation.org/en/t/suwpc> for a summary of the public session.) As the originator of the project, Ron continued searching for a way to participate until the very eve of the seminar, and only doctor's orders prevented him from fulfilling his wish. I saw him in Brussels in November, shortly before the event. He was physically weakened, but his conversation was as sharp and penetrating as ever. "Don't worry," he laughed, seeing the concern in my face. "I'm not going to die or anything."

It is my wish that GMF's Asia Program and its partnership with the Tokyo Foundation will continue to develop and grow, for surely that is what Ron would have wanted. I am also determined personally to do whatever I can to contribute to that development. At the same time, I wish the fact that Ron Asmus committed himself in his final years to building bridges with Asia and Japan, a country with which he had no earlier ties, will be long remembered in Japan.

April 22, 2011

Evolving Australian Approaches to Security Architectures in the Asia-Pacific

William T. Tow and Rikki Kersten

This paper was written for the Tokyo Foundation's Asian Security Project as a first step of collaboration between the Foundation and the Australian National University. The project uses a three-tiered approach to analyze emerging security arrangements in the Asia-Pacific during the post–Cold-War era. Here, ANU Professors William T. Tow and Rikki Kersten discuss the evolution of Australian approaches to regional security politics, focusing on the period since 2008, when Kevin Rudd introduced the concept of an Asia-Pacific community.

This concept was not well received by other countries in the region, but the vision has survived. In 2010, for instance, the East Asia Summit decided to include the United States and Russia as members beginning in 2011. The Australian position in the regional security architecture has recently been shifting away from multilateral arrangements, such as EAS, though, and moving toward "minilateral" arrangements like the Trilateral Strategic Dialogue with the United States and Japan.

As long as China pursues a peaceful rise, security arrangements that China may regard as intending to contain it should be avoided. But if China opts to assert its interests through a powerful military buildup, those minilateral instruments could become more "NATO-like" in purpose and configuration. (Shoichi Katayama, Research Fellow and Project Manager)

Australia and Japan are confronting a common strategic choice. Two decades after the end of the Cold War, both of them regard their respective bilateral defense alliances with the United States as fundamental to their own national security. Yet both view multilateral security politics as increasingly critical for regional stability. Recent Japanese and Australian prime ministers have advanced specific and controversial proposals for organizing multilateralism and commu-

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nity-building. Democratic Party of Japan leader and soon to be Prime Minister Yukio Hatoyama introduced his East Asia Community (EAC) plan in late August 2009 to promote Japan's identity as an East Asian state.[1] A little more than a year earlier Australian Prime Minister Kevin Rudd called for the formation of a broad Asia-Pacific Community (APc).[2] The former blueprint gained notoriety by implying that the United States might be excluded as a key player in East Asia; the latter was explicitly designed to ensure that the United States would be accorded precisely such a role. Neither plan gained substantial support with China, in particular, becoming suspicious of the EAC and the Association of Southeast Asian Nations opposing the Australian initiative. The Americans were initially cool toward both initiatives but for different reasons in each case.

The evolution of the Australian proposal and the ramifications of its possible effects on regional multilateralism are assessed here. Critically examining how the APc was perceived by Australian policymakers and by those regional forces who opposed it may yield a greater understanding of how those miscalculations and misperceptions that accompanied its introduction and promotion could be avoided in future episodes of multilateral security politics.

Background

Well over two years have passed since Rudd initially elucidated his vision for an APc. Calling for "strong and effective regional institutions" to address issues including security, terrorism, natural disasters, disease, trade, energy, and food, his proposal nevertheless suffered significant criticism at home and abroad. A benign interpretation of Rudd's policy initiative was that it was merely designed to initiate a region-wide debate about regional order-building rather than to introduce a formal blueprint for implementing it.[3] More strident criticism focused on the Australian government's lack of consultation with regional policy elites before introducing the proposal, Rudd's failure to defer to uniquely regional characteristics when advancing an idea that looked suspiciously

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1 Ryo Sahashi, "Hatoyama's New Path and Washington's Anxiety," *East Asia Forum*, September 6, 2009, www.eastasiaforum.org/2009/09/06/hatoyamas-new-path-and-washingtons-anxiety/ (accessed March 9, 2011).

2 Full text of Kevin Rudd's speech to the Asia Society Australasia, *The Australian*, June 5, 2008.

3 Gareth Evans, "Asia Pacific Regional Security Architecture," Panel Presentation to the Global Policy Forum, Yaroslavl, Russia, September 9, 2010, www.gevans.org/speeches/speech422.html (accessed March 7, 2010).

similar to the European Community concept, an Australian presumption that new institutions were required in place of existing ones that could otherwise evolve or adapt to community-building challenges and Australia's need to recognize ASEAN's traditional role as the "driver" or "pivot" for establishing wider regional cooperation.[4]

These shortcomings led to widespread Asian disdain of the Rudd government's efforts to set in motion various components of the proposal. This included Asian diplomats and independent experts rejecting the idea of establishing an eminent persons group for conceptualizing a new region-wide institution at a Track 1.5 conference convened by Australia's Department of Foreign Affairs and Trade in Sydney in early December 2009.[5] Australian proponents of the APc were frustrated by what they viewed as the ASEAN conference representatives' misplaced determination to preserve that organization's central role in regional institution-building notwithstanding their own countries' sustained prioritization of state sovereignty as the paramount norm shaping their own foreign policies and ASEAN's mixed track record in dealing with serious regional security dilemmas.[6] Regional analysts from China and the ASEAN states denounced Australia's brand of architecture-building as "coming from outside the region" and lacking credibility, because the geography it embraced was far too large to develop any "common identity."[7] In the aftermath of Rudd's failure to convince ASEAN states, in particular, to support moves toward creating a new institution at Sydney, it was surmised that the APc would die a quiet death.[8]

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[4] Ibid.

[5] Tommy Koh, "Rudd's Reckless Regional Rush," *The Australian*, December 18, 2009.

[6] The former problem of sovereign primacy is addressed in a volume written by two Singapore analysts, Sree Kumar and Sharon Saddique, *Southeast Asia: The Diversity Dilemma. How Intra-Regional Contradictions and External Forces Are Shaping Southeast Asia Today* (Singapore: Select, 2008). For salient commentary on this work, see Anthony Milner, "Analysing Asian Regionalism: What Is an "Architectural" Perspective?" *Australian Journal of International Affairs*, 65(1) 2011: 112, 115.

[7] Anthony Milner, Zhu Liqun, Tan Seng Chye, and Prapat Thepchatree, "Regionalism: An Asian Conversation: Three Viewpoints," *Asialink Essays*, 2(4) 2010: 9, 13.

[8] Rudd's successor, Julie Gillard, observed in early July 2010 that she did not see "the degree of movement" toward regional community-building that Rudd had hoped to cultivate and that the APc no longer enjoyed the status as a key foreign policy initiative in the Labor government. See Peter Hartcher, "Gillard Rejects Rudd's Asia Vision," *Sydney Morning Herald*, July 5, 2010. Also see "Rudd's Asia Pacific Community Idea Under Threat," *Radio Australia: Asia*, July 5, 2010, www.radioaustralia.net.au/asiapac/stories/201007/s2945375.htm (accessed 8 March 2010); Andrew Shearer, "The APC is a Dead Parrot," *Caixin Online*, July

Cross-Comparing the APc with the EAC

After receiving harsh criticism from commentators and tepid reactions from regional players, Rudd retuned his Asia-Pacific Community concept with pragmatism and intelligence in an address to the Shangri-La Dialogue in May 2009. Here Rudd showed the requisite deference to ASEAN as the lead institution in Asian regionalism, presenting the Asia-Pacific Community as "a natural broadening of the processes of confidence, security and community building in Southeast Asia led by ASEAN."[9] His explicit references to ASEAN-centered institution-building sounded all the right notes, but Rudd nonetheless restated his view that existing institutions were too narrowly configured to serve the purposes of the twenty-first century and that active institution-building involving all major regional powers was required.

In this refined declaration of his foreign policy vision, Rudd seemed to anticipate the thrust of Japanese Prime Minister Hatoyama's own regional vision that followed in November 2009. Riding a wave of idealism and excitement after leading his party to victory in August 2009, Hatoyama wasted no time in setting forth his own vision for an EAC.[10] Unlike Rudd, Hatoyama had already sounded out his neighbors China and Korea during their Trilateral Summit meeting that year, signaling his firm intention to counterbalance Japan's alliance with the US with Asia-first diplomacy. Hatoyama reinforced Japan's role as a "future-shock" country for other Asian nations, observing that Japan had modernized earlier, putting it in a good position to assist its neighbors in tackling post-growth challenges. Significantly, Hatoyama, like Rudd, used Europe as a referent, pointing to the successful reconciliation between Germany and France that lay at the heart of community building in Europe. Hatoyama's explicit reference to Japan's aggression in the region 60 years before, coupled with his stated desire for genuine Asian reconciliation and distancing from the US, ensured that his proposal received positive attention from the region.

20, 2010, www.lowyinstitute.org/Publication.asp?pid=1349 (accessed 10 March 2011).

[9] Kevin Rudd, keynote address at the eighth IISS Asian Security Summit (Shangri-la Dialogue), Singapore, May 29, 2009, www.iiss.org/conferences/the-shangri-la-dialogue/shangri-la-dialogue-2009/plenary-session-speeches-2009/opening-remarks-and-keynote-address/keynote-address-kevin-rudd/ (accessed March 10, 2011).

[10] Speeches and statements by the prime minister, Address by H.E. Dr Yukio Hatoyama, Prime Minister of Japan, "Japan's New Commitment to Asia: Toward the Realization of an East Asian Community," November 15, 2009, Singapore, www.kantei.go.jp/foreign/hatoyama/statement/200911/15singpore_e.html (accessed March 10, 2011).

Hatoyama's concept differed from Rudd's, however, in that it proposed an informal and staged approach to a community. Most importantly, his version of a regional security community at least at the outset seemed to exclude the US. (He later backed down by issuing his own disclaimers and instructing his relevant ministers to soothe Washington's initial concerns). Hatoyama proposed to follow a phased path starting with economic ties, then moving on through issue-based cooperation towards institutionalization. Clearly, in this context, Hatoyama's idea was quite different from Rudd's, and for a short while it was not clear whether Japan even welcomed Australia into the EAC. With Hatoyama embroiled in a stand-off with the US over force relocation within Okinawa in 2009 and 2010, it was increasingly evident that Japan's regional vision was an integral part of a fundamental recalibration of Japan's postwar alliance relationship with the US. Indeed, what few positive inclinations China entertained towards the EAS were linked to this premise.[11]

On the other hand, in 2005 Japan had successfully pushed for Australia along with India and New Zealand to become members of the East Asia Summit, partly in order to counterbalance China in the region. As will be discussed below, the real test for the effectiveness of Australia-Japan bilateral activism will occur in the ensuing decade, when both countries calibrate their national interest and regional vision as part of region-wide responses to the rise of China. More immediately, however, it is worth noting that Japanese Prime Minister Naoto Kan made a remarkable and concerted effort to clearing away history obstacles in order to advance regional relationships and institution-building—if not leadership.[12] This trend can be viewed as a deliberate and considered policy choice, and one that is being made with the intent of opening up new possibilities for Japan in the region. It could also be interpreted as a Japanese effort to counterbalance growing Chinese power.

Policy Rationalization

Predictions that the APc has died a quiet death may be premature. While the APc may no longer be on the region's foreign policy agenda in its specifically proposed form, the substance of Rudd's vision still seems very much alive. Even

[11] John Hemmings, "Understanding Hatoyama's East Asia Community Idea," *East Asia Forum*, January 22, 2010, www/eastasiaforum.org (accessed March 10, 2011).
[12] See, for example, "Kan Apologizes for Annexation of Korea," *The Asahi Shimbun* (English edition), August 11, 2010 at www.asahi.com/english/TKY201008100350.html (accessed on March 10, 2011).

prior to his political disposal as Australia's prime minister in June 2010 Rudd appeared to be backing off from promoting a strict constructivist APc vision as evidenced by a speech he delivered on China offered the previous April in which he "welcom(ed) the decision of ASEAN leaders at their summit in Hanoi on April 8–9 . . . to encourage the United States and Russia to deepen their engagement in evolving regional architecture" and "while the countries of the region will need to settle how reformed regional architecture might be constituted, the ASEAN Summit outcome offers a critical step forward to the architecture our region needs for the long-term future."[13] While skeptical commentators interpreted this announcement as Rudd raising a white flag of acknowledgement to ASEAN primacy for regional architecture building, others argued that Australia's APc elevated the debate about regional architecture-building to a new level and set the context for an expanded East Asia Summit to be realized.[14] As one Australian commentator subsequently asserted, "recent history suggests that the only way to goad ASEAN into making progress on regional architecture is to threaten to remove it from the driver's seat of regional institutionalization."[15]

Other Australian policy-makers sustained this approach but on a more subdued basis following Rudd's dismissal from his country's top political post. In responding to his Singaporean counterpart's observation that Australia was by now "happy to leave ASEAN to discuss how that regional [architectural] configuration should evolve," Australian Foreign Minister Stephen Smith noted that it was up to ASEAN to determine whether the East Asia Summit or a new ASEAN+8 configuration would emerge as the pan-Asian architecture of choice for regional security deliberations.[16] The Hanoi Declaration on the commemoration of the fifth anniversary of the East Asia Summit released in late October 2010 confirmed that the former approach had prevailed: "the EAS with ASEAN as

[13] Kevin Rudd, "Australia and China in the World: 70th Morrison Lecture," Australian National University, Canberra, April 23, 2010, http://pmrudd.archive.dpmc.gov.au/node/6700 (accessed March 8, 2011).
[14] Criticism is exemplified by Graeme Dobbell's "Rudd to ASEAN: You Win," The Interpreter, 28 April 2010 www.lowyinterpreter.org/post/2010/04/28/Rudd-to-ASEAN-You-win.aspx (accessed March 8, 2011). Praise is offered by Aaron Connelly, "Canberra's Clouseau Strategy," *The Interpreter*, January 5, 2011, www.lowyinterpreter.org/post/2011/01/05/Canberras-Clouseau-strategy.aspx (accessed March 8, 2011) and by Evans, "Asia-Pacific Regional Security Architecture."
[15] Connelly, "Canberra's Clouseau Strategy."
[16] "Australia's Plan for Asia Pacific Community Under a Cloud," *Radio Australia Asia*, June 18, 2010, www.radioaustralia.net.au/asiapac/stories/201006/s2931105.htm (accessed March 8, 2011).

the driving force, working in close partnership with the other participants of the EAS, is an important component of the evolving regional architecture . . . and promotes community building efforts in East Asia."[17] The key point from Canberra's perspective was that the United States would be included in a strengthened EAS framework—a major factor that initially prompted Rudd to introduce the APc concept. Indeed, with Barack Obama's ascension to the White House, it became clear that the United States was determined to reaffirm its status as a front-line power in Asia. In a landmark November 2009 address delivered in Tokyo, the president proclaimed that every American has "a stake in the future of this region, because what happens here has a direct effect on our lives at home."[18] Smith rationalized Australia's diplomatic posture on this issue as being far more consistent than its critics had acknowledged:

> We are, we think, very close to achieving the objectives that we set when Prime Minister Rudd launched the Asia Pacific community a couple of years ago. What we wanted to do was to ensure that our regional arrangements were set and correct for the Asia-Pacific century as strategic and economic influences move in our direction, the rise of China, the rise of India, the rise of the ASEAN economies combined. And the real breakthrough came with the recent ASEAN leaders meeting in Hanoi, where leaders expressly requested the United States and Russia to become more formally integrated within the regional arrangements.[19]

As one observer later asserted, whether merited or otherwise, Canberra's position appeared to be that "whatever ASEAN does will be hailed as meeting Australia's aims."[20]

This perspective was buttressed in an unexpected way with the release of US

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[17] Australian Department of Foreign Affairs and Trade, "Ha Noi Declaration on the Commemoration of the Fifth Anniversary of the East Asia Summit," Hanoi Vietnam, October 30, 2010, www.dfat.gov.au/asean/eas/ha_noi_declaration.html (accessed March 8, 2011).

[18] Washington Wire, "Text of Obama's Tokyo Address," Suntory Hall, Tokyo, 14 November 2009 at http://blogs.wsj.com/washwire/2009/11/13/text-of-obamas-tokyo-address/ (accessed on March 10, 2011).

[19] "Extended Interview with Australian Foreign Minister Stephen Smith," *Radio Australia Asia*, June 29, 2010, www.radioaustralia.net.au/connectasia/stories/201006/s2939721.htm (accessed March 8, 2011).

[20] Graeme Dobbell, "Rudd in Asia: One Last Kick in the Guts," The Interpreter, June 30, 2010, www.lowyinterpreter.org/post/2010/06/30/APc-One-last-kick-in-the-guts-to-Rudd.aspx (accessed March 8, 2011).

diplomatic cables by Wikileaks in early December 2010, which exposed the controversial dimensions of Rudd's motivation for (and style in) promoting the APc. In a March 2009 meeting with US Secretary of State Hillary Clinton, Rudd characterized his proposal as an initiative to check China's growing dominance in regional diplomatic circles by ensuring that the United States was not marginalized during the process of Asian institution-building by a Chinese diplomatic Monroe Doctrine. However, this revelation evidently surprised Rudd's special envoy for APc discussions, Richard Woolcott, who indicated that Rudd had always represented the APc to him as an instrument for engaging the Chinese rather than containing them.[21] US diplomatic cables revealed that US officials were critical of Rudd's management of APc, indicating that not only were regional leaders caught off guard by his initiative but also that Australian diplomatic personnel were given little or no warning of the content in his speech delivered to the Asia Society in Sydney introducing the concept. Woolcott, Japanese Ambassador to Australia Takaaki Kojima, and various US diplomats all subsequently berated Rudd's "top-down" and overly spontaneous style, while US Embassy officials in Canberra reportedly complained that the APc reflected his tendency to be "obsessed with managing the media cycle rather than engaging in collaborative decision-making."[22]

Where to from Here?

With Kevin Rudd's dismissal as Australia's prime minister and the American entry into the EAS, the momentum underpinning the push for an APc seems to have dissipated. This is true despite Rudd's subsequent appointment as Australia's foreign minister and the fifth EAS Summit's mandate tasking foreign ministers "to study ways to strengthen EAS follow-up and coordination mechanisms."[23] Over the latter part of 2010 and the first months of 2011, moreover, multilateral security diplomacy appears increasingly preempted by China's rising power and its increasingly assertive projection of its national interests throughout the region. In this context, now Foreign Minister Rudd, during a visit by Japan's foreign minister, felt compelled to reject suggestions that Australia's increasingly close security cooperation with Japan and the US (in the context of

[21] Paul Maley, "Kevin Rudd's Plan to Contain Beijing," *The Australian*, December 5, 2010.
[22] Philip Dorling, "Rudd's Man Knocked His Asia Plan," *Sydney Morning Herald*, December 24, 2010.
[23] Australian Department of Foreign Affairs and Trade, "The East Asia Summit," www.dfat.gov.au/asean/eas/index.html (accessed March 10, 2011).

the Trilateral Strategic Dialogue and other instrumentalities) has been mainly precipitated by China's military build-up:

> Japan and Australia are committed to developing our region's future architecture to deal with rising powers like China . . . [in order to] establish long-term rules of the road here, in the Asia-Pacific region . . . Regional architecture and the rules of the road are not aimed at any one particular state. They're designed for all of us to preserve the stability which underpins our region's prosperity.[24]

In a speech delivered to the Foundation for Economic and Industrial Research in Athens during early February 2011, moreover, Rudd seemed to designate the European Union as a role model for Asia-Pacific architectural development in a way similar to his praise of the EU found in the text of the June 2008 Sydney speech. Addressing his audience in Athens, Rudd asserted:

> If you look at the [Asia-Pacific] region at large, what you see is a fairly brittle set of security policy arrangements. So what do we do about this? Australia, in recent years, has advocated the development of an Asia-Pacific community to form the institutional architecture to provide the support and the ballast for this brittle set of security arrangements. In doing so we would seek to learn from our friends in the European Union. . . . For those that criticize the European Union, as an outsider I simply say this: reflect carefully on history. And reflect carefully on what Europe has achieved as opposed to what might be the ideal. In the Asia-Pacific region, the challenge is therefore to learn from this and to begin to build up institutions that are capable of providing confidence and security-building measures between the United States, China, Japan, India, the countries of Southeast Asia and ourselves. The vehicle which now presents itself to do that is an institution which is called the East Asian Summit. . . . This is important because it brings all the principal players to the table with the mandate to discuss political, security, and economic matters and to begin to form the rules of the road and the confidence and security measures that our region needs.[25]

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[24] Kevin Rudd, "Joint Press Conference," November 23, 2010, www.foreignminister.gov.au/transcripts/2010/kr_tr_101123_joint_pc.html (accessed March 10, 2011).

