



TRILATERAL FORUM TOKYO 2013

# UNLOCKING THE POTENTIAL OF THE U.S.-JAPAN-EUROPE RELATIONSHIP

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**G | M | F** The German Marshall Fund  
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STRENGTHENING TRANSATLANTIC COOPERATION

The Tokyo  
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### **Trilateral Forum Tokyo**

Trilateral Forum Tokyo was established in 2012 with the purpose of bringing together officials, policy intellectuals, journalists, and business leaders from Japan, Europe, and the United States for systematic dialogue on topics of mutual interest. The Forum is jointly organized by the German Marshall Fund of the United States and the Tokyo Foundation with the financial support of the Japan Foundation Center for Global Partnership. Topics of discussion have included democracy and the international order, regional security challenges, non-proliferation, trade diplomacy, innovation, reviving global growth, disaster relief, development cooperation, new energy resources, the eurozone crisis, and political changes and economic opportunities in Burma. The Forum takes place on an annual basis in Tokyo.

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# 1

## INTRODUCTION

SHARON STIRLING-WOOLSEY AND DANIEL M. KLIMAN

For the United States and Japan, the evolution of the global economy, the emergence of new players, and the internationalization of security threats place a new premium on cooperation with other, likeminded powers. In recent years, policymakers and analysts in Washington and Tokyo have focused primarily on enhancing U.S.-Japan ties with Asian and Pacific countries such as Australia and India. However, in the pursuit of global order, another trilateral relationship holds great potential: that involving Europe, Japan, and the United States. Collectively, these leading democracies constitute a bulwark of the current international system, and despite recent economic difficulties, they together possess unparalleled hard and soft power.

A mismatch has developed between the potential benefits of the Europe-Japan-U.S. relationship and the mechanisms that exist to catalyze trilateral cooperation. Outside the realms of trade and investment, the European policy community has tended to focus on internal challenges and developments in the European near abroad. Meanwhile, the Japanese government has dedicated much of its attention to security cooperation with the United States, changing power balances in Asia, and reviving domestic economic growth. In the United States, foreign policymakers remain segmented between Atlanticists and Asia hands.

Today, however, the time is ripe to forge deeper trilateral ties.

In the United States, initiatives such as the Trans-Pacific Partnership (TPP) negotiations and the deployment of additional U.S. military forces to the Indo-Pacific rim highlight the economic and strategic importance of Asia. At the same time, Washington has moved to enhance ties with Europe through the Transatlantic Trade and Investment Partnership (TTIP) talks.

In Japan, recent elections have given Shinzo Abe and his administration more political capital than any Japanese prime minister since Junichiro Koizumi, who left office in 2006. Domestically, Prime Minister Abe's primary objective has been to lift Japan out of decades-long economic stagnation. Internationally, the new government in Tokyo seeks to carve out a higher profile role for Japan and to promote cooperation with new partners.

In Europe, there is a newfound recognition that reviving domestic economic growth will require simultaneous trade deals with the United States and Asian countries, including Japan. European countries display a growing interest in playing a more coherent role in Asia — one that would advance regional peace, prosperity, and freedom.

Lastly, multiple developments have raised the stakes for U.S.-Japan-Europe cooperation. Stalled talks at the World Trade Organization have created a demand for alternative, large-scale trade negotiations. More than ever before, countries are competing to capture the high ground of innovation. New doubts about nuclear power together with the maturation of shale gas technology have reshaped the energy landscape. How China's rise will have an impact on the global order in the years ahead remains an open question. Meanwhile, Iran and North Korea pose a continuing challenge to the nuclear non-proliferation regime that remains a backbone of global security. Yet there are positive developments too: Myanmar's political opening presents an opportunity to consolidate democracy in that long-troubled country, while the emergence of new foreign aid donors such as Brazil, Turkey, and India may help to revitalize development cooperation at a time when longtime donors confront growing fiscal constraints. Closer cooperation among the United States, Japan, and Europe can maximize the upside of these developments and minimize the challenges some pose to global peace and prosperity.