[25] Kevin Rudd, "Australian Foreign Policy and Recent Developments in the Middle East," Speech at the Foundation for Economic and Industrial Research, Athens, Greece, February 2, 2011, www.foreignminister.gov.au/speeches/2011/kr_sp_110202.html (accessed March

Despite such protestations, it is increasingly likely that Australia's short-term "architectural agenda" will shift further away from emphasizing pan-Asian community-building ventures. It will instead move closer toward strengthening "multilateralism on the margins," by calibrating Australia's access to hard power and with its selective projection of "smart power" (through deriving judicious combinations of diplomacy and economic relations) and it will prioritize the development of "minilateral" instrumentalities for doing so. Accordingly, it will look to develop such existing arrangements as the Trilateral Strategic Dialogue involving Australia, Japan, and the United States. Rudd has signaled the importance of the TSD in a recent (November 2010) speech delivered to the Kokoda Foundation, observing, "the TSD complements and supports good regional architecture, it does not cut across the broader regional architecture." He further noted that by not being bound to a designated secretariat, rules, or organizational structures, the TSD allows for maximum flexibility to be used by its affiliates at a time of their convenience and in ways that make it most responsive to their immediate needs. The foreign minister concluded, "I would expect that the next few years will see increasing cooperation between TSD partners as a natural consequence of our close relationship."[26]

Rudd's reasoning dovetails with that of US Assistant Secretary of State Kurt Campbell in the Bureau of East Asian and Pacific Affairs. In congressional testimony delivered in March 2011, Campbell noted that the US will "take ambitious steps" to increase trilateral cooperation "to further develop a more integrated Northeast Asia security architecture." In his statement, Campbell anticipated the updating and more robust version of the Trilateral Coordination and Oversight Group comprising Japan, South Korea, and the United States (formed in April 1999 to respond to developments in North Korea).[27] Noting that US Secretary of State Hillary Clinton had hosted her Japanese and South Korean counterparts at an inaugural Trilateral Ministerial Meeting (TMM) in December 2010, Campbell

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10, 2011).

[26] Kevin Rudd, "Australia's Perspectives on Trilateral Security Cooperation in the Western Pacific," Speech to the Kokoda Foundation Australia-US-Japan trilateral seminar dinner, November 18, 2010, www.foreignminister.gov.au/speeches/2010/kr_sp_101118a.html (accessed March 10, 2011).

[27] Remarks of Kurt M. Campbell, Assistant Secretary, Bureau of East Asian and Pacific Affairs, to the US Senate Foreign Relations Committee, "U.S. Policy toward North Korea," Washington, DC, March 1, 2011. Background on the TCOG is provided by James L. Schoff, *First Interim Report: The Evolution of the TCOG as a Diplomatic Tool* (Cambridge, MA: Institute of Foreign Policy Analysis, November 2004), www.ifpa.org/pdf/updateTCOG.pdf (accessed March 10, 2011).

indicated that the "institutionalization of trilateral cooperation will be an important focus of US diplomatic efforts over the coming year."[28] Australia will seek to become involved in this process via the TSD, both to exert what influence it can regarding the stabilization of the Korean Peninsula (Australia has formal diplomatic relations with North Korea, unlike Japan, the US, and South Korea) and to ensure it is a part of a trilateral process that now entails regular discussions on a wide range of Asia-Pacific security issues (Campbell noted that the TMM "affirmed the importance of unity and ways to enhance policy coordination on myriad issues, from ASEAN to North Korea").

The imperative of sustaining peaceful and profitable bilateral ties with China, however, will continue to act as the key constraint to Australia engaging in uninhibited minilateralism with its established security partners and of being seen as becoming "too close" to joint US and Japanese security agendas in Northeast Asia. This reality was reinforced by China's reaction to the proposed Quadrilateral Initiative during the last year of the John Howard government and the twilight period of the George W. Bush administration (the concept attracted particular attention during mid-2007). Along with then Japanese Prime Minister Shinzo Abe (who was viewed by many observers as the real architect of the idea), Howard and US Vice-President Dick Cheney explored how this minilateral grouping—which would include India—might balance what all of them viewed as a substantial (if not alarming) growth of Chinese power in the Asia-Pacific. The Chinese government responded by sending a strong diplomatic note to all four countries (Australia, India, Japan, and the US) demanding to know why such an arrangement was under consideration and warning about efforts to contain China along Cold War lines.[29] For its part, Kevin Rudd's new government explicitly rejected the initiative when it came to office, although it subsequently (in 2009) infuriated Beijing when it came out with a tough Defence White Paper warning against Chinese military capabilities.[30]

Australian policy will very likely continue to oscillate between projecting soft power in the region and bandwagoning with those most concerned about the implications of China's rise. Australia will therefore continue to search for ways to underwrite the formation of pan-Asian multilateral architectures where it can

[28] Campbell, "U.S. Policy toward North Korea."
[29] Brahma Chelleney, "'Quad Initiative': An Inharmonious Concert of Democracies," *Japan Times*, July 19, 2007.
[30] Dr John Lee, "Rudd Deserves Points for Confronting Some Brutal Truths," *Crikey*, December 6, 2010, www.crikey.com.au/2010/12/06/rudd-deserves-points-for-confronting-some-brutal-truths/ (accessed March 10, 2011).

relate positively to China on economic and selected diplomatic issues. How relevant the EAS turns out to be as a vehicle for Australian promotion of and participation within Asian multilateral security politics will hinge directly on the extent to which that organization will allow Canberra to sustain its traditional alliances without appearing to align against China as part of a "virtual security coalition" involving the US, Japan, and other traditional regional security partners. If China opts to assert strongly nationalistic postures throughout the region and to support its interests through a sustained and powerful military buildup, however, those minilateral instruments, such as the TSD, could be easily converted to arrangements that would be more "NATO-like" in purpose and configuration. It is notable that recent overtures by the Kan government to engage South Korea in more comprehensive arrangements for defense collaboration fits well into the type of minilateral security arrangements that were envisioned by those policy leaders promoting more explicit defense collaboration and which resulted in the Australia-Japan Joint Security Declaration (2007) and a similar Australia-South Korea agreement (2009). Avoiding an outcome where minilateralism destabilizes regional security rather than reinforcing it represents one of the most significant policy challenges confronting both Australia and Japan over the next few years.

March 24, 2011

Deciphering the New National Defense Program Guidelines of Japan

Noboru Yamaguchi

On December 17, 2010, the Security Council and the Cabinet approved the "National Defense Program Guidelines for FY 2011 and Beyond." These Guidelines contain a number of key terms: a "Dynamic Defense Force," active contributions "to creating global peace and stability," and "seamless responses" to contingencies. All of these terms indicate key concepts underpinning the defense policies that the new Guidelines seek to implement. They are in a sense a distillation of the broad-ranging debate that went into crafting the Guidelines. At the same time, though, it is far from clear what, precisely, these terms mean in isolation; it is important to approach them in the overall context of the discussion that went into the preparation of these Guidelines. Below I summarize the considerations behind these three terms in the hope that it will serve to enhance the debate as Japan moves forward in crafting its security and defense policy on the basis of the Guidelines.

Dynamic Defense Force

The National Defense Program Guidelines state: "Japan will develop a Dynamic Defense Force that possesses readiness, mobility, flexibility, sustainability, and versatility. These characteristics will be reinforced by advanced technology based on the trends of levels of military technology and intelligence capabilities." The Dynamic Defense Force referred to here is a key theme in this version of the Guidelines. It appears to be a representative concept informing Japan's moves to build and wield its defensive capabilities. The phrase "Dynamic Defense Force" is somewhat abstract, though, making it necessary to piece together its concrete significance from the discussion surrounding the new Guidelines.

The phrase has its roots in reports issued by two councils set up at different times as advisory organs to the prime minister ahead of the drafting of the new

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Guidelines. The term "dynamic deterrence" appeared for the first time in the August 2009 report of the Council on Security and Defense Capabilities. After the reins of government passed to the Democratic Party of Japan in the fall of that year, a newly established body named the Council on Security and Defense Capabilities in the New Era also used the term in its report, "Japan's Visions for Future Security and Defense Capabilities in the New Era," issued in August 2010. This latter report notes an increase in "the importance of 'dynamic deterrence' with enhanced operational capabilities," indicating the need for Japan to break free from "the idea of so-called static deterrence [that] focuses mainly on the quantities and size of weapons and troops." The new Guidelines, too, argue that "Japan needs to achieve greater performance with its defense forces . . . placing importance on dynamic deterrence" with a focus on "operational use of the defense forces."

The Dynamic Defense Force concept called for in the new Guidelines aims to break free in two main ways from the mold of the "Basic Defense Force Concept," which has underpinned Japanese defense policy since the Guidelines issued in 1976. The first of these is to move away from a focus on the deterrent effect of the existence of defense forces per se by putting the forces to operational use—in short, to aim for "dynamic deterrence" by displaying Japan's defense capabilities in action. For example, to avoid inviting violations of its sovereignty, such as foreign incursions into Japanese waters or airspace, the nation will need—as indicated in the new Guidelines—a "clear demonstration of national will and strong defense capabilities through such timely and tailored military operations as regular intelligence, surveillance, and reconnaissance activities." The Dynamic Defense Force posture will also serve to bolster the operations of the Japan-US alliance thanks to an improved liaison and cooperation stance, allowing Japan to work seamlessly with its ally in response to shifting contingencies, and heightened interoperability between Japan's Self-Defense Forces and their American counterparts.

The second departure from the previous position involves a rethinking of force disposition with certain priorities in mind. Under the "Basic Defense Force Concept," Japan sought to maintain a balanced distribution of its forces in line with geographic and other considerations. This meant stationing defense units equally across a complete set of geographic subdivisions. The new Guidelines, on the other hand, include a review of the geographic disposition of Japanese forces, as well as enhancements to Japan's defense posture, such as through surveillance activities and maritime patrols, including in the nation's southwestern territories. Now that Japan is faced with heightened ten-

sions on the Korean Peninsula and opacity in China's efforts to modernize its military, it is moving to increase the effectiveness of its deterrent force by adopting a clear posture with respect to prioritized areas in response to the situation.

For Japan's defense mechanisms to function as a form of dynamic deterrence is one necessary condition—but not the only one—for achieving the Dynamic Defense Force that the new Guidelines aim for. Ahead of its deterrent nature, a nation's defensive force must also play the role of improving the security environment so as to prevent threats from appearing in the first place. With respect to this point, the new Guidelines state that Japan's defense forces must aim firstly "to acquire dynamism to effectively deter and respond to various contingencies," and secondly "to proactively engage in activities to further stabilize the security environment in the Asia-Pacific and to improve the global security environment." In this light, we should view the Dynamic Defense Force as a concept that functions of course as a means of deterrence, as noted above, but also as a public good for the global community, something that fosters further stability in the international environment.

In pursuing this Dynamic Defense Force concept, Japan will obviously need to deploy highly responsive, maneuverable units with a degree of flexibility. In addition, it will be necessary to prepare the frameworks in which these units can actually be put to use in operations. Further key elements of Japan's approach will be to collect intelligence, make appropriate judgments on that basis, and draw on the so-called C4ISR functions: command, control, communications, computers, intelligence, surveillance, and reconnaissance.

Active Participation in International Peace Cooperation Activities

"Toward a Peace-Creating Nation" was the subtitle of the report issued by the Council on Security and Defense Capabilities in the New Era ahead of the formulation of the new Guidelines. In policy speech delivered on January 24 this year, Prime Minister Naoto Kan stated that for Japan, "it will be indispensable to pursue foreign and security policies that actively address the creation of peace, based on balanced pragmatism." While the new Guidelines do not contain the exact phrase "creation of peace," they rest on the fundamental stance that Japan should take active part in international peacekeeping activities, making contributions to global peace and stability and to human security as the "third objective" of its security policy. The first objective is "to prevent any threat from directly reaching Japan and to eliminate external threats that have reached it,"

while the second is "to prevent threats from emerging by further stabilizing the security environment in the Asia-Pacific region and by improving the global security environment." The first two objectives both relate to threats impacting Japan directly, but the third is purely geared toward enabling Japanese contributions to the stability of the global community.

To date Japan has handled United Nations peacekeeping operations and other international peace cooperation activities within a theoretical framework that positions them as a way to enhance global or regional stability with the ultimate goal of increasing Japan's own security. The new Guidelines depart from this with their description of the third objective as "to contribute to creating global peace and stability and to secure human security." With this stance, Japan shoulders its natural duties as one of the world's top economic powers and as a trading nation that depends on peace and stability in all the world's regions. Ever since the "lost decade" of economic malaise in the 1990s, the Japanese people have tended to focus their attention on domestic issues, losing not only their pride in Japan's place in the world but their sense of responsibility to the global community. The new Guidelines should prompt them to awaken once again to Japan's position and the role it must play in the world.

All this being said, deploying and operating defensive forces entails considerable costs, and there are limits to how much funding can be directed to this area. It will be necessary to consider whether to place the focus more on the defense of Japan or on international peace-creation activities, and how best to strike a balance between them. Given the destabilizing factors in the surrounding region, such as the situation on the Korean Peninsula, devoting nearly all SDF resources to international activities will not be a realistic choice. It will be important to decide on Japanese participation in international efforts based on a comprehensive examination of their necessity, urgency, effectiveness, and other factors. With respect to policy, it is meaningful to set standards for these decisions in advance.

When deciding how to deploy defensive forces, it will also be beneficial to prioritize areas whose functions are useful in both types of activity. To defend Japan's surrounding seas and airspace, as well as its offshore islands, the nation must be able to swiftly move SDF units from where they are usually stationed to deploy them where they are needed. The capacity needed for this—maritime and air transport capabilities, for instance—will also be of use when SDF members take part in international peace cooperation activities. So far the SDF functions have been pared down mainly to rear-area support capabilities, based on the forces' heavy reliance on domestic logistics, maintenance, and supply infrastruc-

ture in the light of their main mission, defending the Japanese homeland. Improvements to this situation that boost the SDF capability to independently project force throughout Japan's offshore islands will put Japanese defense forces on a better footing to take part in international efforts.

Seamless Responses to Various Contingencies

In the new Guidelines, the opening paragraph of the section titled "Basic Policies to Ensure Japan's Security" states that "In the event of various contingencies, [the nation] will seamlessly deal with the situation as it unfolds." Considerations of the meaning of this "seamless response" concept must look at three main aspects. First, the response must be seamless in the sense that it covers all stages of a situation, from normal conditions right up through an emergency situation. Second, it must be seamless in terms of enabling harmonized responses to multiple contingencies, should more than one arise at the same time. And third, it must be seamless in the sense that all relevant organs, from the central government ministries on down, respond in a coordinated manner to a crisis.

Tensions climb from a normal situation, passing through various crisis phases and finally escalating to a contingency requiring the use of defensive force. It goes without saying that uninterrupted responsiveness is called for throughout this entire process. To achieve the dynamic deterrence that the new Guidelines seek to implement, it will be essential to appropriately gauge the stance for Japan as a whole to take, including SDF operations.

The new Guidelines list a number of priority areas, including (1) ensuring the security of the seas and airspaces surrounding Japan, (2) responding to attacks on offshore islands, (3) responding to cyber attacks, (4) responding to attacks by guerrillas and special operations forces, and (5) responding to ballistic missile attacks. With respect to these five areas, the Guidelines also state: "The SDF will effectively respond to the above-mentioned contingencies while taking into account the possibility of different and multiple contingencies occurring consecutively or simultaneously." If Japan were faced with the imminent threat of a ballistic missile attack, for example, in many cases it would also need to prepare against attacks on its nuclear power plants and other key facilities; ensuring the security of its surrounding sea and air territory would also be a closely related issue in such a situation. There must be no lapse in the national response to all these contingencies, and the actions taken on each front must be closely coordinated with one another.

Japan must also make sure that the responses of its Ministry of Defense, the

SDF, and other governmental organs constitute a seamless whole. The fields of economic and resource security, as well as human security, are closely linked to that of military security, making this seamlessness absolutely vital. The incident in September 2010, when a Chinese trawler rammed Japan Coast Guard patrol vessels in waters near Japan's Senkaku Islands, hinted at the multifaceted and complex nature of incidents that may arise in the future. In this case the patrol vessels were able to avoid the danger of their law-enforcement actions escalating to a military-level problem. We did, however, see China cut off exports of rare earth elements to Japan, and Japanese citizens involved in business activities were detained in China. These developments were prime examples of resource-security and human-security issues. It is important for Japan's government organs to be prepared at all times to respond to situations like this in a coordinated manner. The new Guidelines stipulate: "The Cabinet Secretariat, the Ministry of Defense and the Self-Defense Forces (SDF), the police forces, the Japan Coast Guard, the Ministry of Foreign Affairs, the Ministry of Justice and other government agencies will regularly cooperate with each other." But this cooperation must go beyond the central governmental sphere to include smooth coordination at the level of local bureaus. Japan must have seamless cooperation among these entities, as well as between the local and central agencies.

Addendum: This paper is based on discussions carried out as part of the Tokyo Foundation National Security Policy Project and reflects input from multiple project members.

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Relocating Tactical Nuclear Weapons? A View from Japan

Michito Tsuruoka

Leaders of the North Atlantic Treaty Organization met in Lisbon, Portugal, in November 2010 and adopted a new Strategic Concept that will lay the course of the alliance in the years to come. There is one specific section of the document that has caused concern among experts and policymakers in Japan. In the context of discussions of decreased reliance on nuclear weapons and nuclear disarmament, paragraph 26 of the Strategic Concept makes it clear that NATO wants Russia to "relocate" the tactical nuclear weapons in Europe "away from the territory of NATO members."

This brief essay will examine this issue from various angles to draw as many aspects of the relocation issue into the light as possible. While NATO's statement may appear quite troubling from one vantage point, it can seem innocuous from another. Following a brief background of this issue, reasons for concern and reasons suggesting that fears may be misplaced will be examined in turn.

Tactical Nuclear Weapons in Europe

There are at least two different aspects to the problem of tactical nuclear weapons in Europe today. The first concerns those weapons on NATO's side, which consists of US weapons believed to be deployed in Germany, Belgium, the Netherlands, Italy, and Turkey. The number and variety of such nuclear weapons have greatly decreased since the end of the Cold War, and they now consists exclusively of B61 gravity bombs (air-to surface). Though the total number of those weapons deployed in Europe has not been made public, estimates typically put the number of US tactical nuclear weapons in Europe at around 200.

These weapons are maintained by the US military, but in emergency circumstances they can also be loaded into host country aircraft (dual-capable aircraft) and used by the host country. This mechanism, unique to NATO, is known

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as "nuclear sharing." There is now a hot debate going on in NATO about whether the benefits of this mechanism outweigh the associated costs and risks today. The view that nuclear sharing is nothing more than an outmoded legacy of the Cold War and no longer serves a valid purpose is gaining traction within the alliance. As the scheduled retirement of the current dual-capability aircraft draws near, each of the countries concerned must soon decide whether to replace those aircraft with new ones. The November 2010 Strategic Concept postponed any decision on the future of nuclear sharing. There was simply no consensus among the allies on this issue.

A second aspect of the issue of tactical nuclear weapons in Europe concerns Russia. Estimates put the size of Russia's tactical nuclear arsenal in excess of 2,000 weapons, either currently deployed or stored. At more than 10 times the size of NATO's arsenal, the imbalance is stark. Accordingly, NATO has often claimed that the removal of NATO's (US) nuclear weapons deployed in Europe is contingent upon Russia's agreement to tactical nuclear weapon disarmament. Paragraph 26 of the new Strategic Concept states that NATO "must take into account the disparity with the greater Russian stockpiles of short-range nuclear weapons" when considering any further reductions in NATO's arsenal. This implies, firstly, that NATO has no interest in unilateral nuclear disarmament and, secondly, that NATO considers its nuclear arsenal an important bargaining chip in negotiations to reduce Russia's lead in tactical nuclear weapons.

Given that Russia needs to rely on nuclear weapons to compensate for its deficiency in conventional weapons, it is nearly unthinkable that the country would easily agree to reduce the number of tactical nuclear weapons. Although the United States has identified tactical nuclear weapons as the next step in nuclear disarmament following New START, it does not have a clear blueprint on how it can proceed. Besides Russia's reluctance to relinquish its nuclear advantage, there are numerous technical and political issues, including the difficulty of verifying the disarmament process. Tactical nuclear weapons are, unlike ICBMs, ill-suited to standard inspections and verifications, as it is difficult to compile reliable information on their numbers and locations.

In this context, NATO's 2010 Strategic Concept remained modest, saying only that it "will seek to create the conditions for further [nuclear weapons] reductions in the future." Simultaneously, however, as a short-term goal, it mentions that NATO's "aim should be to seek Russian agreement to increase transparency on its nuclear weapons in Europe and relocate these weapons away from the territory of NATO members." Japan and other countries neighboring Russia on non-European borders have naturally wondered whether this proposal solves or

even alleviates the problem. They see the proposal as pushing the risk and threat of tactical nuclear weapons onto other regions. Some fear that Russia could redeploy those weapons in the Asian part of the country.

These issues bring to mind the debate in the 1980s on Intermediate-range Nuclear Forces (INF). One of the key issues during INF negotiations was whether the US (or the West as a whole) should seek global abolition (Global Zero) or whether it would be more realistic to settle for the abandonment of these weapons in the European theater (Europe Zero). The idea of removing Soviet SS-20s from the European theater based on the Europe Zero option left open the possibility of their redeployment in Far Eastern Russia, which was greatly troubling for Japan and other East Asian nations.

Prime Minister Yasuhiro Nakasone thus urged the United States to stick to the goal of Global Zero. Many in Europe, though, believed that the Europe Zero option should be pursued as a first step forward in case Global Zero negotiations broke down or became drawn out. In the end, INF negotiations concluded in December 1987 with an agreement on global abandonment, and the specter of Soviet missiles being redeployed in East Asia was avoided. The outcome of these negotiations stood as a validation that the security of Europe and Japan were "indivisible."

Reasons to Be Concerned

Based on the above background, there are five reasons why Japan needs to be concerned about the idea of relocating Russian tactical nuclear weapons.

First and foremost, if those weapons are actually relocated away from European borders, this poses a potential military concern for Japan. Geographically speaking, the European regions of Russia are the farthest from Japan, so if these weapons are moved, they will most likely come nearer to Japan. In light of the fact that Russia has lately strengthened its military presence in the disputed Northern Territories, and its military doctrine labels territorial claims against Russia as one of major "military dangers," any Russian nuclear weaponry located nearer to Japan may thus be construed as a point of military concern.

A second point of concern, connected to the first and to Russia's position on the Northern Territories, is the sharp increase in Russia's political maneuverability vis-à-vis Japan should the nuclear weapons be relocated in Japan's vicinity—even if this does not constitute a direct military threat. Given that the threshold for using tactical nuclear weapons is considered lower than that of strategic nuclear weapons, their presence could become a tacit means of exerting pressure on

Japan. (Of course, simply saying no to relocation would mean neglecting the existing threat that Russia's tactical nuclear weapons poses to NATO countries, particularly those that border Russia. For Japan to insist that the status quo in Europe be maintained just to prevent increased dangers in Asia would thus be an irresponsible attitude.)

Third, Japan has reason to be concerned not only about Russia but also about NATO. The wording of the Strategic Concept suggests a narrow, Eurocentric view. That alone is troubling for Japan, regardless of whether any weapons are actually relocated. That is to say, NATO does not appear to be thinking about the interests of countries outside the region and is acting as an organization concerned only with the security of its member states. If this is the case, it would be a cause for disappointment for Japan.

A fourth point of concern is the US position on this issue. It appears that the idea of demanding that Russia relocate its weapons came originally from Washington. If this is the case—and further examination is required regarding the process of how this idea came about—then Japan would be right to be even more concerned. If the proposal originated with the United States, it cannot be discounted as an example of "narrow Eurocentrism." In fact, the first public reference to the relocation idea was made by US Secretary of State Hillary Clinton at the April 2010 meeting of NATO foreign ministers in Tallinn, Estonia. Clinton's "five principles" concerning nuclear weapons, outlined in Tallinn, included the proposed relocation of Russian tactical nuclear weapons away from the territory of NATO members.

Prior to the November 2010 NATO Leaders Summit, a number of high-ranking officials in the Obama administration, including Under Secretary of State (for Arms Control and International Security Affairs) Ellen Tauscher and Under Secretary of Defense (for Policy) Michèle Flournoy, echoed nearly the identical phrasing of the relocation proposal. This suggests there was a unified US government position in support of the idea of relocating Russia's tactical nuclear weapons in the run-up to the Lisbon Summit.

Washington's fundamental stance in the previously mentioned INF negotiations was Global Zero, which Japan also supported. Japan could thus rely on the United States to win over those European states that were inclined to settle for a Europe Zero solution. But this time, the structure of the problem seems to have changed. Given Tokyo's tendency to rely on the United States to apply pressure on Europe on its behalf, this should be a cause for concern..

A fifth and final worry is that relocation is a makeshift solution that does not advance the goal of nuclear disarmament, since it does not lead to a reduction in

the total number of tactical nuclear weapons. Even worse, it could lead to the fixing of the current number of tactical weapons, especially for Russia.

Reasons Not to Be Concerned

The five points outlined above are all real and legitimate concerns for Japan. But when the issue is considered from other angles, there are also reasons why fears of the relocation proposal's possible implications may be overblown. There are four sets of reasons.

First, the likelihood of Russia actually relocating its tactical nuclear weapons is quite low. In fact, it is probably unrealistic to expect Russia to make military decisions simply at NATO's behest. As such, the relocation proposal in NATO's new Strategic Concept can be understood as a mere formality. If the proposal is not followed by real pressure on Russia, Japan need not worry too greatly about the consequences of the proposal. Even if the United States and other NATO countries press strongly for relocation, how Russia reacts is up to Russia. The redeployment of nuclear weapons, moreover, incurs costs and risks and is no simple matter for Russia.

Second, Russia's tactical nuclear arsenal consists of air-launched missiles, gravity bombs, short-range missiles, naval torpedoes, and defensive interceptor missiles. In order for these weapons to threaten Japan, they would have to be deployed at facilities near Japan. Options for doings so are limited. On this point, these tactical weapons systems are fundamentally different from the INF, which had longer ranges and could reach Japan from many different locations east of the Ural Mountains.

The third reason is related to the fact that Russia's tactical nuclear weapons are aimed at counterbalancing not only NATO's arsenal but also China's. Japan is not considered one of Russia's primary targets, and so perhaps there is no need to overreact. Over the long term, at least as a brainstorming exercise, though, Japan will ultimately need to consider which poses the greater risk, Russia's nuclear weapons or China's. Both naturally represent risks, but if Japan were to conclude that China is of greater concern, Russia's nuclear arsenal could function as a deterrent to China. Such a counterbalancing effect would primarily be between Russia and China, though, and there is no way of quickly discerning the possible impact for Japan. The question eventually needs to be addressed: Which better benefits Japan, allowing China to maintain its extreme military advantage in Asia, or having Russia and China more balanced? It goes without saying, though, that

China is highly unlikely to lose its advantage in conventional forces owing to the sheer population differential.

Last but not least, there is the important question of exactly what "relocation," as mentioned in the new Strategic Concept, means. Some NATO experts contend that the intent is not for Russia to redeploy its tactical nuclear arsenal in another location but to move the currently deployed weapons into storage, away from any of Russia's external borders. If this interpretation is correct, then Russia's non-European neighbors have less reason to be concerned. However, it is not clear whether this understanding is shared throughout NATO, and there is no guarantee that Russia will interpret the proposal this way. (As mentioned above, assuming that Russia is unlikely to heed NATO's requests in the first place, though, how it interprets such requests may not matter.)

Why Japan Should Speak Out

Arguments on both sides, as discussed above, make strategic sense, so drawing a clear-cut conclusion on how Japan should respond is not easy. The issue is indeed complex and multifaceted. Regardless of how real the concerns raised by the idea of relocation turn out to be, though, it is clear that Japan must clarify and convey its position to NATO (and to Russia). There are two basic reasons for doing so.

First, expressing interest in the Strategic Concept and engaging with NATO in other ways would serve not only to highlight Japan's role as a stakeholder in this process but to encourage NATO to have greater awareness of the security situation in East Asia as well. Through such a process, Japan and NATO (and its member countries) would come to a better understanding of their respective mutual interests.

Second, although the degree to which Japan should be troubled by the proposed relocation is an open question, expressing concerns over various aspects of the proposal would enhance the sense of urgency of and give greater substance to the ongoing dialogue between Japan and NATO (and member states). A similar situation was observed in the mid-2000s between Japan and the European Union. Japan expressed strong opposition to the EU's move to lift its arms embargo on China. This became the impetus for the 2005 start of strategic dialogue between Japan and the EU on the East Asian security environment.

Talking about issues that are important for both sides—even if the parties do not see eye to eye on them—will engender a more substantial dialogue. The launch of Japan-EU strategic dialogue can be said to be one positive byproduct of

the controversy over the issue of lifting the arms embargo on China. Dialogue between Japan and Europe was also enhanced during the INF negotiations in the 1980s owing to the critical importance of this issue for both sides. Despite the lack of concrete results, these discussions led to attempts to strengthen ties between Japan and NATO. These cases have all served as important lessons for Japan.

This is why the issue of relocating tactical nuclear weapon should be seen as an opportunity. It would be unwise for Japan to simply convey its anxiety or criticism to NATO. Instead, both would benefit from this occasion if it is used to highlight the fact that Japan and NATO member states face common international security threats and challenges and to enhance shared perceptions on nuclear and other important issues. For Japan, such a process would also represent a valuable learning opportunity.

Note: The term "tactical" nuclear weapons has been used throughout this article. The November 2010 Strategic Concept uses the term "short-range" nuclear weapons. In the past, NATO usually used the term "sub-strategic" nuclear weapons, while the United States used "non-strategic." All four terms refer to the same class of weapons. NATO's decision not to use "sub-strategic" this time is understood to be related to the fact that Britain has stopped using the term and also because the pervasive view that all nuclear weapons have a "strategic" impact, regardless of their destructive power. (Britain's nuclear arsenal consists only of submarine-launched Trident ballistic missiles, which are long-range missiles, but in the past some of these missiles were described as having a "sub-strategic" role.)

In addition, it may not be logical to classify nuclear weapons that are carried aboard planes or boats by range. For these reasons, I have used "tactical nuclear weapons," which is the term currently used most often in the media and among experts. The use of this term is not intended to deny that the weapons in question have "strategic" implications and consequences.

April 7, 2011

Issues and Future Prospects for Japan-China Relations

Akio Takahara

Fragility and Resilience

Since the Democratic Party of Japan came to power in the summer of 2009, the main thrust of the government's China policy has been to build a relationship based on the keynotes of partnership and cooperation. Essentially, this practice of seeking to cooperate with China represents a continuation of the path followed by successive Japanese governments since the policy was adopted by the cabinet of Shinzo Abe in 2006. The present government also inherited the goal of constructing a "mutually beneficial relationship based on common strategic interests" that was agreed upon between the preceding Liberal Democratic Party government and the Hu Jintao administration of the People's Republic of China. To that extent, it is fair to say that there is little that is particularly noteworthy in the DPJ's China policy.

One aspect that does deserve attention, however, is the closely intertwined relationship between this policy and the government's stance toward the United States. In the background to this is the 2008 global financial crisis that had its roots in the United States, and the fact that China put itself back on the road to growth faster than any other country in the aftermath of the crisis, thanks to its effective financial stimulus package. This happened in a climate in which it was widely recognized that a change was taking place in the balance of power between the United States and China and prompted widespread speculation that Japan was beginning to move the weighting of its foreign policy from a pro-US to a pro-China stance. In this article, I will examine the structure of current Japan-China relations from a variety of perspectives, before considering some of the issues that need to be overcome in the bilateral relationship.

A Mutually Beneficial Relationship

Japan and China agreed to work together to construct a "mutually beneficial relationship based on common strategic interests" during the visit to China of

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Shinzo Abe in October 2006, shortly after he became prime minister. In the months and years prior to this, during the later stages of Jun'ichiro Koizumi's time in office, the prime minister's annual visits to Yasukuni Shrine had provoked a strong reaction from the Chinese side, and relations between the two countries had deteriorated so badly as to cause summit meetings to be cancelled. Japan-China relations had reached their lowest ebb since the normalization of diplomatic relations in 1972. At one go, Abe's visit lifted the relationship to a higher level. It became clear as a result of this process that fragility and resilience exist alongside each other in Japan-China relations.

Japanese administrations, including those led by Koizumi, have repeatedly acknowledged its past wars of aggression and invasion and have expressed remorse and apology. In spite of this, historical issues have remained a thorn in the side of bilateral relations, and they retain the potential to cause deep pain and strong feelings on both sides unless sufficient care is taken. When Abe announced that he would make no public statement on whether he would or would not attend services at Yasukuni, the Chinese side interpreted his words to mean that he would not visit the shrine and accepted his visit.

Premier Wen Jiabao made the following remarks when he spoke before the Diet during a visit to Japan in April 2007: "Since the normalization of diplomatic ties between China and Japan, the Japanese government and leaders have on many occasions stated their position on historical issues, admitting that Japan committed aggression and expressing deep remorse and apology to the victimized countries. The Chinese government and people positively appreciate the position they have taken." These remarks defined a new era in bilateral relations, manifesting that China was ready to accept Japan's apologies. The speech represented the major progress that had been made toward bringing about reconciliation between the two peoples on historical issues. With a view to separating historical issues from contemporary politics and diplomacy, the Japan-China Joint History Research Committee involving Chinese and Japanese scholars was launched.

Once history ceased to be a hot-button political issue, however, the Chinese authorities became less than enthusiastic about publishing the results of this historical research for fear of arousing nationalist sentiments among the masses.

Publication of the final report was significantly delayed following Chinese demands, on top of which it was decided not to publish essays on the postwar period at all. At the time of writing, it is possible to download the essays from the Japanese Ministry of Foreign Affairs webpage, but the Chinese equivalent not only fails to make the research available for downloading but barely mentions the project or its results at all.

Another area where the fragility of the relationship is prominent is national security. In November 2004, when Koizumi was prime minister, there was an incident when a Chinese nuclear submarine trespassed into Japanese waters. When the United States and Japan released a joint statement at the Two Plus Two Security Consultative Committee in February 2005 declaring that one of their strategic objectives was to encourage a peaceful solution through dialogue of problems relating to the Taiwan Strait, China reacted forcefully, interpreting the statement as indicative of an intention to intervene militarily in the Taiwan issue. Japan and China also failed to reconcile their differences on the extent of each country's exclusive economic zones, and there were repeated tensions involving marine research vessels.

Given the complexity of the issues, the visit of President Hu Jintao to Japan in May 2008, during Yasuo Fukuda's time as prime minister, and agreements reached the following month on joint development research in the East China Sea and approval for Japanese corporate investment in Chinese-held gas fields were epoch-making achievements. But bilateral research along the so-called median line of the overlapping 200 nautical mile zones of control attracted domestic criticism within China as an overly generous concession, and China put off entering into concrete negotiations. In 2006 China's State Oceanic Administration decided on a system of scheduled patrols to protect its marine interests in the East China Sea, and in December 2008 China dispatched two patrol vessels to Japanese waters in the vicinity of the Senkaku Islands.

The most significant factor in terms of resilience in the Japan-China relationship, on the other hand, has been the expansion and strengthening of economic exchanges. Former Prime Minister Koizumi said repeatedly that the rise of China was not a threat but an opportunity for Japan, calling for the formation of an East Asian community and highly evaluating China's active moves toward regional integration. Since China joined the World Trade Organization in December 2001, there has been a procurement boom for Japanese companies doing business with China. As a result, a majority of players in Japanese financial circles have come to favor a free trade agreement between Japan, China, and the Republic of Korea. From the Chinese perspective, China sets high store on Japan's energy-efficient technology and environmentally friendly technology, with a view to realizing the harmonious society based on scientific development called for by Hu Jintao.

Cultural and social ties are also growing closer. The number of Chinese studying in Japan increases every year, reaching 79,082 in May 2009, some 60% of the total figure. Tourist numbers are also increasing. In 2008 Chinese tourists

represented more than 1 million of a total of 8.35 million foreign tourists. Despite the swine flu panic, the number of Chinese tourists visiting Hokkaido doubled in fiscal 2009, when the island was featured in a popular hit movie.

Even under the Koizumi administration, there was a steady increase in the number of Japanese studying Chinese as a second foreign language in university and the number of Japanese nongovernmental organizations engaged in tree-planting in China. The image of Japan in Chinese society has started to improve. One factor in this was the behavior of a Japanese rescue team in the aftermath of the Sichuan earthquake in May 2008, who formed an orderly line and bowed to show respect to victims as their bodies were dug up from the wreckage. A photograph of this moment was distributed over the Internet and moved many people who saw it. In addition to the remarkable popularity of Japanese anime, the practice of cosplay is also growing, incorporating group acting and other elements, with numerous contests being held in China every year.

Hatoyama's China Policy

The LDP was defeated in the September 2009 general election, and the DPJ came to power. Immediately after taking office, Prime Minister Yukio Hatoyama visited New York for a UN conference, where his first summit meeting was with Chinese President Hu Jintao. At this meeting, the prime minister expressed his hopes of enriching the content of the strategic and mutually beneficial relationship between the two countries and proposed that Japan and China should cooperate to build an East Asian community.

The initiative to construct an East Asian community was central to the Asia policy of the Hatoyama administration. One thing that differentiated Hatoyama's policy from those of preceding LDP governments was the emphasis Hatoyama placed on the concept of yu-ai, or fraternity, as the fundamental principle on which a future community might be built.

According to Hatoyama, yu-ai was a way of thinking that "respects one's freedom and individual dignity while also respecting the freedom and individual dignity of others." It might be described also as an approach based on independence and coexistence. The idea originated in the ideals of Austrian nobleman Richard Nikolaus von Coudenhove-Kalergi, one of the first to call for a Pan-European movement, who wrote that "Freedom without fraternity leads to anarchy" and "Equality without fraternity leads to tyranny." In this respect, the philosophy differed from that espoused by LDP governments under Shinzo Abe and Taro Aso, who chose to stress "freedom and democracy."

In terms of a methodology for working toward a community, based on the principle of open regional cooperation, Hatoyama called for a multilayered functional framework for cooperation across diverse areas, including trade, investment, finance, environmental protection, disaster prevention, infectious disease countermeasures, piracy and disasters at sea, nuclear arms reductions, cultural exchange, social security, and urban problems. In terms of methodology, in other words, the policy was little different from that of previous LDP-led governments. However, there has certainly been substantial progress made on cooperative relations in Northeast Asia, including the beginning of joint research on a Japan-China-South Korea Free Trade Agreement in May 2010 and the announcement of the comprehensive Trilateral *Cooperation Vision* 2020 at the Japan-China-South Korea leaders' summit in Jeju.

At the trilateral summit in Beijing in October 2009, Hatoyama said that Japan had been too dependent on the United States in the past and that although Japan would continue to regard Japan-US relations as the most important, it would put greater emphasis on Asia in its policies in the future. When the DPJ's then Secretary General Ichiro Ozawa visited China with 143 of the party's Diet members in December that year, Hu Jintao responded to a request from Ozawa by shaking hands and being photographed with the representatives one by one. When Vice-President Xi Jinping visited Japan immediately after this, the Japanese government went to considerable lengths to arrange a meeting with the Emperor despite the short notice. This conduct prompted speculation in some quarters that the position of Japan in relation to the United States and China was shifting as a result of the ongoing disputes over possible relocation of the US Marine Corps Air Station Futenma.

Despite the overall pro-China stance it has taken, the DPJ government has also made demands of China. In December 2009 Hatoyama co-chaired the Bali Democracy Forum with President Susilo Bambang Yudhoyono of Indonesia and expressed his hopes for continuing progress on democracy and human rights issues in Asia. At a meeting with Chinese Defense Minister Liang Guanglie during his visit, Ozawa expressed concern about China's modernization and strengthening of its armed forces. Then in December 2009 Japanese Foreign Minister Katsuya Okada expressed regret over the deportation of 20 ethnic Uighurs from Cambodia to China, and protested strongly in May 2010 against the obstruction of a Japanese survey ship and near approaches by Chinese carrier-borne helicopters to Japanese Self-Defense Forces ships. He was also reported to have provoked heated debate by insisting to Foreign Minister Yang Jiechi that China reduce its stockpile of nuclear weapons, or at least not add to it any further.

For a while after the DPJ government took office, the Chinese watched developments warily. But in December 2009 they evidently decided that an opportunity had come to develop their relations with Japan, and they began to demonstrate a more actively engaged attitude toward regional cooperation in which Japan and China would collaborate together. There were likely multiple reasons for this decision to strengthen cooperation with Japan. First, China must have realized that the new DPJ administration, which would probably continue in power for the next four years, was making a pro-China stance one of the fundamental planks of its foreign policy. The tug-of-war with Koizumi during his time as prime minister had been traumatic for China, and the confirmation that the new leaders would not visit Yasukuni Shrine provided a foundation for trust in the DPJ leadership.