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*Trilateral Forum Tokyo brings together policymakers, journalists, business representatives, and researchers from Europe, Japan, and the United States to discuss crosscutting global and regional issues.*

### **Toward a New Trilateral Agenda**

The German Marshall Fund of the United States (GMF) and the Tokyo Foundation have come together to launch a new platform for stimulating trilateral cooperation. First convened in 2012, Trilateral Forum Tokyo brings together policymakers, journalists, business representatives, and researchers from Europe, Japan, and the United States to discuss crosscutting global and regional issues. To capture the best ideas generated during the 2013 discussions and provide inputs to policymakers, four participants have authored short papers on areas ripe for deeper trilateral cooperation.

Bruce Stokes, in his paper “The Transpacific-Transatlantic Single Market,” argues for closer trade cooperation among the United States, Japan, and Europe. Pointing to the deadlocked Doha Round of multilateral trade talks, Stokes contends that the three leading democracies should capitalize on the momentum generated by the TPP talks, the TTIP discussions, and EU-Japan free trade negotiations. If concluded and harmonized with each other, these three agreements would create a \$38 trillion market that could effectively raise the bar both at the World Trade Organization and in negotiations with external parties. To achieve this, Stokes recommends closer coordination among Europe, Japan, and the United States regarding negotiating objectives, modalities, implementation timeframes, and exemptions. He also calls for the inclusion of docking agreements that would allow other countries to join if they are willing to accept the requisite standards. This would create the potential for an even broader free trade area and erase the threat of discrimination. Lastly, to alleviate Chinese fears of economic containment, Stokes recommends that Brussels, Tokyo, and Washington engage in open discussions with Beijing. These talks should directly address what is being discussed in the EU-Japan free trade negotiations, the TPP talks, and the TTIP discussions. Policymakers in all three

capitals should voice their willingness to ultimately welcome China into this commercial space, albeit with explicit standards.

Tsuneo Watanabe, in his paper “Why Myanmar Matters: Ensuring the Future of the Liberal International Order in East Asia,” explores how Myanmar, and East Asia more broadly, have become a new frontier for trilateral cooperation. Watanabe argues that the region will test whether Chinese aspirations for national rejuvenation can coexist with the interests of neighboring countries and the larger international community. Commending the Obama administration’s rebalance to Asia, he asserts that Europe and Japan must work with the United States to construct a rules-based order in Southeast Asia, where territorial disputes are increasingly contentious and the balance of power remains in flux. Watanabe observes that Japan has taken recent steps in this direction by helping to fund major regional infrastructure projects and by engaging in maritime capacity building, including the sale of equipment and participation in military exercises. Europe is well positioned, in his perspective, to also train and equip local coast guards and navies. Watanabe contends that Myanmar’s trajectory will have an impact on the future regional order, and that the most pressing challenges to Myanmar’s continued political transition are amending the constitution and addressing ethnic conflict. On the latter issue, Tokyo has demonstrated new thinking: the Japanese government is collaborating with a domestic non-governmental organization to facilitate the reconciliation process in Myanmar. Watanabe recommends that the United States, Japan, and Europe more closely coordinate their assistance to Myanmar, as supporting the country’s democratization and economic development will significantly contribute to a stable, rules-based system in Southeast Asia and beyond.

In their paper “National Innovation Systems: Invention to Innovation,” Bhavya Lal and Stephanie Shipp analyze the national innovation systems of Germany, Japan, and the United States, and explore ways the three can leverage their national endowments through international cooperation. Broadly speaking, innovation policies are strategically enacted to not only promote comparative advantage, but also to deliberately develop and sustain economic strength in key sectors. Lal and Shipp argue that rather than approaching the creation of innovation policies with an established check-list, policymakers must understand their country’s endowments — culture, natural resources, demographics, education, entrepreneurship, and attitudes toward risk — before they can act to leverage them effectively. Industries play a key role in the innovation process through their effective coordination of research and development, production, and marketing. Germany, Japan and the United States remain bulwarks of innovation; however, competing knowledge centers are emerging in Seoul, Singapore, and China. To maintain innovation advantages and improve capacity, Lal and Shipp propose that Germany, Japan, and the United States create international clusters where skills, knowledge, and resources are shared among partners to complement existing endowments and address challenges collectively. Such collaboration will boost their innovation capacity well beyond what any of the three could independently accomplish.