Within China, meanwhile, a new diplomatic direction was unveiled at a congress of envoys posted overseas (ambassadors' meeting) held in Beijing after an interval of five years in July 2009. The main points of this new policy were as follows: China's strategic objectives should be to become more influential politically, more competitive economically, better positioned to project a positive image that would make people around the world feel favorably toward China, and more influential in terms of morality. The conference acknowledged brighter prospects for multipolarity in global affairs, following the global financial crisis and the rise of the newly emerging economies. Diplomats were encouraged to bear in mind that a moment of opportunity had arrived. Their instructions were to put together a comprehensive strategy on great power diplomacy; on diplomacy with the neighbors, it was necessary to push ahead to complete the work of building and strengthening a geopolitical strategic foothold. Developing good relations with Japan should constitute an extremely important condition for carrying out this assertive new diplomatic policy and having stable relations with countries around the world.

In March 2010 the Chinese authorities announced that they had arrested the man responsible for the "poisoned dumplings" incident. During a visit to Japan at the end of May that year, Premier Wen Jiabao said that he wished to move ahead with the agreement reached in 2008 on developing resources in the East China Sea. Following this, the two countries began negotiations on concluding an international treaty.

Coinciding with its more positive diplomatic efforts, however, China's increasing military self-assertion has brought tensions with several countries, including Japan. Since the beginning of 2009, China has been playing an active role in multinational anti-piracy efforts off the coast of Somalia. This in itself is not a

problem. But it has been reported that China, which sets considerable store on securing the safety of sea lanes to the Middle East, informed the United States in March 2010 that the South China Sea was also a part of its core interests. In the South China Sea, in addition to an incident in March the previous year in which Chinese ships, including a naval vessel, obstructed the activities of a US naval ocean surveillance ship, there have been frequent incidents in which China has seized or obstructed the activities of fishing boats from Vietnam, Malaysia, Indonesia, and other countries recently. As regards Japan, there have been Chinese obstructions of the activities of Japanese survey ships in the East China Sea and the seas west of Okinotorishima Island, as well as the dangerously close approaches by Chinese naval helicopters to Self-Defense Forces ships as mentioned above.

Therefore, although economic and cultural integration continues apace, and although Japan is right to stress the growing need to give greater importance to Asia, at the same time the nature of the strategic environment in which Japan finds itself has not changed, and indeed the risk factors are becoming more pronounced. As a result, there is an urgent need for Japan and other East Asian countries to bolster their relations with China and the United States at the same time.

A Long-Term National Strategy

From the background sketched above and the present situation, it is apparent that Japan-China relations face a moment of both opportunity and challenge. In July 2010 the DPJ government passed substantial relaxations of visa requirements for individual tourists from China. The aim was to increase the number of tourists from China from just over 1 million in 2009 to 3.9 million by 2013 and to 6 million by 2016.

Japan's current ambassador to China, Uichiro Niwa, with his private-sector background, has said that signing a free trade agreement with China and working to expand cultural exchange are major ambitions for his time in office. In fact, although the Chinese people's image of Japan is beginning to improve, the Japanese image of China remains badly damaged by the "poisoned dumplings" incident. It is to be hoped that China will strengthen its efforts to carry out public diplomacy aimed at Japan.

In addition, intellectual property protection remains a serious issue, but it is likely that the Chinese government will put greater energy and effort into measures to deal with this issue as the number of Chinese companies falling victim to the problem increases. We can also expect steady progress on joint responses to

nontraditional threats within a bilateral or multilateral framework. By accelerating the positive side of globalization and restricting the negative aspects, there are good prospects for strengthening the resilience of the Japan-China relationship.

At the same time, it is clear that dealing with weaknesses in the relationship remains a major challenge. Although the impact of historical issues on Japan-China relations is not as great as it used to be, this is because there have not been any major incidents recently, such as prime ministerial visits to Yasukuni Shrine. Japan cannot afford to forget the fundamental fact that history remains a sensitive subject for many Chinese people. At the same time, it is important to communicate to as many people as possible the joint efforts that China and Japan are making together to overcome the past and bring about a reconciliation. Examples of this include the tree-planting activities being carried out by a Japanese NGO in former battlegrounds that saw fierce fighting during the Sino-Japanese War and the disposal of abandoned chemical weapons, which has finally entered the stage of earnest implementation after numerous problems and difficulties.

Chinese strategy calls for "three types of warfare" that will help it to achieve its objectives without military clashes: media warfare, psychological warfare, and legal warfare. Over the past year or so, however, a number of Chinese military figures and military analysts have made extremely aggressive statements in the Chinese media. Numerous rash pronouncements have been widely dispersed over the Internet, such as "We should aim to match the strength of the enemy's fleet in the Northwest Pacific and work to wrest control of the seas," and "It is unrealistic to rely simply on diplomacy and economic means to solve issues in the South China Sea; unless this is backed up by massive military strength, we risk losing not only national territory but also the rights of the Chinese people to exist." Some have described sea lanes as a "lifeline" for China and have called for China to take control of the Indian Ocean. Although some people apologetically claim that such remarks represent a considerable improvement in freedom of expression in China, nevertheless in the interests of both Japan and China it would be better to point out plainly that rash statements of this kind inevitably cast doubt on the trustworthiness of Chinese leaders, who insist they have no interest in seeking hegemony.

How should other countries respond to an aggressive China? In July 2010 the Association of Southeast Asian Nations foreign ministers released a joint communiqué welcoming the participation of Russia and the United States in the East Asia Summit. Immediately after this, leaders at the ASEAN Regional Forum

made thinly veiled criticisms of China's conduct in the South China Sea. Chinese Foreign Minister Yang Jiechi was reportedly enraged by the idea that Japan, the United States, and ASEAN had "ganged up" to criticize China. But for neighboring countries, demanding that China respect international standards through a multinational framework is both necessary and effective.

Within China itself, some opinion leaders believe that China should devote its energies to solving the serious problems that exist within the country at the same time as pushing ahead with international cooperation. We should consider supporting these reasonable voices, unaffected by the rising tide of Chinese nationalism. Isolation is not what China wants. If Japan continues to carry the flag for independence, equality, and coexistence as the structural ideals of a future East Asian community, the number of Chinese people sharing and agreeing with these ideals will surely increase. At the same time, although it is reasonable for Japan to somewhat strengthen its deterrence, the crucial thing is to avoid falling into an arms race, using security dialogue and defense exchanges to promote confidence building with China. No one can prevent China's expanding military might. It is perhaps unavoidable that friction will increase in the short term. But in the medium term, it should be a shared joint objective to establish an order that will allow all those involved to coexist and cooperate in safety and security.

An effective first step toward this would be to make a start on the three-way talks involving Japan, China, and the United States that were scheduled for July 2009 but postponed owing to impenetrable Chinese demands. All three countries are well aware of the shared benefits they stand to gain by cooperation, and their readiness to engage in conflict management is not in doubt. The only thing standing in the way of such a reasonable response is nationalist sentiment. The time has come for Japan to impart to China the lessons it has learned from its own history—that concepts such as "core interests" and "marine lifelines" are better left alone. But whatever the message Japan wishes to convey, an improvement of Japan's soft power will be necessary in order to ensure that China listens to what Japan has to say. It is to be hoped that the DPJ government will put a long-term national strategy in place for bringing this about.

Translated from "Nitchu kankei no kadai to tenbo," Gaiko*, September 2010, pp. 68–75.*

March 2, 2011

The Mechanism behind the Egyptian ICT Revolution and Its Connotations

Tatsuya Yamamoto

Hosni Mubarak, who had ruled Egypt for 30 years, was forced to step down in a surprising turn of events that no one could have foreseen. He succumbed to the antigovernment protests that suddenly erupted in response to calls via the Internet. Mubarak's resignation proved to the world that ordinary citizens have the power to overturn a governance structure that had been considered absolute.

The protagonists of the recent revolution were netizens, or citizens embodying the Internet. New information and communication technologies such as mobile phones and the Internet came into widespread use in Arab countries from around 2000. Today, particularly in urban areas, the medium of the Internet has become a natural part of everyday life for Egyptian youths, who comprise more than half of the nation's population. Thus emerged Arab netizens.

In the backdrop is the government's zealous policy of ICT development. Over the past 10-plus years, Arab countries have earnestly engaged in ICT development in the hopes of plucking the economic fruits of globalization. Egypt, in particular, which has prided itself as the center of the Arab world, has actively promoted ICT development with the aim of remaining in that position.

Be that as it may, these are countries that have maintained control over traditional media, such as television, radio, and newspapers. By no means have they been indifferent to the possibility that the new medium of the Internet may shake the foundations of the existing regime.

Arab countries have attempted to regulate the Internet by putting up a "net of control" over domestic Internet services. While Egypt did not build a system that enabled as strong a level of control as those of other countries in the region, it did set up a department within the secret police dedicated to monitoring the Internet and kept a close watch on trends in Internet use by citizens. It also maintained infrastructure of the sort by which it could easily implement strong controls or shut down Internet access altogether whenever the need arose.

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In the early days of Internet use in Egypt, these controls appeared to be functioning effectively. It goes without saying that there was no end of citizens attempting to bypass governmental controls by various means. But the structure of the struggle taking place over the Internet between the government and citizens demonstrated a clear advantage on the part of the former.

The tide turned from around the time that social networking services, represented by Facebook, gained popularity on the Internet. Naturally, Arab netizens were quick to jump on the new services.

SNSs allow users to easily connect with "friends" and "friends of friends." They are characterized by interpersonal networks that grow in a self-propagating manner, although the connections are loose.

Among the Arab netizens, there emerged those who hit on the idea of using SNSs as a tool for anti-establishment movements. By drawing on the network of innumerable individuals loosely linked in cyberspace, they reasoned, they may be able to convert that aggregate into antigovernment protests in the real world.

These ambitions became reality in Egypt in 2008, amid heightened popular discontent due to soaring food prices and other factors. Numerous youths responded to calls made through Facebook, and a major antigovernment protest came about. Despite the absence of a clear leader, people converged on the site of the protest as if everything had been previously arranged.

Crowds such as this are known as smart mobs. Smart mobs present a headache to rulers in that they are prone to lead to another phenomenon called emergence. Once an emergence occurs, "What had been locally restricted actions or events trigger a movement or formation of a new order on an unforeseen scale."

What we recently witnessed in Tunisia and Egypt were none other than the "power of the people" that resulted from smart mobs triggering the emergence phenomenon. Ironically, the ICT development efforts that were zealously promoted by these governments had prepared the ground, imperceptibly but steadily, for "people's revolutions" utilizing ICT.

Existing systems of government-initiated Internet control are unlikely to prove effective in thwarting moves of this kind. Blocking entire SNS sites is one of the few measures that could be taken. In fact, Syria, Tunisia, and the United Arab Emirates actually took steps to block Facebook for a time, but they later withdrew the measures in the face of public backlash. The upshots of all this were the political upheavals in Tunisia and Egypt.

Similar situations exist in other Arab countries as well. Today every country in the region has its share of Arab netizens, and the grounds have been laid

both for the appearance of smart mobs and for their setting off an emergence.

Loose connections between individuals alone are not sufficient to bring about political change. But when these loose connections synchronize with the surging waves of popular discontent and tie in with strong passion or sympathy—as happened with the video of a Tunisian youth who burned himself to death—those waves have the potential to exceed the threshold and precipitate an emergence.

In that respect, the "ICT revolutions" of Tunisia and Egypt should be seen as being no more than a beginning. After all, both the structures that generate popular discontent and the mechanisms that triggered the revolutions remain intact without having reached a fundamental solution.

February 3, 2011

Japan and NATO as Global Partners

The Tokyo Foundation

The thirty-seventh Tokyo Foundation Forum—held as part of a two-day seminar co-hosted with the German Marshal Fund of the United States—explored new forms of cooperation between Japan and the North Atlantic Treaty Organization, which in November 2010 announced a new Strategic Concept outlining fresh approaches to extending partnerships with countries around the globe.

Attending the forum, held at the Tokyo Foundation on December 16, were Masafumi Ishii (Foreign Policy Bureau, Ministry of Foreign Affairs), Gilles Vander Ghinst (NATO Headquarters), Michito Tsuruoka (National Institute for Defense Studies), Phillip Stephens (Financial Times), and Craig Kennedy (GMF president). The forum was moderated by Policy Research Director and Senior Fellow Tsuneo Watanabe of the Tokyo Foundation.

HIDEKI KATO (President, Tokyo Foundation)

For many of us in Japan, the North Atlantic seems very far away. There is not as much exchange as with countries in the Pacific region. A month ago, NATO held a summit where a new Strategic Concept was announced outlining new approaches to many global issues, including terrorism, the environment, infectious diseases, and initiatives with new partners, including Japan.

Japan, too, must think about the role it plays in the world. Its gross domestic product used to be the second largest in the world, but it is now being overtaken by China. We must think about new roles for the country. We cannot continue to bask in our former glory, and for this NATO's ideas are very relevant.

After all, the biggest member of NATO is the United States, who is Japan's most important partner, so in that sense, NATO is not such a distant entity. This forum is being held in conjunction with the German Marshal Fund of the United States to give us an opportunity to explore new forms of cooperation with the trans-Atlantic community.

MASAFUMI ISHII

As Mr. Kato just mentioned, Japan's role in the world is changing. It used to account for 15% of global GDP, but today the figure is 8.5%. Similarly, it used to

contribute 20% of the UN budget, but now it's 12%. Germany may soon become a bigger donor.

How should Japan relate to the world in this context? This is a very timely topic. NATO's new Strategic Concept calls for expanded partnerships with non-NATO countries, such as Japan, South Korea, and Australia. Japan, too, is releasing its new National Defense Program Guidelines tomorrow, which will call for closer networks with likeminded countries, such as South Korea, Australia, India, and Indonesia. NATO is the biggest group with which we share core values.

Before NATO drafted its new concept, there was an exchange of views with Japanese officials. This sort of exchange is likely to continue. In the future, we should discuss three main issues, namely, Russia, China, and Afghanistan, or rather post-Afghanistan issues like antiterrorism and vulnerable states.

Russia is a big country, both in Asia and Europe. Russia-Europe dialogue has always had an impact on Russia-Asia relations, a good example being missile defense. Another example is that if missiles are removed from Europe but are relocated to Asia, this doesn't contribute to security in Asia.

China is a rising power, and we must find ways to achieve peace and prosperity with China. This is not just an Asian problem but also a European one. Any major developments in relations between China and Europe will obviously have an impact on Japan's relations with China.

As for post-Afghanistan concerns, Paragraph 20 of the new Strategic Concept states that NATO will become engaged in crisis-prevention and post-conflict stabilization activities when such crises pose a direct threat to the alliance. If we are successful in Afghanistan in our fight against terrorists, they may move to other vulnerable states, such as Sudan. This must be prevented before the situation becomes too complicated. Prevention is an area to which Japan can make a contribution.

MICHITO TSURUOKA

Geographically speaking, Japan and NATO seem very distant. It would appear unlikely that either will come to the aid of the other

if one should become involved in a conflict. So why do we need to cooperate and work together? Security issues that Japan faces now are mostly those that must be dealt with before conflict actually happens, and this is a concern that we share with NATO.

Japan may not make a direct contribution to NATO, but it's nonetheless a good framework that Japan can utilize. From Japan's perspective, NATO is potentially important for several reasons: as a political partner with whom we share fundamental values, as an operational partner as an extension of Japan-US cooperation, and as a multilateral "school."

Although operational cooperation with NATO would seem almost impossible for Japan, there are some areas of cooperation that are possible even under present circumstances, including civilian and police cooperation. The possibility of dispatching the Self-Defense Forces to Afghanistan is often mentioned. If that happens, Japan would surely need NATO's help in terms of security information and extremist support. Since Japan cannot meet all global security challenges on its own, it needs to work with likeminded partners.

NATO has also been addressing security issues on a multilateral basis for decades and has accumulated a wealth of expertise about interoperability and multilateral planning. Japan can learn a lot from NATO about multilateral planning and operations.

One point I would add to Mr. Ishii's points about areas of cooperation is deterrence. From the viewpoint of maintaining extended (nuclear) deterrence, dialogue with NATO is going to become more important. The role of nuclear weapons and its links with missile defense will have to be discussed broadly among the US and its allies both in Europe and in Asia. NATO is about to begin a new deterrence posture review. It's time we share our mutual wisdom, rather than thinking separately.

GILLES VANDER GHINST

I work in the global partnership section at NATO Headquarters, and one country we work with is Japan. Our new Strategic Concept is built on three main ideas. One is that we are no longer a Cold War organization and that we need new concepts to define our role. In 1999, we had 16 member states; now we have 12 more. We've

launched two major operations outside our territory, in Kosovo and Afghanistan.

The new concept reflects a changing security environment. Risks from conventional threats are low, but we see new security challenges in areas like nuclear proliferation, energy security, and cyber security. These new threats are of a global nature and ignore traditional boundaries. Instability can therefore originate from beyond NATO's borders.

We want to dispel some misunderstandings about our role. We're not going global, we're not competing with the UN and we're not interested in becoming a global policeman. In a world of global threats, you simply need global dialogue and solutions, working with partners like Japan.

Our second mission is related to crisis management at all stages, including humanitarian crises. A military solution will not always work, such as in Afghanistan, so we'll be revising procedures with our partners, preventing crises where possible.

The third mission is upgrading international security. Over the last decade, cooperation with Japan has expanded tremendously. Japan has become de facto partner, although we don't have any formal arrangement. We have political dialogue, and in fact Mr. Ishii was recently at NATO Headquarters to present views. We're cooperating on a number of fronts, undertaking joint work programs and joint training, such as for disaster relief. We're adjusting the strategic concept to meet the reality, rather than practicing what our concept dictates.

PHILLIP STEPHENS

I'm a newspaper columnist, not an expert, so my comments will try to provide a bit of context on the reasons why partnerships are being advanced between Japan and NATO, and also with the EU.

There are certain obvious reasons. For instance, the world has speeded up. We're not talking about potential upheavals in the safely distant future, in 2020, 2030, or 2040, but those that are occurring now. We need new systems to deal with them in an increasingly multipolar—although not necessarily multilateral—world. We're still operating under the post-1945 system, in which Japan is classified as being in the West. This system will not be able to accommodate the emerging states.

Many of the rising states in Asia have tended to accumulate power before they acquire a sense of responsibility. They're not sure what rules to play by, and so we're in a period of transition. History shows this can be very dangerous, as this is when wars often happen. So the binding thread of security policy must be one of partnership and cooperation.

The emerging new order must embrace new players, not just China but also India, Brazil, and Indonesia. This will create a certain amount of competition in the international system, which shouldn't be contained but channeled into positive directions. We mustn't be narrowly concerned about trans-Atlantic interests, phrasing the situation in terms of "West versus the rest" or "democracy versus autocracy." This is the language of a zero-sum game. A new order should be designed so as to invite the rising powers into the international system as responsible stakeholders, encouraging a sense of inclusiveness. This doesn't mean we're abandoning our values or institutions. We should aim to advance a system of multilateralism alongside the emerging multipolarity.

What we need to keep in mind that the United States remains the lynchpin. There has been much discussion about America's role in the face of the WikiLeaks cables. They have been a source of embarrassment, but personally, I think the United States comes out rather well, excluding a few cables, as they illustrate a government that is doing all it can to protect and safeguard the global commons.

NATO is coming to recognize is the indivisibility of security. There are linkages everywhere, such as in space and cyberspace. Europeans don't pay much attention to North Korea, but they do pay attention to Iran, and there's a big connection between these two developments. A partnership between NATO and Japan is vital to ensuring that the transition to the new system is smooth.

I see two major concerns with regard to building such a system. The first is that the rising states won't recognize their responsibilities, and the second is that Europe, Japan, and other countries will fall into a state of complacency. Seen from the outside, perhaps it would be more productive if Japan spent more energy in response to the changing global environment than in changing prime ministers.

CRAIG KENNEDY

What is a trans-Atlantic organization like the GMF doing in Tokyo? The answer is that it's a tremendous opportunity for connecting, for working together on global challenges. The other speakers have already cited all the major reasons, so

I'll just add a few things.

Why has it been so hard to create a tighter connection between Japan and NATO, or between Japan and the EU?

There are a number of barriers, the first being on Japan's side. The feeling among both citizens and politicians in this country is that, why do we need more when we already have a security alliance with the US? Isn't it complicated enough already? Why should we get entangled in a new alliance with more decisions and more demands?

To such questions, I would say that engagement with Europe can enhance capabilities, boost political influence, and add legitimacy in the international arena. Europeans have a perspective on the world that is compatible with the Japanese view. Reaching out to Europe—to NATO as a whole or bilaterally to individual states—can provide a kind of insurance, as Washington goes through changes in priorities and interests.

The second barrier is on the European side. Europe also wonders why it should get involved in Asia when it's already facing so many economic and security challenges at home. Also, it doesn't have a unified sense of what it wants to accomplish in this part of the world, especially with regard to China. We will have to develop a deeper sense of collaboration and cooperation.

The third barrier is in the United States, which thinks that a bigger European role in Japan would only complicate the situation. The US is now rebalancing its priorities, focusing more on Asia and less on Europe and EU institutions.

The fourth challenge is that neither Russia nor China would welcome greater cooperation between NATO and Japan and other Asian countries. So we need ways to reassure them, building trust and demonstrating that we are not a threat.

There's a fifth, technical barrier in that there is no easy platform right now to which Japan can hook into in order to coordinate its efforts with NATO on such common issues as development aid and cyber threats.

We hope to continue dialogue with Japan, for we see tremendous potential for closer partnerships between the trans-Atlantic community and Japan. But before we become too enthusiastic, we must recognize that there are also challenges to be overcome.

QUESTIONS FROM THE FLOOR

QUESTION Russia is currently not a member of NATO. Should Russia join, Japan would need a peace treaty with Russia to engage with NATO. Has the Ministry of Foreign Affairs given any thought to asking NATO to make a resolution of the Northern Territories issue and a peace treaty a condition to membership?

ISHII NATO and Russia will not grow close so easily. This is a problem that Japan must work out bilaterally, rather than seeking help from NATO.

QUESTION Pakistan seems to hold the key in addressing issues in Afghanistan. How does Pakistan fit into NATO's global strategy?

VANDER GHINST In our dialogue with Pakistani authorities, we've not always seen eye to eye, but we must understand their position. We need to forge political dialogue and better explain our policies but must also be frank on issues on which we disagree. Pakistan is a democracy and is courageously achieving some success in improving the security situation, but we need to better explain our position, what we're doing and what we're not doing.

ISHII It is important to consider the situation in a larger context, but we also need to treat Pakistan separately. It has nuclear weapons, for instance, so it is linked with the issue of proliferation. Pakistan is an important factor in Afghanistan's stability, but the country is important on its own terms as well.

QUESTION NATO's aims seem to be to forge partnerships so as to encircle China and Russia.

VANDER GHINST No. This is not true. We are seeking partnerships, not alliances. We are not advancing a containment policy against China, Russia, or the Shanghai Cooperation Organization.

ISHII Alliances are important, but rather than having just bilateral frameworks, we also want to build networks. We also want to coexist with China and India. We're not ruling out anybody; we're ready to engage with China anytime. The East Asian Summit is a good example, as it includes the Shanghai Cooperation Organization.

WATANABE This is what might be called a good "provocative question." The important thing to keep in mind is that we're no longer operating under the old thinking, which is based on a balance of power, but are seeking a new approach. A containment policy is no longer a viable option. This was the focus of our discussion today.

QUESTION A comment was made that NATO is no longer a Cold War organization, but some people are not so sure. How do the newer member states in Eastern Europe feel about extending cooperation with Russia? NATO confirmed that it will retain nuclear weapons as long as they exist, so in that sense, NATO will remain a nuclear alliance. What place with strategic and tactic nuclear weapons play in your strategy over the next 10 years?

VANDER GHINST There was considerable disagreement within NATO about cooperation with Russia, particularly with regard to missile defense. I want to emphasize that NATO seeks a nuclear free world. All states are part of the nonproliferation regime.

STEPHENS When you look at European history, when people start blaming the other in border and other disputes that come up, it ends up being a zero-sum game, which is a very dangerous situation. So that's a good reason to have a good framework for political cooperation.

December 21, 2010

China's SCO Policy in the Regional Security Architecture

Masayuki Masuda

Introduction

As many analysts and scholars have pointed out in recent years, China's new security concept employs a cooperative and comprehensive approach, and has become less antagonistic than before to military alliance with regard to developing and implementing concrete policies.[1] In this context, considerable attention has been given to China's involvement in the Shanghai Cooperation Organization (SCO), its closer relations with the Association of Southeast Asian Nations (ASEAN) through ASEAN +1 (China) and ASEAN +3 (Japan, China, and South Korea), and the ASEAN Regional Forum (ARF). [2] Such organizations are concrete examples of policy developments based on China's new security concept, which is the ideological basis for Chinese leadership within a foreign policy towards regions. Previous studies have focused on the significance of the regional approach of Chinese diplomacy, however, and little consideration has been given to the possibility of a mutual relationship emerging with other regional security mechanisms, including with the United States and its allies.

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[1] David Shambaugh, "China Engages Asia: Reshaping the Regional Order," *International Security*, Vol. 29, No. 3 (2004/2005), p.91.

[2] See, e.g., Akio Takahara, "Chugoku no shin anzen hosho kan to chiiki seisaku (China's new security concept and its regional policy)" Akio Igarashi and Akio Takahara eds., *Higashi ajia anzen hosho no shin tenkai* (New development of security in East Asia), (Tokyo: Akashishoten, 2005); Kazuko Mori, "Chugoku no ajia chiiki gaiko (China's diplomacy in Asia)" Akio Watanabe ed., *Ajia taiheiyo rentai koso* (25 years after Ohira's intiative for Asia-Pacific Cooperation), (Tokyo: NTT shuppan, 2005); Kazuko Mori, "Chugoku no ajia chiki gaiko: shanhai kyoryoku kiko wo megutte (China's diplomacy in Asia: focus on the Shanghai Cooperation Organization)," Akio Watanabe, ed., *Ajia taiheiyo to aratashii chiiki shugi no tenkai* (Shaping the future: Asia Pacific in the 21st century), (Tokyo: Chikura shobo, 2010); Chien-Peng Chung, "China's Roles in the SCO and the ARF: Implications for the Asia-Pacific Region," Michael H. H. Hsiao and Cheng-yi Lin eds., *The Rise of China: Beijing's Strategies and Implications for the Asia-Pacific*, (London and New York: Routledge, 2009).

In part, this lack of interest is due to the fact that the basic design of China's new security concept—providing a rebuttal or counterpoint to the military alliance strategy of the United States—continues to play a prominent role in China's diplomatic and security policies. The China's defense white paper *China's National Defense in 2008*, for example, despite promising to encourage conducting security dialogues and cooperation with other countries based upon the new security concept, also makes it clear that China will continue to "oppose the enlargement of military alliances."[3] Further evidence for the persistence of this underlying attitude came at the SCO leaders' summit in July 2005, when the leaders made a joint declaration calling for a clear timetable for withdrawal of US-led anti-terrorist forces from Central Asia. These circumstances suggest that there is little room in China's design of regional security cooperation for the inclusion of US alliances or other security cooperation arrangements lead by the United States. In addition, although many Chinese scholars have cited the emergence of non-traditional security threats as one reason for setting high value on regional security cooperation, they continue at the same time to emphasize that traditional military alliances cannot deal effectively with non-traditional security threats.[4] For China, in other words, the significance of regional cooperation and multilateral security mechanisms stems largely from the opportunity such arrangements provide to form a countermeasure to alliance relationships and US-led security cooperation.

But even if China remains critical of US alliances and US-led security mechanisms, and continues to push regional security cooperation based on its new security concept, there is little prospect that such regional cooperation will ever replace alliances and US-led security mechanisms. Providing a critical countermeasure to American alliances may form the fundamental basis of China's foreign and security policy design, in other words—but this is not a position that can be easily implemented as concrete policy. A research project carried out by scholars at the Institute of Strategic Studies at the National Defense University of the People's Liberation Army (PLA), for example, points out that multilateral and bilateral mechanisms coexist in parallel throughout the region, and anticipates that bilateral arrangements such as American alliances with Japan and

[3] Information Office of the State Council of the People's Republic of China, *China's National Defense in 2008*, (January 2009).

[4] See, e.g., Guo Rui, "Guoji tixi zhuanxing yu dongbeiya duobian zhidu anpai gouxiang (Transformation of the international system and a vision of multilateral arrangements in northeast Asia)," *Tongji daxue xuebao: Shehui kexue ban* (Journal of Tongji University: Social science), Vol. 19, No. 6 (December 2008), pp. 86-92.

South Korea will continue to exist alongside multilateral mechanisms for many years to come.[5] If such is the case, boosting cooperative relationships and improving amicability with these mechanisms is a real policy issue for Chinese diplomacy, and forming a theoretical framework for them is an essential task. The same project concludes that ensuring that such multilateral mechanisms accord with US security interests will be vital to the security and stability of the region in the years to come.

Based on this understanding, this paper attempts to clarify the present state of China's regional security design by considering concrete policy developments. It suggests points of common interest between China's proposals for regional security cooperation and US alliances and security cooperation led by the United States, which many in the past had viewed as mutually opposed. For the most part, my examination focuses on the SCO, a regional organization of which China was a founding member and in which it continues to play a leading role.

China's Design for Regional Security Cooperation

Regional Cooperation in "Harmonious World"

An indication of the type of international order that China would like to see came in a speech given by President Hu Jintao in September 2005 at a meeting of heads of government commemorating the 60th anniversary of the founding of the United Nations (UN). One characteristic of the "harmonious world" argument was an emphasis on multilateral diplomacy, including joint efforts to deal with any security threat. The Chinese leadership had recognized the importance of multilateralism and multilateral diplomacy since the second half of the 1990s, but the context for this was geopolitical. At an internal meeting of the PLA in October 2001, Jiang Zemin gave a speech as chairman of the Central Military Commission (CMC) in which he underlined the need to build an advantageous strategic position in the international climate following 9/11 and American military action in Afghanistan, focusing on three diplomatic arenas: (a) relations with the major powers; (b) regional relations; (c) multilateral diplomacy.[6] Ob-

[5] Yang Yi ed., *Zhongguo guojia anquan zhanlue gouxiang* (A vision of China's national security strategy), (Beijing: Shishi chubanshe, 2009), p. 222.

[6] Jiang Zemin, "Yingzao youli zhanlue taishi, zengqiang guojia zhanlue nengli (construct a favorable strategic condition, strengthen national strategic capacity)" (October 31, 2001), Jiang Zemin, *Jiangzemin wenxuan* (selected works of Jiang Zemin), Vol. 3, (Beijing, Renmin chubanshe, 2006), pp. 353-365.

viously, the geopolitical context continues play a part in Chinese diplomacy. But the "harmonious world" argument was part of a new Chinese diplomatic vision of "taking neighbors as friends and partners *(yulinweishan yilinweiban)*" that was first unveiled at the 16th National Congress of the Communist Party of China (CPC) in November 2002, and represented the development of a multilateral diplomacy in the neighboring region based on this view. An editorial in the *People's Daily (Renmin ribao)* of 11th December 2006, commented on China's regional diplomacy in the following terms: "China's policy of 'taking neighbors as friends and partners' constitutes a crucial impetus for the building of a harmonious world. China's efforts in this regard must necessarily begin with our relations with neighboring countries. In pursuing its diplomatic policy in the region, China will place the highest importance on the diplomatic ideals of peace, a preventative military strategy, and cooperation in security policy, recognizing the autonomy of each country and respecting regional diversity in order to successfully build a peaceful and stable international security environment marked by friendly regional relations, mutual benefit, equality, and cooperation." [7]

Based on this perspective, President Hu Jintao made a call for a "harmonious periphery" at a SCO leaders' summit held in Shanghai in June 2006, and proposed four measures to bring this about.[8] His proposals were: signing a treaty on long-term good-neighborliness, friendship and cooperation to solidify amicable relations between SCO member states; stronger working-level partnerships for comprehensive development; human and cultural exchanges to build stronger social foundations; and, finally, a call for "openness and cooperation for the purpose of world peace," with the SCO as a venue for "broad-based international cooperation and proactive international exchange." The proposals suggest that China is not interested in regional cooperation merely from the perspective of geopolitical balancing, but is now seeking stronger cooperation from a regionalist perspective. China apparently arrived at the view that closer functional cooperation was essential in a number of fields in order for the various countries of the region to benefit from regional mechanisms, and has moved to put this insight into practice as policy. In addition to the annual Heads of State and Heads of Government Councils, there are twelve mechanisms in place for regular ministerial-level meetings. Additionally, two permanent bodies were established in 2004:

[7] Guo Jiping, "Haolinju haopengyou haohuoban (good neighbors, good friends, good partners)," *Renmin ribao* (*People's Daily*), December 11, 2006.

[8] Hu Jintao," Gongchuang shanghai hezuo zuzhi geng jia meihao de mingtian (create a brighter tomorrow for the SCO together)," (June 15, 2006), *Renmin ribao*, June 16, 2006.

the Secretariat in Beijing, and the Regional Counter-Terrorism Structure in Tashkent. To further encourage functional cooperation within this framework, working groups have been established in a number of specific areas, including e-commerce (chaired by China), customs (Russia), quality and inspection (Kazakhstan), investment promotion (Tajikistan), and development of cross-border potential (Uzbekistan), with each SCO member state chairing a group and taking responsibility for planning cooperation in the relevant field.[9]

The Architecture over the Shanghai Cooperation Organization

If China and its partners are serious about making real progress on regional cooperation in Central Asia, the SCO will be just one of the policy measures used to bring it about. As Xu Tongkai, director general of the Department of European Affairs in the Chinese Ministry of Commerce, has pointed out: "Five of the SCO member states also belong to the Eurasian Economic Community (EurAsEC), and all six take part in regional economic cooperation mechanisms such as the Central Asia Regional Economic Cooperation Program under the Asian Development Bank (ADB)and the United Nations Development Program (UNDP)'s plans for a new Eurasian land-bridge international cooperation mechanism."[10] The reality is that there is particularly high demand for regional economic cooperation, especially in investment and technology, which is another reason why the SCO's principle of openness is being emphasized. Accordingly, Xu proposed strengthening collaboration between the SCO and such international financial bodies as the EurAsEC, the ADB, and the UNDP, using the experience, funding, and technological advantage of these bodies to create beneficial conditions for economic cooperation in the region.

In the field of security, too, there are signs of attempts to position the SCO within an overall structure of the region. SCO Deputy Secretary General Vladimir Zakharov has said, "We will push forward with a wide variety of dialogue,

[9] Gong Xinshu and Liu Qingyan, "Shanghai hexuo zuzhi kuangxia xia jingji hezuo zhiyue yinsu ji yuanyin fenxi (economic cooperation constraints factors analysis within the framework of the shanghai cooperation organization)," *Chongqing gongshang daxue xuebao: shehui kexue ban* (Journal of Chongqing technology and business university: social science), Vol. 26, No. 3 (June 2009), p. 24.

[10] Director General of the Department of European Affairs in the Chinese Ministry of Commerce Xu Tongkai's Speech at the international symposium on Trade Policy of China and Central Asian countries, and regional economic cooperation, April 27, 2006. Available at http://www.sco-ec.gov.cn/crweb/scoc/info/ArticleZt.jsp?a_no=28752&col_no=203 (accessed December 6, 2010).

exchanges, and cooperation both with individual countries and with international bodies, aiming to achieve peace, security, and stability in the region based on the principles of equality and mutual consultation."[11] Zakharov pointed out that dialogue was ongoing based on the memorandum of understanding with the Collective Security Treaty Organization (CSTO) in September 2007, and that the SCO maintains regular contacts with both the European Union (EU) and the Organization for Security and Cooperation in Europe (OSCE). Granted, the process of building relationships between the SCO and other international and regional bodies is still in its infancy, remaining at the preliminary stage of contacts and dialogues. Given the security situation surrounding the SCO, however, building external relations will be an important part of improving the organization's problem-solving ability.

Of particular interest from this perspective is an essay by Wang Jian, associate professor at the Shanghai Academy of Social Sciences (SASS), who examines issues confronting the SCO from the viewpoint of regional public goods.[12] According to Wang, the achievements of regional policy represent an important part of such public goods. These include regional peace and security, regional systems to manage and control infectious diseases, and regional financial stability. The inadequate provision of such public goods is a major problem in the Central Asia region, and Wang points out that the SCO instead faces large numbers of what he calls "regional public bads." He suggests that non-exclusive and non-rivalrous "club goods," which spread their benefits easily over a limited region, may be one way of overcoming these "public bads" and providing public goods. Building on this, Wang suggests that the SCO needs to improve the provision of regional public goods in areas such as security cooperation against terrorism, anti-drug networks, energy cooperation, protection of water resources, and stability of ecosystems, by strengthening regional cooperation among member states. One of the interesting aspects of the discourse is its awareness, albeit limited, of the question of how to guarantee the non-exclusivity of the SCO toward countries and actors outside the region. The paper stresses the importance of considering national, regional, and international policy agendas together "in a

[11] *Shanghai hezuo zuzhi ziliao huibian* (Compilation of materials and document of Shanghai Cooperation Organization), Vol. 4 (Center of SCO Studies, Shanghai Academy of Social Sciences), p.14.

[12] Wang Jian, "Shanghai hexuo zuzho de weilai fazhan lujing xuanze: cong diqu gonggong chanpin de shijiao (future development path selection of shanghai cooperation organization: from the regional public goods perspective)," *Shehu kexue* (Journal of social sciences), No. 8 (2007), pp. 67-72.

unified way" when formulating policies for effective provision of regional public goods. As part of this process, Wang suggests the possibility of granting certain countries the status of "observers or cooperation partners," according to the issues involved. Given that the SCO is still in the capacity-building stage in terms of providing public goods, however, Wang believes that allowing actors from outside the region to participate from an early stage would lead to a "dispersion of resources," and therefore argues that external actors should be allowed to participate in the capacity-building process on a selective basis.

Formulating an appropriate format for collaboration with the Russian-led CSTO, which has the ability to act instantly and with which a memorandum was exchanged in September 2007, is therefore an important policy issue. China has been circumspect and noncommittal in terms of the relationship between the CSTO and the SCO. For example, associate professor Li Shuyin at the Department of World Military Studies in the PLA Academy of Military Sciences, remains cautious on the subject of relations between the two organizations, despite the exchange of a memorandum between them. "The SCO is not the only option that countries in Central Asia have in terms of security cooperation," Li says. "This is bound to have a certain influence on the SCO's security cooperation efforts." Li points to the existence of multiple military cooperation mechanisms, including the CSTO, as an obstacle on future development of the SCO.[13] The CSTO, however, has been quite proactive in pushing forward collaboration with the SCO, such as proposing joint military exercises during the negotiation phase.[14] But China has remained wary of military cooperation and drills between the CSTO and the SCO. Senior lieutenant Qi Guowei, director of the foreign affairs office of China's Central Military Commission, has emphasized that unlike the CSTO, the SCO is not an alliance with military characteristics, and has stressed that no plans exist for military exercises between the two organizations.[15] Reflecting this attitude on the part of the Chinese, the September 2007 memorandum between the SCO and the CSTO states that the two organizations will cooperate "according to the capabilities of each organization." According to the agreement, the two sides will cooperate in the following fields: (a) Support

[13] Li Shuyin, "Shanghai hezuo zuzhi de anquan hezuo (security cooperation in the SCO)," Xing Guangcheng ed., *Shanghai hezuo zuzhi fazhan baogao 2009* (Annual report on the Shanghai Cooperation Organization: 2009), (Beijing: Social Sciences Academic Press, 2009), p. 86.
[14] "CSTO, SCO to Sign Cooperation Protocol," ITAR-TASS, July 31, 2007.
[15] "Shanghe wuyi ji'an tiaoyueguo yanxi (SCO will not have military exercises)" *Mingbao*, August 29, 2007.

for regional and international safety and stability; (b) Counter-terrorism; (c) Narcotics smuggling; (d) Illegal weapons trading; (e) Cross-border organized crime; and (f) Any other areas of shared concern.[16] Cooperation is thus limited to non-traditional security issues. This suggests that in its relations with CSTO and other regional organizations, China is looking not for military but political collaboration.

Another point to bear in mind regarding Chinese diplomatic principles is that China's primary aim is not to strengthen its relations with regional bodies directly, but to develop its relations with regional bodies, using the United Nations as an intermediary. In January 2010, China's permanent representative to the United Nations Zhang Yesui called a special meeting as UN Security Council Chairman. The subject of the meeting was "cooperation between the UN and regional and sub-regional organizations in maintaining international peace and security." In addition to confirming the primary role of the United Nations in supporting international peace and security, the purpose of the meeting was to strengthen cooperation and collaboration between the United Nations and regional organizations and to encourage regional organizations to use their advantages more effectively.[17] At the end of the meeting, Zhang spoke in his capacity as a representative of the Chinese government, stressing the importance of the following four points: (a) The principles of the Charter of the United Nations need to be adhered to; (b) The Security Council should encourage and create conditions and an environment that are favorable for the regional organizations' efforts to resolve regional disputes peacefully through preventive diplomacy, conciliation, and consultation; (c) The United Nations and regional organizations need to strengthen coordination and form synergy; and (d) One of the top priorities of the cooperation between the United Nations and regional organizations is to assist regional and sub-regional organizations in capacity building.[18] For China, therefore, strengthening cooperative relations with the United Nations is a fundamental premise of building relations between regional organizations. China demands a primary leadership role for the United Nations—from conflict resolution to capacity building support.

[16] *Shanghai hezuo zuzhi ziliao huibian*, Vol. 4, p. 1.
[17] "Zhang Yesui jieshao benyue anlihui zhuyao gongzuo (Zhang Yesui intro-duces a main work of UNSC this month)," *Zhongguo xinwenshe* (China news), January 5, 2010.
[18] S/PV.6257, January 13, 2010, p. 39.

The SCO in Search for External Relations

Enlargement of the SCO: Observer Status

As discussed above, the SCO is developing cooperative relationships with several international organizations. This process has developed in accordance with the SCO Charter passed in June 2002, which sets out regulations for establishing relationships of cooperation and dialogue with countries or organizations outside the SCO.[19] Article 1 of the Charter makes it clear that one of the goals and tasks of the SCO is to "maintain and develop relations with other states and international organizations," while Article 14 says that the organization "may grant the status of a dialogue partner or observer" to a state or international organization in order to carry out dialogue and cooperation. However, the charter did not lay down concrete rules and procedures for granting such status, leaving this to be decided by subsequent special agreements between member states. At a meeting of foreign ministers of SCO states in November 2002, an agreement was reached on a temporary plan for external relations.[20] A subsequent agreement allowed for the invitation of non-member states and international organizations to participate in SCO foreign ministerial summits and other meetings. There were no indications of a comprehensive plan for the SCO's overall foreign relations, however. One reason was that a consensus had still not been reached among member states regarding the geographical range of the SCO. A joint communiqué issued at the SCO foreign ministers' meeting in September 2003 revealed that an agreement had been reached to "push forward with cooperation among the relevant states and organizations," but that debate was still continuing as far as the geographic range of such arrangements was concerned.[21] A joint communiqué issued at the Heads of State meeting at the end of the same month expressed the leaders' intentions to "push ahead with dialogue and cooperation of all kinds in the economic area."[22] The SCO's deliberation process had thus led to a shared

[19] "Charter of the Shanghai Cooperation Organization." Available at http://www.sectsco.org/EN/show.asp?id=69 (accessed December 7, 2010).
[20] http://www.sectsco.org/CN/show.asp?id=105 (accessed on December 6, 2010).
[21] "Shanghai hezuo zuzhi waijiao buzhang fei lixing huiyi lianhe gongbao (joint communiqué of the SCO foreign ministers' meeting)" September 5, 2003.
[22] "Shanghai hezuo zuzhi chengyuanguo zongli huiwu lianhe gongbao (Joint communiqué of meeting of the prime ministers of the SCO member states)," Waijiaobu Ouyasi (Department of European-Central Asian Affairs, Ministry of Foreign Affairs) ed., *Shanghai hezuo zuzhi wenxuan xuanbian* (Compilation of selected document of Shanghai Cooperation Organization), (Beijing: Shijie zhishi chubanshe, 2006), p. 315.

policy structure on foreign affairs both in the areas of security and the economy, but no consensus was possible on the question of which states and international organizations should be admitted as observers or dialogue partners, or the geographical extent of the organization.

In June 2004, the Regulations on Observer Status at the Shanghai Cooperation Organization were introduced, making it possible for observer nations to take part in heads of state and heads of government summits.[23] Article 1 of the regulations stipulates: "A state or an organization, wishing to receive observer status at the SCO, proceeding from respect for the sovereignty, territorial integrity, and equal rights of the member states, recognition of the main objectives, principles, and actions of the organization, forwards a letter, signed by a head of state or a head of organization respectively, through the secretary general to the Council of Heads of SCO Member States." This simply recites the international norms for procedures of this kind, and provides no clear rulings on the necessary qualifications for applying for observer status.

This lack of clear guidelines regarding application requirements for the granting of observer status later gave rise to foreign relations instability between SCO and the rest of the world. The first country to which the SCO granted observer status was Mongolia, in 2004, followed by Pakistan, Iran, and India, all in 2005.[24] According to Chinese President Hu Jintao, the participation in the SCO of Mongolia, Pakistan, Iran, and India as observers further demonstrated to the international community the principle of openness of the SCO as well as its cooperative stance in participating in international and regional affairs.[25] Many experts and analysts in China also tended to regard the granting of observer status to these countries as marking the "expansion of the SCO." *The Study Times* (*Xuexi shibao*), for example, the organ of the Party School of the Central Committee of the Communist Party, published an article (dated June 20, 2005) titled "Evaluating the Expansion of the SCO," which claimed that the SCO "already has ten members" and that "with this most recent expansion, the area covered by the organization now stretches to incorporate the Middle East and the Indian subcontinent, making it a huge organization capable of squaring up to NATO from afar."[26]

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[23] "The Regulations on Observer Status at the Shanghai Cooperation Organisation." Available at http://www.sectsco.org/EN/show.asp?id=65 (accessed on December 7, 2010).
[24] "Shanghai Cooperation Organization Approves Iran, Pakistan, India Ob-server Status," IRNA, July 5, 2005.
[25] "Full Text of Chinese President Hu Jintao's Speech at the SCO Astana Summit," (July 5, 2005), Xinhua, July 6, 2006.
[26] Zhang Jianjing, "Ping shanghai hezuo zuzhi kuorong (evaluating the expansion of the

This expansion through the granting of observer status, "without regard for geographical range" increased American concerns about the SCO, especially in the post-9/11 context. The US government had long designated countries such as North Korea and Iran as "sponsors of terrorism," but following 9/11, President George W. Bush described North Korea and Iran as belonging to an "axis of evil." Iran was granted SCO observer status, while the United States' own application for the same status was turned down. Additionally, the SCO leaders' summit in 2005 issued a joint declaration calling on the countries of anti-terrorist coalition in Afghanistan to set final deadlines for the temporary use of the infrastructure facilities and for the presence of military contingents on the territories of the member countries of the SCO.[27] These factors led to the SCO's international image as a venue for airing grievances against the United States. This made the United States, in particular, suspicious about the form the SCO was taking. At an Asian Security Summit held on the eve of the SCO leaders' summit in 2006, US Defense Secretary Donald Rumsfeld expressed his surprise at Iran's participation in the SCO, describing it as "a leading terrorist nation."[28]

Concept Building for Future Relations with the United States: Dialogue Partners

Professor Zhao Huasheng, director of the Center for SCO Studies at Fudan University, points out that "the relationship with the United States is the most sensitive and difficult relationship of the SCO." According to Zhao, there was a lack of a consensus among SCO member states not so much on the form that relations with the United States should take but on the question of whether to build a cooperative relationship with the United States at all.[29] But the question of how to deal with the United States is an issue that the SCO cannot avoid. If the current state of affairs is allowed to continue, and the organization's member states and observer states fail to develop a shared vision of the kind of relationship they want with the United States, it is possible that the foundations of SCO cooperation will become subject to external influence and therefore weakened.

So how does China view the relationship between the SCO and the United

SCO)," *Xuexi shibao* (Study times), June 20, 2005.
[27] "Shanghai Forum Calls for Deadlines for US Bases in Central Asia," ITAR-TASS, July 5, 2005.
[28] "Iran Is a Leader in Terror, Rumsfeld Tells Defense Group," *New York Times*, June 4, 2006.
[29] Zhao Huasheng, "Dui shanghai hezuo zuzhi fazhan qianjing de jidian kanfa (views on the outlook for SCO development)," *Guoji wenti yanjiu* (International studies), No. 3 (2006), p.27.

States? To begin from the conclusion: It appears that China envisages building with the United States a relationship of cooperation on specific issues, based on the SCO dialogue partners regulations ratified in August 2008. The annual report on SCO development in 2009, edited by the Institute for Eastern European, Russian, and Central Asian Studies at the Chinese Academy of Social Sciences, suggested that consideration be given to building a mechanism for dialogue between the SCO and the United States, putting forward concrete proposals for strengthening cooperation with NATO in "certain well-defined areas, such as border region security and narcotics control" and that "consideration might also be given to using contact groups between the SCO and Afghanistan to develop dialogue and cooperation with the United States in the field of counter-terrorism."[30]

The SCO first revealed concrete policies relating to Afghanistan shortly after 9/11. At an extraordinary foreign ministers meeting held in Beijing in January 2002, a joint statement was issued that revealed the general trend of SCO views and policies on Afghanistan.[31] The statement "welcomed" the downfall of the Taliban and said that regional and sub-regional organizations had an indispensable role to play in delivering a body blow to international terrorist networks based in Afghanistan. The SCO promised to pass measures to strengthen its counter-terrorist capabilities, and vowed to "carry out constructive dialogue and cooperation with the temporary Afghan government and the future power structure in Afghanistan." But the emphasis of the declaration was a clarification of the SCO's principled stance in terms of the reaction of the international community, including such issues as the sovereignty and territorial integrity of Afghanistan, its unity as a state, and the need for the international community to respect the principle of non-intervention in internal affairs. On security matters, the SCO agreed that the United Nations should take the initiative in leading the activities of the International Security Assistance Force (ISAF) and the rebuilding process in Afghanistan.

In the discussions on Afghanistan at the 60th session of the General Assembly of the United Nations in November 2005, China's deputy permanent representative to the UN Zhang Yishan spoke on behalf of the SCO, calling on the international community to unite in pushing forward the peace-building process

[30] Li Shuyin, "Shanghai hezuo zuzhi de anquan hezuo," p. 88.

[31] "Shanghai hezuo zuzhi waijiao buzhang fei lixing huiyi lianhe shengming (Joint statement of the SCO foreign ministers' meeting)," (January 2002), Wai-jiaobu ouyasi ed., *Shunying shidai chaoliu, hongyang 'Shanghai jingshen'* (Go with the time, aggrandize the 'shanghai spirit'), (Beijing: Shijie zhishi chubanshe, 2002), pp. 188-192.

in Afghanistan.[32] During the discussions, Zhang did not merely confirm the SCO's position in principle in terms of the response of the international community, but also suggested concrete areas for cooperation. He stressed the importance to stability of how the community dealt with the production and spread throughout the region of the narcotics that provided the bulk of the Taliban's funds, and made clear the SCO's intention to work with the international community to strengthen measures dealing with the narcotics issue and to carry out humanitarian aid. Concrete SCO involvement in Afghanistan began that month with the establishment of an SCO-Afghanistan contact group in same month. Although the contact group was an ad hoc organization, SCO aid to Afghanistan was carried out after the group deliberated and reached a consensus.[33] The SCO increased its involvement in Afghanistan in 2008. Additionally, in light of the deteriorating security situation in that country, a joint statement issued at a SCO leaders' summit in August 2008 recognized that the ISAF must cooperate with the Afghanistan government, neighboring countries, and other concerned nations, making it a priority to deal decisively with the problems of narcotics production and smuggling in Afghanistan; and called for a United Nations Security Council debate on the subject. As for the SCO itself, it declared its intention to cooperate closely with the relevant countries and regional organizations to develop a wide-ranging partnership network to respond to the threats of terrorism and narcotics. As a concrete step toward this end, a decision was taken at the leadership summit to strengthen the functions of the contact group and to hold a special conference on Afghanistan to discuss the issue of jointly fighting terrorism, drug trafficking and organized crime.[34]

The SCO's calls for a wide-ranging partnership network on the Afghan problem were reflected in improvements made to bolster the legal foundations. At the SCO leaders' summit in August 2008, the "Regulations on the Status of Dialogue Partner" were ratified, with the purpose of creating conditions conducive to the development of mutually beneficial relations with concerned states or organizations around the world.[35] These regulations stipulate that "a state or an

[32] "Rebuilding War-torn Afghanistan, Achieving Peaceful Settlement of Palestinian Question Focus of General Assembly Debates," GA/10426, November 28, 2005.
[33] S/PV.6257, January 13, 2010, p. 21
[34] "Shanghai hexuo zuzhi chengyuanguo yuanshou dushangbie yuanyan (Dushanbe declaration among the heads of state of the SCO)," *Renmin ribao*, August 28, 2008.
[35] "Regulations on the Status of Dialogue Partners of Shanghai Cooperation Organisation," August 28, 2008. Available at http://www.sectsco.org/EN/show.asp?id=64 (accessed December 6, 2010).

organization who wishes to obtain the status of partner forwards a letter addressed to the SCO secretary general which contains a request to be granted such status and is signed by the minister of foreign affairs or the head of the executive body of an organization" and that "a decision to grant the status of partner is taken by the council of heads of member states on the recommendation of the council of foreign ministers." The scope of such cooperation is outlined in a memorandum. For example, when Belarus was accepted as the organization's first dialogue partner in April 2010, the specified areas of cooperation were the economy, transport, distribution, finance, and the fight against terrorism and narcotics.[36] In order to carry forward cooperation within these areas, the dialogue partner receives the right to take part in ministerial level meetings established under the Heads of Government Council. Additionally, the option exists to establish working groups and high-level committees in the relevant areas of cooperation. In this context, professor Yu Jianhua, director of the Institute of Eurasian Studies at the SASS, has proposed establishing an international cooperation mechanism to respond to the Afghanistan problem, with Afghanistan, the United States, and NATO participating as dialogue partners of the SCO.[37]

In late March 2009, the SCO held a special conference on Afghanistan in Moscow. In addition to SCO member states and observers, some 20 countries and international organizations were invited, among them Afghanistan, the United States, the United Nations, and the CSTO. Noting the participation of US Deputy Assistant Secretary for South and Central Asian Affairs Patrick Moon, Yu claimed that "dialogue between the United States and the SCO has begun," stressing the significance of the conference from the perspective of building a cooperative relationship between the SCO and the United States.[38] The United States did not send an especially high level representative to the conference. Nevertheless, if there are plans to grant the United States dialogue partner status on the issue of Afghanistan in the future, it is possible not only that the United States will participate in the dialogue framework of the SCO as it exists today, but that, with the consent of the United States and the SCO member states, mi-

[36] "Sergei Martynov: Belarus Becomes SCO's First Country-Partner," BelTA (Belarusian Telegraph Agency), April 28, 2010.
[37] Yu Jianhua, "Afuhan wenti yu shanghai hezuo zuzhi (Afghanistan issue and the SCO)," Chen Peiyao and Xia Liping eds., *Guoji zhanlue zongheng* (International strategic review), No. 5, (Beijing: Shishi chuanshe, 2009), p. 260.
[38] Yu Jianhua and Dai Yichen, "Feichuantong anquan quyu zhili yu shanghai hezuo zuzhi (On regional governance of non-traditional security and the SCO)," *Shehui kexue*, No. 7 (2009), p. 26.

nisterial-level discussions within a new, expanded framework (SCO+USA) might one day be possible.

Conclusion

In previous studies and Chinese diplomatic pronouncements, Chinese priorities for regional security have frequently been described as existing in opposition to the development of US-led alliance strategies. Even in regional efforts such as ASEAN+3 and SCO, where China stressed in its diplomatic announcements the non-antagonistic and open nature of regional cooperation, not enough attention has been given to the underlying logic and trends in policy that have made this possible.

By examining the example of the SCO, this paper has shown how China—in the process of establishing a system of dialogue partners within the SCO—has pushed forward a logical strategy and institutional design that makes it possible to construct a system that allows for a certain level of external relations between the regional security organization in which China plays a leading role and the alliances (NATO, for example) and the US-led coalition. Within China, there is an awareness of the need to build stable international relations not just with the United States but with other major states and international organizations such as Japan, NATO, and the EU.[39] Crucial to the viability of such future relationships will be the dialogue partner and the possibility that China can continue to push ahead with developing the SCO's external relations so that it is capable of responding both bilaterally and multilaterally to issues. In the security field, the likeliest scenario is an attempt, initially, to establish policy dialogue with the United States and NATO in Afghanistan, concentrating especially on non-traditional security issues such as responding to terrorism and drugs smuggling.

From the Chinese perspective, one important premise of building international relations within regional organizations such as the SCO is to secure a leading role for the United Nations. In this sense, the extent to which China can see a leading role for the United Nations within the development of US alliance strategy will be a decisive factor in determining the viability and extent of any policy dialogue between the SCO and other major states and international organizations. But this is not something that will be decided by China alone. With

[39] Pan Guang, "Shanghe jiang jian duihua huoban jizhi (SCO creates mechanism of dialogue partners)," *Jiefang ribao* (Liberation daily), August 27, 2008.

Mongolia, Pakistan, Iran, and India now enjoying the status of observers of the SCO, the process by which the SCO decides its relationships with the United States and the rest of the world will inevitably become more multi-polar. When it comes to these relationships, China will have to get used to balancing competing interests within the SCO.

This article is Chapter 6 of a report titled "Asia-Pacific Security Architecture: Tiered Structure of Regional Security."

February 19, 2011

Enabling Global and Local Standards to Coexist

Hideki Kato

How can smaller companies and local communities survive the age of globalization so they are able to continue providing employment and essential services? One solution is to build a dual-structure economy that would allow global and local standards to coexist. In judo, global standards were introduced so that it could be understood by all people, but its cultural roots have faded. Sumo, by contrast, has struck to its conventions, yet it is, in many ways, even more international. We should reconsider our commitment to across-the-board liberalization and work instead to preserve those values that cannot be expressed in numerical terms.

The word "crisis" seems to confront us everywhere we turn. In Japan, however, this is nothing new. In fact, we seem to have been living through a crisis of one kind or another for most of the past decade.

If what we are facing is truly a crisis, we need to look calmly at the true nature of the issues and think seriously about how we are going to address them. I believe that our first priority should be to understand the common nature of the problems facing us in a number of different spheres.

We are currently going through the largest turnaround since the Industrial Revolution. This is a phase that began several decades ago, and it is likely to continue for several more decades.

During this phase, the speed with which the exchange of people, goods, money and information is taking place has accelerated. While this has engendered great benefits, it has also resulted in a loss of diversity.

It has also produced a perception gap among the countries of the world. The industrially advanced countries, including Europe, the United States, and Japan, increasingly see limits to growth, but emerging economies like China, India and Brazil are intent on seeking rapid economic development.

This has spawned disagreements over environmental and other issues. Competition for growth, moreover, has complicated efforts to deal with emerging challenges, such as the global financial crisis and the fiscal crisis in the European Union.

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These developments show that stopgap measures are not enough. The world needs more fundamental solutions to the challenges it faces.

Problems in Japan

In retrospect, Japan was exceptionally fortunate over the half century since the end of World War II. We enjoyed unbroken economic growth, and any domestic problems that emerged could be rectified by enlarging the size of the economic pie.

Japanese politics remained stable, at least on the surface, under the reign of the conservative Liberal Democratic Party, in stark contrast to the situation in Europe and the United States, where government changed hands rather frequently.

The collapse of the bubble economy in the early 1990s, though, put an end to the days of ever-soaring economic growth in Japan. During most of the two decades since then, successive LDP administrations merely adopted quick-fix measures to deal with stunted growth.

The time finally came, though, when the bill had to be paid, both politically and economically. Social systems premised on continued growth sputtered as the economy entered an era of steady decline.

The LDP was knocked out of power by the Democratic Party of Japan in the autumn of 2009, although the DPJ's lack of unity and experience has tied its hands in coping with pressing issues. Japanese voters are by no means hoping for a return to LDP rule, though.

As secretary general of the Government Revitalization Unit in the Cabinet Office, a waste-cutting task force introduced by the DPJ, I have been taking part in the screening of government programs. This process is not only a new attempt to eliminate waste but presents a good opportunity to thoroughly review the administrative process.

By having outsiders take the lead in these public screenings, people's understanding and awareness of state finances have been enhanced conspicuously. In this era of sweeping change, encouraging greater public participation in the administrative process can serve as a useful model for other countries.

Dual-track globalization

Under Bretton Woods and other postwar economic systems, efforts were made to lower or eradicate the "barriers" to the movement of people, money, and

goods. But it seems to me that the time has come to seriously consider the creation of international agreements and organizations oriented to regulating and decelerating such movements with stability and sustainability in mind.

In the "ultra-macro" domain of the global environment, this sort of discussion is already under way; henceforth, we will doubtless begin to hear it in various microeconomic forums as well. I believe that the current economic recession has placed us face to face with the challenge of fashioning new systems in a wide range of areas that will permit the coexistence of both the global and the local, the fast and the slow, the large and the small, as well as the universal and the individual.

I am proposing that barriers be built up again to slow the speed of economic growth as a whole. If such barriers are erected by individual countries, they are labeled protectionist, but what I am advocating is "legitimate protectionism."

Given the finite nature of natural resources on Earth, we need to recognize the limits to economic growth. Humankind is now fast approaching such a limit.

We also need to maintain diversity. Globalization may be unstoppable, but smaller companies in local communities that could be swept up in the wave of globalization are still important. They continue to sustain the country's regional economy as providers of jobs and sources of local revenue.

My proposal is simple. Let us treat smaller corporations differently from larger ones and establish barriers so that smaller businesses and local communities are able to absorb people as employees or residents. We should build a dual-structure or two-tier economic system that would allow global and local standards to coexist.

Let me illustrate with a sports analogy. While judo is a traditional Japanese martial art, it is now also an official Olympic event with its own international association. In order to make judo an international sport, judging standards, the colors of judo wear and other rules were made easier to understand by all people, regardless of nationality. In the process of introducing global standards, the cultural roots of the sport have faded.

Sumo, on the other hand, has adamantly stuck to its conventions. Inevitably, it has not become an international sport that is understood by everyone, yet nearly all the "yokozuna" (grand champions) over the past 10 years have been foreigners. At the summer tournament in 2010, of the 42 wrestlers in the top "makuuchi" division, 16 were born outside of Japan, including in Europe, Latin America, and Asia.

Judo-style internationalization gives top priority to enhancing efficiency through standardization, particularly in macroeconomic terms. In the sumo-

style model of development, free access is ensured for everyone from any country, as long as they strictly observe the inherent rules and local conventions and agree to preserve those values that cannot be expressed in numerical terms, such as earnings.

We need to reconsider our commitment to judo-style internationalization of across-the- board deregulation and liberalization and instead consider the judicious placement of barriers and selective regulations. This may benefit humanity by slowing things down to the point where we can stop ourselves before going over the precipice.

This structure would be acceptable not only to the developed countries but also the emerging economies, which are likely to face similar problems in the near future. I am thus convinced that moves would emerge in the not-so-distant future to set up an international consultative body to introduce global policy measures that go in the opposite direction from those taken over the years by many international organizations.

January 16, 2011

The Second End of Laissez-Faire (11): The True Crisis of Capitalism Is Not Depression but Hyperinflation

Katsuhito Iwai

What is the true crisis of capitalism?

The answer given by a majority of social thinkers and policy makers on both the left and the right has been the same since the time of the *Communist Manifesto*: depression. To be sure, from the standpoint of our everyday experience in markets, it is much harder to sell a commodity than to buy it. A commodity in the hands of a seller is of value only to a limited number of people with specific desires or needs for it. Cash in the pocket or deposits in the bank, however, is by its very nature as the general medium of exchange of value to everybody in the economy. An act of a sale is a "*salto mortale* of the commodity. If it falls short, then, although the commodity itself is not harmed, its owner decidedly is."[1] The view that capitalism's true crisis is depression comes about naturally as a straightforward deduction from our daily experiences in markets. It is after all one of the real paradoxes of a capitalist economy that people may come to have a greater desire for money, originally merely a means of obtaining useful commodities, than for the commodities themselves.

Yet, once we shift our standpoint from that of a daily user of money in markets to that of a social scientist contemplating the ontological structure of money, the answer turns completely upside down. While money as money is of value to everybody in the economy, money as a thing is a non-entity with no intrinsic utility to support its value. The value of money as money is supported, as I have emphasized several times, only by a bootstrapping process according to which everybody believes that everybody else believes it of value. A depression, no matter how profound, will never jeopardize this elusive process. On the contrary, the fact that in the midst of a depression everybody desires money more than real

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[1] Karl Marx, *Capital,* Volume One, Chapter 3: "Money, Or the Circulation of Commodities."

commodities (in other words, valuing the means over the end), implies that everybody has more faith in the intangible power of money than in the concrete materiality of individual commodities. This can be regarded as a manifestation of their confidence in the continuity of the capitalist economy, a belief on the part of its participants that will perpetuate the bootstrapping process by continuing to accept in the future the money in current use. In this sense, a depression can never be a true crisis of capitalism, no matter how undesirable its consequences to the people in the street. Indeed, history tells us that capitalism has become stronger every time it has undergone a succession of challenges posed by economic depressions.

What, then, is the true crisis of capitalism?

> Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency.... Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose. (J. M. Keynes, *The Economic Consequences of the Peace*, 1919)

Keynes was certainly right (as always). "Hyperinflation" is the true crisis of capitalism

As we saw in Chapter 8, hyperinflation is, a vicious cycle in which people's fear of accelerating inflation drives them to reduce their money-holding by spending more on commodities, thereby accelerating inflation and confirming their original fears.[2] Such a flight from money to commodities starts to unravel the bootstrapping process that supports money as money and ends up in reducing money to nothing more than an insignificant sheet of paper or a useless disc of metal, or (in the case of bank money) an unpaid account in a bank. Deprived of the general medium of exchange, the economy now falls back to a premonetary barter system that leaves everybody with unsalable products on one hand and unfulfilled desires

[2] Phillip Cagan defined hyperinflation mechanically as any inflation exceeding 50 percent per month (or 12,875 percent per year) in his well-cited paper on hyperinflation. (Phillip Cagan, "The monetary dynamics of hyperinflation," Chap. 2 of Milton Friedman ed., *Studies in the Quantity Theory of Money*, Chicago: Chicago University Press, 1956.) My characterization of hyperinflation given here and in Section 7 is a functional one. Indeed, the purpose of Cagan's research, which was conducted under Milton Friedman's supervision, was to show that even hyperinflation can be explained by the quantity theory of money.

on the other. The simultaneous flight from money to commodities thus defeats its purpose, turning commodities sought out into something unobtainable. The end point of hyperinflation is the breakdown of the whole edifice of economic activity.

But what is the use of discussing such an esoteric event as hyperinflation? Granted, it is theoretically possible, and has indeed actually happened many times in history—in Russia after the socialist revolution, in Germany, Austria, Hungary, Poland after WWI, in Greece and Hungary after WWII, in China in the leadup to the communist takeover, Latin American countries in the turbulent 1980s, and in Russia and other former socialist countries in the course of a transition to capitalism.[3] But these events all occurred during abnormal times. In today's advanced capitalist economies, fully equipped with a variety of macroeconomic policy instruments, hyperinflation is surely nothing than more than a mere curiosity of the armchair theorist, except perhaps for some developing countries with totally bankrupt governments?

But there remains one place in which this hyperinflation still represents something more than a theoretical possibility—and that is global capitalism itself.

[3] As for German hyperinflation after WW II, see Frank D. Graham, Exchange, Prices and Production in Hyperinflation: Germany 1920-1923, (Princeton: Princeton University Press, 1930) and C. Bresciani-Turroni, *The Economics of Inflation: A Study of Currency Depreciation in Post-war Germany, 1914-1923*, (London: Allen & Unwin, 1937). The more recent study is, for instance, Steven Webb, *Hyperinflation and Stabilization in Weimar Germany*, (Oxford: Oxford University Press, 1989).

February 18, 2011

The Second End of Laissez-Faire (12): The Dollar as Key Currency and the Real Crisis of Global Capitalism

Katsuhito Iwai

Global capitalism as it exists today has a blatantly "asymmetric" structure. On the one side stands the United States, whose dollar is used by all other countries; on the other stand all the other countries that have to use the US dollar for mutual transactions. The US dollar is the "key currency;" the rest are not. When a Thai wants to buy something from a Brazilian, he first exchanges his Thai bhat for dollars and uses these dollars for payment. When a Brazilian's debt to a Thai comes due, she exchanges her reals to dollars and uses these dollars for repayment. But when an American buys something from a Brazilian or pays back borrowing debt to a Thai, he can use his own national currency for both payment and repayment. An American can make purchases and borrow funds regardless of whether he is at home or abroad. Of course, this is an exaggerated picture. The euro is rapidly establishing itself as a key regional currency and continues to expand its sphere of influence outside the euro zone, while the Japanese yen and to a certain extent the Chinese yuan as well may be regarded as local key currencies in some parts of Asia. Direct transactions also take place between two non-key currency countries, using their local currencies. In this sense, it is perhaps more accurate to picture the current international currency system as a hierarchy, with the dollar standing at its apex, the euro on the second tier, the yuan and yen on the third, and all the rest on the lower layers. But what is crucial is the asymmetrical relationship between the dollar and all other currencies.

When the Soviet Union collapsed in 1991, many people, still caught up in Cold War thinking, saw the development of this asymmetrical structure between the one "key" currency and all the other "non-key" currencies as marking the emergence of a new imperialistic economic order unilaterally dominated by the triumphant and hegemonic American economy. But to identify this key/non-key relationship with the traditional master/slave, ruler/ruled relationship is to miss the essence of the matter.

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It is true that the major impetus behind the dollar's rise to an unrivaled position as the world's key currency was the overwhelming strength that the US economy attained after WWI and consolidated during World War II. At the end of WWII, America accounted for half of the world's GDP and with Europe and Japan reduced to rubble by the war, it was the only country with the manufacturing capacity to produce sophisticated investment goods and fancy consumption goods. People around the world craved made-in-America, and desperately sought the dollars they needed to buy these products. As Western Europe and Japan began to recover "miraculously" from the destruction of war (thanks partly to American aid), America's relative economic strength started to decline. Western Europe and Japan more or less caught up with the US in terms of economic productivity during the 1970s and 80s. The US was then pressed hard by East Asian economies in 90s, followed by the rapid rise of China, Russia, India, and Brazil during the first decade of the twenty-first century. The US trade balance was in the red by the late 1950s, the current balance has been running a chronic deficit since the 1980s, the capital account turned negative in 1990s, and the dollar has a 35-year history of trend depreciation. In fact, American GDP now makes up only 25 % of global GDP, and American trade volume mere 15% of the world total. Yet the US dollar remains the predominant currency used in trade and financial transactions around the world, at least outside of Europe. For instance, the percentage of trade goods invoiced in US dollars is far higher than the US share in imports to Asia, Latin America, and Australia.[1] Or, to use another measure, the dollar makes up about 63 % of central banks' reserve currency holdings, against 17% for the euro and 2% for the yen.[2] People around the world do not necessarily hold US dollars for the purpose of importing American products or borrowing from American banks.[3]

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[1] For instance, Korea, Thailand, and Malaysia use the dollar in invoicing more than 75 percent of their import transactions at the beginning of the 2000s, though the US share of their imports is 14% in Korea, 10% in Thailand, and 12% in Malaysia. Japan's and Australia's use of the dollar in import invoicing is 69% and 51%, though the US share of their imports is just 16% and 2% respectively. (Data on invoicing are from Linda S. Goldberg and Cédric Tille, "Vehicle Currency Use in International Trade," *Journal of International Economics* 76 (2008), pp. 177–192; data on import shares are taken from the IMF Direction of Trade.)

[2] According to IMF estimates of the Currency Composition of Official Foreign Exchange Reserves (COFER) in the fourth quarter of 2008, claims in US dollars made up 4,213,437 of total allocated reserves of 6,712,857 (million dollars), against 1,116,780 for the euro and 137,695 for the yen. (Unallocated reserves amounted to 2,499,419.)

[3] See, for instance, Alan Blinder, "The Role of the Dollar as an International Currency,"

Up until 1971, some economists still adhered to the commodity theory of money, arguing that the reason for the dollar's continued status as the world's sole key currency despite the relative decline of American economic hegemony, was the pledge of the US government that dollars (at least those held by foreign governments) were convertible into gold at a fixed rate of 35 dollars per ounce. It was the solid value of gold as a commodity, they believed, that backed the international circulation of the dollar. This naive belief was shattered in August 1971. Faced with the mounting fiscal burden of the Vietnam War and a sharp deterioration in gold coverage of the dollar, President Richard Nixon ended the convertibility of the dollar into gold and started a process that led to the demise of the fixed exchange rate system for all major currencies by 1976. The intention of this so-called Nixon shock was to relieve the US from its burden of maintaining the dollar as the key currency and to turn it into just one of the many national currencies whose exchange rates were to be determined freely in foreign exchange markets.

Contrary to the intention of the US authorities, however, the dollar continued to circulate as the world's sole key currency, even though it had completely lost its convertibility into gold. In fact, its key currency status even became went up slightly immediately after the Nixon shock.[4] This episode illustrates the defining characteristic of the key currency. The fact that people around the world hold large amounts of dollars for the purpose of buying commodities or borrowing capital from the United States does not suffice to earn it the label of the key currency. This merely makes it a strong currency, like the euro and the yen. *The dollar becomes the key currency of the world only when it comes to be used as the means of settlement for trade and investment transactions that do not directly involve the United States.* For example, a Japanese buys goods from an Australian and pays in US dollars. The Australian accepts payment in US dollars because he or she expects to be able to use the dollars for a capital transaction with a Canadian. The Canadian accepts the dollars because he or she expects to be able to use them to pay for a purchase from a German. And the process may continue indefinitely without any American involvement in the transactions whatsoever. People around the world accept dollars as the key currency merely because they expect other people around the world accept dollars as the key currency. Once

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Eastern Economic Journal, 22, Spring 1996, pp.127–36.

[4] According to one estimate, the dollar share of foreign exchange reserves was 77.2% in 1970, 78.6% in 1972, 76.6% in 1976, 67.2% in 1980, and 65.8% in 1984. Akinari Horii, "The Evolution of Reserve Currency Diversification," *BIS Economic Papers*, No. 18, Dec. 1986.

again, we see the bootstrapping process of money at work.[5] After all, the key currency is the general medium of exchange for global capitalism, and the relationship between the key currency and all the other non-key currencies in the international economy is analogous to that between money and non-monetary commodities in an intra-national economy.

The above characterization leads us to an important proposition about the nature of a key currency: namely, that no one-to-one correspondence exists between the circulation of one country's national money as the key currency and the real economic power, either absolute or relative, of that country. This has been borne out abundantly by the history. The British pound retained its key currency position until around 1940, even though the British economy had been overtaken in its size by the US as early as 1872, and despite the facts that its exports also began to lag behind US exports after 1915. It was only in 1945 that the US dollar took over from the pound as the unrivaled key currency of the global economy.[6] This proposition of course applies to the current key currency status of the US dollar as well. Once a particular nation's money has become accepted as a key currency, it is able to maintain that status regardless of changes in the strength of that nation's economic fundamentals, not to mention its military might, diplomatic presence, or cultural dominance. Every time some sign emerges of the weakening of the US economy, a crop of reports appears pronouncing the dollar's death as the key currency. But for the reason

[5] A classic discussion of the advantages of a single currency serving as the key currency of the world economy is Charles P. Kindleberger, *The Formation of Financial Centres: A Study in Comparative Economic History,* Princeton Studies in International Finance, No. 36, 1974. He concluded that there are strong economies of scale associated with centralization in a single currency and single financial center in the world as a whole, due to the reduction of transaction costs, especially those of search. (This is precisely the raison d'être for the emergence of money demonstrated in my papers cited in notes 18 and 20.) See also his "Key Currencies and Financial Centres," F. Machlup, G. Fels, and H. Müller-Groeling (eds) *Reflections on a Troubled World Economy: Essays in Honour of Herbert Giersch*, London: Macmillan, 1983, pp. 75-90; reprinted in Charles Kindlebeger, *Keynesianism vs. Monetarism and Other Essays in Financial History*, London: George Allen & Unwin, 1985, 155-167. Barry Eichengreen emphasized the role of network externality (roughly the same concept as what I have called the bootstrapping process) in *Globalizing Capital*, Princeton: Princeton University Press, 1996, esp. pp. 5-6. He, however, now questioned this bootstrapping logic and argued that several currencies have often shared the key currency role in the past and that the dollar and the euro are likely to share the key currency positions for the foreseeable future. (Barry Eichengreen, "Sterling's Past, Dollar's Future: Historical Perspectives on Reserve Currency Competition," NBER Working Paper 11336, May 2005.)

[6] See, for instance, Barry Eichengreen, *Globalizing Capital*.

described above, these reports have inevitably turned out to be greatly exaggerated.

Yet, we cannot rest assured by this proposition for the future of the dollar as key currency. There is another side of the coin (or greenback, in this case).. Inasmuch as the key currency is supported primarily by the same bootstrapping process as money, it is subject to the same instability—depression (a bubble of money as money) and hyperinflation (a bust of money as money). If a depression were to occur in global capitalism, it would likely be caused by a sudden surge in people's demand for the dollar as the key currency in place of the other non-key currencies. The so-called Asian currency crisis gave us a glimpse of such a possibility. Suddenly in 1997, large amounts of Thai baht, Malaysian ringgit, Indonesian rupiah, Korean won, Russian rubles, and Brazilian reals were dumped on foreign exchange markets. A selling-off of the Japanese yen started in 1998, and even the newborn euro became a target of distress selling. Aggregate demand for the world as a whole was hit hard and for a time the global economy experienced cumulative deflation. But the funds withdrawn from Asia, Russia, Latin America, and later from Japan and Europe, did not vanish into the air; nor did people rush to convert it into gold and other precious metals. Most of it was actually held in the form of dollars, part of which then headed to financial markets in the United States. As a result, the US stock markets were able to continue their unprecedented boom (which turned out to be a mere bubble) and the US bond markets were able to maintain their already low rates of interest, except in the immediate aftermath of the LTCM debacle. In this sense, the global slump caused by the Asian currency crisis can be interpreted as a vote of confidence on the status of the US dollar as the key currency, and after a year or two of turmoil the global economy was able to resume its growth almost unscathed.

It must be obvious by now that it is a "dollar crisis" that represents the real crisis of global capitalism (in addition, of course, to the crises of global warming, energy depletion, food shortage, population explosion in developing countries, population aging in advanced countries, crashes of religions, global terrorism, etc.) The dollar crisis is nothing but a hyperinflation of the dollar as key currency—an unraveling of the bootstrapping process that has supported its key currency status independently of the real strength of the US economy.

If, for any reason whatever, people around the world begin to believe their dollar holdings to be excessive, they start to sell dollars against the other currencies in foreign exchange markets. As long as the resulting depreciation of the dollar is expected to be temporary, a dollar crisis will not develop. But once a large number of people come to fear that other people fear that the dollar will

continue to depreciate, the situation reaches a tipping point. People start refusing to accept dollars as the means of settlement in their international transactions, further depreciating the value of the dollar and confirming their original fears. The flight from the dollar now sets off. Not only are dollars dumped on foreign exchange markets all over the world, but the bulk of those that have circulated outside the United States now rush back home, directly demanding the US products in their exchange. This will overheat aggregate demand within the US economy and plunge it into domestic hyperinflation. The dollar will be reduced not only to the mere national currency of the US just like all the other currencies but to one of the weaker ones, with a far smaller purchasing power than it used to have.

If such a dollar crisis were actually to occur, most of the trades and finances that have been made possible by the intermediation of the dollar as the key currency would become difficult to sustain. The world economy would split into a collection of numerous national economies, or more likely, would be divided into a few trading and/or financial blocks, each with its own local key currency. The final destiny is a breakdown, or at least a temporary breakdown, of global capitalism itself. Of course, the history of international monetary system has taught us that sooner or later a new key currency will emerge. But the same history also shows that it is much easier to destroy an existing bootstrapping process than to create a new one. In order for one currency to become a key currency there must already be a critical mass of people who expect a critical mass of other people to accept it as something like a key currency! In fact, it was during the long transition from the pound to the dollar as the key currency that the Great Depression erupted, and it was during the Great Depression that the world economy divided itself into blocks, which paved the way to WWII.[7]

Many will no doubt argue that the dethroning process would not be so violent in the case of the dollar. It would merely lead to a two-headed system, with the dollar and the euro peacefully sharing key currency status, or perhaps a three-headed one with the dollar coexisting with the euro and the yuan (or, if I am allowed to be a bit chauvinistic, the yen).[8] However, I do not, believe that

[7] One of the main theses of Charles Kindleberger in *The World in Depression, 1929-1939* (2nd ed., Berkeley: University of California Press, 1986) is that the Great Depression turned into the greatest depression in history because Great Britain was no longer able, and the United States not yet ready, to act as the lender of the last resort. .

[8] For instance, Eichengreen suggested that the dollar and the euro are likely to share key currency status for the foreseeable future. However, he did not foresee the rise of the Chinese yuan to the status of a major international currency even 40 years from now. See his

such a dual or three-part key currency system would ever be stable, even if the rapid development of financial technology continues to reduce the cost of converting currencies. On the contrary, the easier it is to convert currencies, the easier it becomes to speculate in foreign exchange markets. This would be nothing but an invitation for professional speculators to participate in the easiest form of the Keynesian beauty contest. The essence of the Keynesian beauty contest is not a simple "winner-take-all" game, as it has sometimes been misunderstood to be. There are in fact two winners in the game—the face chosen as the prettiest and the voters who receive cash prizes for voting for her. Although the competition to be chosen as the prettiest is certainly a winner-take-all game, the voting process itself is a game where everyone becomes a winner simply by joining the majority. When the choice is among two or three, instead of a hundred, a small sign, even a false one, that one of them is getting more votes than the others will push everyone to vote for that face, especially when there is no or little cost in switching one's vote.

"Sterling's Past, ..."

January 14, 2011

The Great Handicraft Extinction (1)

Yonematsu Shiono

How was Japan transformed from a nation of artisans into a nation of mass-producers and mass-consumers—and what have the Japanese lost in the process? In the first article of a three-part series, the author describes the great extinction that wiped out cottage industries all across Japan in the decades following World War II.

A Japanese woodworker uses the traditional tools of his trade in a photograph taken in the early years of the Meiji era (1868–1912). The furniture, boxes, and other objects such master craftsmen created were works of art by today's standards. (Courtesy of the Open University of Japan Library)

Before discussing the extinction of the handicrafts and hand trades in Japan, I should first explain what I mean by those terms. My discussion is not limited to such traditional decorative arts as lacquering, woodcarving, ceramics, weaving, and dyeing but covers all the trades in which people rely primarily on their own hands and bodies to fashion goods for practical use. This includes the manufacture of everyday household items like colanders, buckets, and barrels, as well as such diverse trades as boatbuilding, thatching, plastering, metalworking, and furniture making.

Skilled manual trades of this sort have been dying out for a very long time, and people have been lamenting their death for just as long. In the Meiji era (1868–1912), the renowned sculptor Takamura Koun commented to his son, the poet Takamura Kotaro, on the disappearance of handwork since the end of the Edo period (1603–1867). He was looking back over a career in which he had reached the summit of success only after years of grueling training under the apprenticeship system that was common to all Japan's traditional arts, crafts, and manual trades.

After the Meiji restoration, the numerous cottage industries that had flourished during the Edo period fell victim to the national goal of developing indus-

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try to build up economic and military strength and catch up with the West. And the trend only accelerated as time went on. In the Taisho era (1912–26), people looked back nostalgically on the craftsmanship of the Meiji era, and in the Showa era (1926–89), they lamented the disappearance of the kind of hand work their parents and grandparents had taken for granted.

Be that as it may, the decline of the skilled hand trades accelerated dramatically in the period of social transformation following World War II. The causes of the change were many. In the new postwar world, people who followed in their parents' footsteps and took over the family business were regarded as behind the times. The authority of the patriarch had been weakened, and the old apprenticeship system was labeled as feudalistic. People were abandoning their rural towns and villages and moving to the cities in droves. Changes in people's lifestyles and livelihoods drove changes in the goods and tools they used, and these changes in turn undermined the ethic and ideals that had supported the hand trades.

Then again, to some extent, it was probably the other way around.

Culture Shift

Surrounded by his wares, an artisan weaves bamboo into fine baskets in a photo from the mid-Meiji era. Hand-crafted baskets and colanders in a variety of shapes and sizes, painstakingly woven from finely split bamboo, were daily necessities prior to the spread of mass-produced substitutes. (Courtesy of the Open University of Japan Library)

I was born in 1947 in the small castle town of Kakunodate in Akita Prefecture. Culturally, the town was at least a decade behind Tokyo. This is not to say that the people were uneducated or uncultivated, only that it took that long for the latest trends in consumer culture to find their way to our town from the city. The nation was not nearly as uniform as it is today, and one could still find in the countryside an older Japan that had ceased to exist in the cities. The scenery, lifestyle, and attitudes were those that had grown out of the local geography, climate, and history.

When I was a young boy, many of the traditional trades still survived in my town. In the commercial section of town, which consisted of about 30 buildings, there was a blacksmith, a caterer, a tailor, a fish merchant, a seller of *koji* (mold for fermentation), a carpenter, a stonecutter, a cooper, a barber, a wooden sandal

maker, a sake brewer, a tofu maker, and a sushi shop. The neighboring town had traditional artisans specializing in cherry bark, carved wood, and lacquer, as well a tinsmith, a sawyer, and a horse-shoer. This is also what a typical Japanese town had looked like at the beginning of the Showa era. In our part of the country, very little had changed.

In 1964, the year of the Tokyo Olympics, I was a second-year high school student, and in 1965 I left to attend college in Tokyo. Around that time, things began to change rapidly in my hometown. The blacksmith disappeared, the caterer died, and the cooper closed down because there was no one to take over the business. The sandal maker's shop turned into a shoe store, and the tailor retired and went to live with his son, who had become a schoolteacher.

When I had graduated from middle school in 1962, my class of baby-boomers filled eight classrooms of more than 50 students each. Approximately half of those graduates were recruited by urban firms and migrated en masse to Tokyo. A few of my classmates became apprenticed to carpenters or plasterers as in the old days, but it was already unusual by that time.

The young people from my town were snapped up by expanding Tokyo-area factories and retailers greedy for labor. In the postwar cultural climate, hand trades were already regarded as backward. Moving to the city to work in a factory or office was the thing to do. There one could earn money without getting one's hands dirty and buy new things with the money one earned. This was what it meant to be modern.

From that time on, the hand trades disappeared at a breathtaking pace.

Cold Economic Reality

There were always cold, hard economic reasons for the extinction of a trade.

One was the disappearance of the natural resources on which such trades generally depended for materials. Another was a lack of human resources to do the manual work such labor-intensive trades required. In some cases, the simple but specialized tools and other equipment the artisan relied on became impossible to obtain because no one making them any more.

But the most basic reason was that demand for the hand-made items produced by these cottage industries had declined sharply.

For centuries the only goods and tools that people used were crafted by hand. Then factories began to churn out comparable objects cheaply, in large numbers. Given a choice between a hand-made bamboo colander and a mass-produced plastic one, people chose the plastic because it was cheap, looked nice, and was

easy to care for. It dried so quickly that there was no need to wipe or air it after use. Furthermore, people found the bright colors attractive. The splash of unaccustomed color these plastics brought into Japanese homes must have impressed everyone as quintessentially modern.

Farmers began buying hoes and other implements mass-produced in factories instead of having them made to order. Since they were tailored neither to the soil in one's field nor to one's own body type, they were a bit harder to use, but they were so much cheaper that people decided to adapt themselves to the implement instead of the other way around. In this case they chose price over ease of use, and this made the work itself more onerous and less enjoyable. Instead of people shaping the implements, implements shaped the people.

A fish hawker poses with his goods in a photograph from the Meiji era (c. 1880s). (Courtesy of the city of Sayama, Saitama Prefecture)

Boats changed from wood to fiberglass-reinforced plastic; buckets and barrels, from wood to plastic; boxes and cartons, from wicker to cardboard. Food-storage containers handcrafted from lacquered wood or thin, curved sheets of cedar gave way to Tupperware. Virtually everything people used was transformed by the same process.

The factories that manufactured these goods employed workers who had migrated from the countryside, often the sons and daughters of tradespeople who had made a living producing similar objects by hand. Efficient mass-production robbed the goods of their individuality, but it made them cheap. And we, the users, made our choice.

When people stopped buying those handmade goods, wholesalers and retailers stopped stocking them, and the makers themselves had no choice but to suspend production. The people who supplied those makers with materials had to find another line of business as well. All over the country, blacksmiths who had been the source of countless metal implements vanished in the blink of an eye. "The Village Blacksmith," once sung by elementary school children throughout Japan, disappeared completely from the textbooks and was forgotten. No one even knew what a blacksmith did any more.

Formerly, the streets of Japanese towns had been lined with the shops displaying the hand-made wares of artisans and other tradespeople in their win-

dows. Often the window provided a view of the artisan at work, allowing passers-by to inspect the quality of the materials and workmanship. As these shops closed down, the towns themselves were completely transformed.

With the disappearance of these traditional handicrafts and skilled manual trades, the Japanese people lost a way of life and a vast fund of knowledge. In the next article, I will explore these changes.

April 25, 2011

The Great Handicraft Extinction (2)

Yonematsu Shiono

The disappearance of handicrafts and hand trades in Japan is scarcely a recent phenomenon. Although a few isolated survivors can still be found, precious few vestiges of handwork remain in our day-to-day lives.

If this means nothing more than that hand-crafted objects were replaced by mass-produced factory goods, then the loss does not seem so great, especially when one considers all the modern, convenient, durable, and inexpensive items to which we have access. But in fact, there is much more to it than that.

When hand-made objects vanished from our lives, the culture and traditions that had grown up around them vanished as well. To appreciate the extent of this loss, we need to examine the change from two perspectives, that of the producers and that of the consumers. For now, we will focus on the producers.

Learning and Growing in the *Totei* System

After a test run, the kiln is finally ready for charcoal burning. (Courtesy Takeshi Sumibito Kai)

Traditional Japanese artisans almost invariably learned their trade through a long apprenticeship to a master. Under the *totei* system, an aspiring artisan would be apprenticed from an early age, generally living in the master's house. The master was not an educator per se and did not make use of textbooks or any other teaching aids. Simply put, the apprentice learned by observing and assisting. In some cases, assistance included menial labor and household chores like cleaning, doing the laundry, and babysitting. Eventually such practices were criticized as archaic, and since the end of World War II, the system has all but died out.

Certainly the apprenticeship system can appear archaic in the light of mod-

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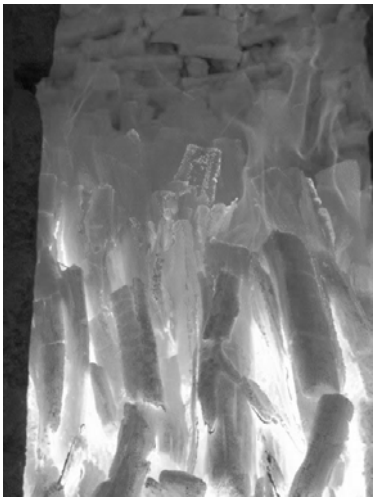
ern educational practices. Classroom education focuses on the memorization of facts and figures via textbooks and other forms of verbal transmission. But traditional artisans and tradespeople rarely used words to transmit what they knew. The reason is that words were of almost no use in transmitting the kind of skills they possessed.

To better appreciate this, imagine yourself training to become a charcoal maker.

The basic steps involved in making traditional Japanese charcoal are building a kiln, cutting the wood and loading it in the kiln, firing, closing the kiln door at a particular time, and allowing the wood to rest a certain amount of time before removing it. A clay kiln is used for the softer black charcoal, a stone one for the highly prized *bincho* charcoal, also known as white charcoal. (The two types of coal also require slightly different treatment near the end of the process, but such details can be ignored for our purposes.)

Now, you might think it simple enough for the master to write the instructions for each step on paper for you. But because of the multitude of variables involved in each step, such written instructions would be virtually useless.



Temperatures in the kiln reach more than 1,000ºC. (Courtesy Takeshi Sumibito Kai)

Beginning with the kiln, stone and clay vary by locale. Even in one locale, no two stones or deposits of clay are the same, and some are much better suited than others. Even if you learned the principles of building the ideal oven on paper, you could never know whether you had successfully applied those principles until you tried the oven. As a charcoal maker, you need to spot and fix problems as you go along. The proper makeup and construction of your kiln will depend on all manner of climatic and environmental factors.

Even the loading of the wood into the kiln requires the kind of know-how that comes only from experience. Like most hand trades, charcoal making is not highly profitable, so you need to produce as much charcoal as possible each time you fire up the kiln. For that purpose, you need to arrange the wood in such a way as to fit as much as possible at a time, without compromising the quality of the final product. And since no two batches of wood are the same, the arrangement will differ from one firing to the next.

After the wood is loaded and the kiln fired up, you must carefully monitor

both the color of the flame and the color and smell of the smoke. The color of the flame indicates the temperature, while the color and smell of the smoke provide important indicators of changes going on within the kiln. These days there are thermometers that can record very high temperatures, but in the past, the color of the fire was the surest way to gauge the temperature regardless of the material or construction of the kiln. How the fire reaches the correct temperature is also important.

As the carbonization process proceeds, the color and odor of the smoke gradually change. The smoke that initially pours out of the kiln is white, but it gradually turns purplish and then dwindles to almost nothing. The smell also changes, from a pleasant smoky fragrance to a sharp, acrid odor. Since the subtle differences in color and smell are impossible to describe in words, the master charcoal maker can only admonish you to memorize them. In time, after repeated failures and admonitions, you will absorb your master's ability to distinguish those smells and colors—that or you will never learn to make charcoal. Since your master cannot bequeath you his or her eyes and nose, your only choice is to learn through example and experience.

Now let us suppose you are training to become a *miya-daiku*, a master carpenter who builds and repairs wooden shrines and temples. For the longest time you find yourself doing nothing but sweeping and lugging tools and lumber. You are eager to take up your tools and begin sawing and planing wood into beams and posts, but that must wait; everyone must start at the bottom, doing menial work. To begin with, the master has to show you what kind of work a carpenter does. You need to learn how to walk, move, and behave at a building site amidst sharp chisels and saws and pieces of lumber large enough to crush a person. How can you even begin to take part in the actual building before you have thoroughly familiarized yourself with the weight, texture, and smell of the wood, with carpenters' jargon and the names of all the members and elements of a building? In the process of sweeping, carrying tools, and doing other menial jobs, you gradually gain a familiarity with the work place and acquire a visceral understanding of what it means to be a carpenter. Only then can you respond appropriately when told to do something and steer clear of countless workplace hazards.

A carpenter's work involves shaping wood members, cutting them to measure, drilling holes in it, and joining them together, and each of these processes involves the mastery of difficult skills. Unless you know just how to wield the saw, you will wear yourself out without accomplishing anything. Even with the benefit of guidelines clearly drawn on the wood, your saw will not cut straight. When sharpening the plane, you know you need to make the blade perfectly

straight and level, but in trying to correct a blade that slopes slightly to the right, you overwork it so that it instead slopes to the left. Your mind knows exactly what needs to be done, yet your hands are unable to do it. Your whole body must be trained and disciplined to do as your mind bids, and books and verbal instructions are of no use in that kind of training.

The curved, razor-sharp *yariganna*, or spear plane, is but one of the traditional tools that the *miya-daiku* must master. (Courtesy Mitsunari Sakurai)

When you have finally begun to get the hang of these tools, your master gives you a board and tells you to plane it flat. You carefully sharpen the blade, meticulously shave the board, and measure it to make sure it is perfectly level. You then ask your master to check your work. "What's this?" he cries disapprovingly. "I told you to make it flat!" You're bewildered. When you measured it with your ruler, it was perfectly level. Finally, a senior apprentice comes over and explains. You can't rely on a ruler, he says consolingly. You have to use your own eye. A perfectly flat plane looks slightly concave to the eye, which is why a plasterer will finish his wall by creating a slight swelling in the middle. No one can tell you by how many centimeters. Only your intuitive visual judgment can tell you whether it looks flat. Cultivating this judgment is part of becoming a carpenter, but there are no words that can impart it. You must simply absorb the judgment, intuition, and sensibility of your master. In this way, you gradually learn to use the tools of your trade and distinguish between superior and inferior work.

The *totei* system evolved to allow the transmission of skills and understanding from person to person, body to body. Instead of cramming one's head full of abstract knowledge, it physically imprinted the required techniques and aesthetic judgment, training one's hands to execute and one's eyes to discern instinctively. This was the raison d'être of the *totei* system, however irrational and inefficient it might appear.

The belief that it is possible to learn anything through written words, numbers, textbooks, and a teacher who explains everything patiently is an illusion. Of course, there are those who believe that one can dispense with arduous training by replacing color and smell with numerical values and by teaching machines how to perform the most technically demanding tasks. In fact, our factories are full of such sophisticated robots, which are able produce goods meeting exacting standards. And if consumers are satisfied with that, so be it.

Master carpenter Mitsunari Sakurai's skill and artistry are the products of years of arduous apprenticeship. (Courtesy Mitsunari Sakurai)

But the long process of honing one's own skills and perceptions is not just about producing a perfect product; it is also a process of personal growth as a human being. It is only after you confront your own shortcomings, endure rebukes, and lament your own inexperience that you realize there is no substitute for tireless effort and persistence. You become committed to progress, however slow, and take satisfaction in knowing you are a little better today than you were yesterday, and will be a little better tomorrow than you are today. You keep working, you grow stronger, and you mature as a human being.

Today, sophisticated machines read the data we input and create the products we instruct them to, and that is all. We seek only speed, low cost, and efficiency. Underlying it all is a cold, mechanical, and single-minded pursuit of efficiency. The traditional apprenticeship system, on the other hand, was a means of nurturing human beings. And that is something precious that we have lost.

A Unique Relationship with Nature

Most of the materials used in the traditional handicrafts and hand trades were taken from the immediate environment. And since fine work requires fine materials, part of the body of knowledge transmitted from generation to generation was an understanding of the materials of one's craft and how to extract or harvest them from the environment. This included strict rules regulating that process to prevent the depletion of the resources on which the trade depended.

For example, the artisans of Akita Prefecture who wove baskets and other objects from *akebia* vine did not begin harvesting the vine until after midsummer. By allowing the vine to grow as long as possible before cutting, they were able to maximize and conserve that resource.

There were different rules for all such materials. Bark was collected only from the rainy season (June) on. Lumber could only be cut from late autumn or winter, after the leaves had fallen and the trees' growth had stopped, to around March the following year, before the sap began to flow. Bamboo, likewise, could only be cut in the winter, when the plants were dormant. And never was the "parent tree" cut down. This meant, in the case of *akebia*, cutting only the vines and leaving the trunk intact. When harvesting spicebush wood for toothpicks, one could cut the long branches, but the base was left untouched.

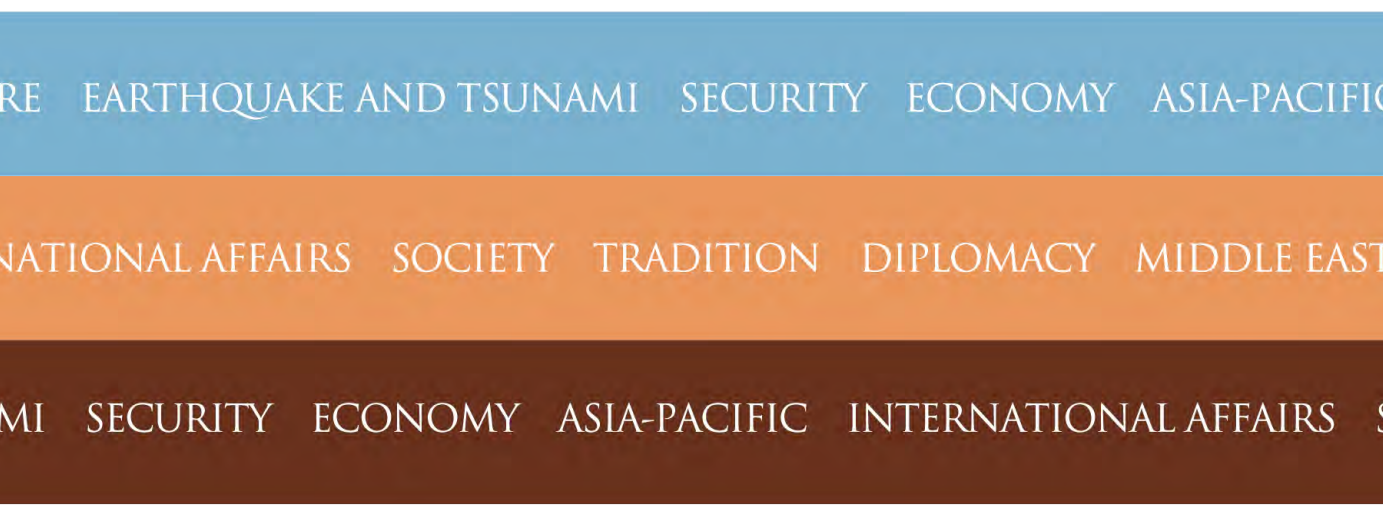
This ensured that the vines or the bush would grow back the following year. When deciduous trees are cut near the base, they will usually put out tillers. If the most promising tiller is left intact, it will eventually grow back into a usable tree. In the case of the *ubame* oak—used in the making of fine bincho charcoal—it takes 15 to 20 years for a tree to regenerate and grow back to a size suitable for making charcoal. Japanese (*nara*) oak, sawtooth oak, and other trees used for black coal take about 20 years to regenerate, as does the Japanese basswood (*shina*) trees used to weave basswood cloth. Even if you cut down the *urushi* tree used for making lacquer, it will regenerate and, in about 20 years time, once again produce sap suitable for making lacquer. Japanese cedar and cypress for construction purposes take much longer. Such trees were only cut down when they were 60 to 100 years old, and then seedlings were planted in their place.

By using the forests and woodlands cyclically in this way, artisans could ensure that the supply of materials would never dry up. But such careful use of resources was based on the assumption that one's children and grandchildren would be following in one's footsteps. An artisan who knew that the business would end when he or she died might just as well cut down the parent tree or leave the tillers to grow as they might. In such cases, the forests would no longer serve as sources of renewable resources.

People often assume that nature can renew itself without human assistance. But the natural materials that are most useful to people need to be tended and cultivated. High-quality materials do not grow by accident. Even the *miscanthus* and reeds used to thatch roofs required cultivation. After they were cut, the field was burnt and fertilizer applied so that the grasses could be harvested again later. A durable thatched roof cannot be made from the kind of reeds that grow randomly by the riverside.

With the demise of handicrafts and hand trades, our view of nature changed. We lost the underlying belief that we ourselves benefit by skillfully coexisting with nature. For the Japanese, this was a huge transformation.

By changing our ideas about production, the demise of handicrafts also altered our attitudes toward education, human relations, and the environment. In the next article in this series, we will examine the repercussions of the great handicraft extinction from the standpoint of consumption.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