Bonji Ohara, in his paper, “China and the Future of International Order,” looks to the Defense

White Paper released by Beijing in April 2013 to gain insight on China’s larger national aspirations. Ohara observes that Beijing’s main security concerns center on the U.S. rebalance to Asia; China’s claim over the Senkaku/Diaoyu islands, which Tokyo administers, remains a secondary issue. According to Ohara, Beijing’s main focus is not the East China Sea, but the South China Sea. Control over this body of water would enable Beijing to securely deploy submarine-based ballistic missiles and establish robust deterrence vis-à-vis the United States. The geographic expansion of Chinese economic interests is also evident in the Defense White Paper, Ohara notes. The document emphasizes the role of the People’s Liberation Army in conducting anti-piracy efforts in the western Indian Ocean and evacuating Chinese workers from Libya during the revolution there. Although the Defense White Paper falls short of real transparency, Ohara maintains that it does represent a step toward greater openness in Chinese security policy. Ohara worries that tensions in the East China Sea could escalate into a military conflict pitting Tokyo against Beijing, particularly given the degree of mistrust that exists between the two capitals. He recommends that the EU, which is not party to any regional dispute, serve as a force for restraint and confidence building.

These four papers provide only a snapshot of the possibilities for deeper U.S.-Japan-Europe cooperation. Unlocking the potential of this trilateral relationship will go a long way toward advancing peace, prosperity, and freedom in a rapidly changing world.

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# 2 THE TRANSPACIFIC-TRANSATLANTIC SINGLE MARKET

BRUCE STOKES

Europe, Japan, and the United States have begun the process of creating a \$38 trillion, largely barrier-free market through the parallel negotiation of the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP), and a free trade agreement (FTA) between Japan and the European Union. While these negotiations are not formally linked, they are all driven by the same desire to further liberalize trade and investment at a time when the multilateral effort to do so through the Doha Round in the World Trade Organization is irretrievably stymied. These simultaneous, three-pronged talks are also motivated by a shared desire to improve national competitiveness in the face of growing competition from China. Each negotiation also faces political obstacles at home thanks to discrete domestic special interests. As high ambition agreements they will address issues never before dealt with in trade negotiations. To enhance their chances of success, Brussels, Tokyo, and Washington should coordinate their efforts, open the resulting agreements to the participation of others willing to make similar commitments, and be transparent with Beijing about the aim of these deals and what China could do to join in the benefits.

## Substantive and Conceptual Roadblocks

The roadblocks to achieving the TPP, TTIP, and an EU-Japan FTA are both substantive and conceptual. The substantive issues are neuralgic, sector-specific problems that cannot be underestimated. If they were easy to resolve, they would long ago have been dealt with in previous negotiations. In addition, these trade deals raise new substantive questions that have never been part of major trade agreements. The conceptual issues may ultimately pose a greater obstacle, however, because they reflect the need for Japan, Europe, and the United States to engage each other and negotiate in an unprecedented manner.

The major substantive roadblocks to TPP are well known. Among other issues, for Japan it is rice and Tokyo's 700 percent import tariff. For the United States, it is greater access to the Japanese auto market. For New Zealand, the issue is increased access to the U.S. dairy market. For Vietnam, it is U.S. textile, apparel, and shoe tariffs. For all nations, coming up with a common set of rules for dealing with state-owned and state-affiliated enterprises is a substantive roadblock. And there are myriad other issues that could cause friction: insurance, privacy of personal data in an increasingly digital economy, intellectual property protection, dispute settlement, investor-state relations, trade facilitation, and supply chain impediments.

The political opposition to a TPP deal can potentially be mollified through long phase-outs of domestic protection, as the Obama administration hopes to do with the recent agreement between Washington and Tokyo, which pushes back the elimination of U.S. auto and truck tariffs and links them to the longest phase-out period for any other item. Other issues may ultimately be left out of the final agreement, as sugar was in the U.S.-Australia FTA and rice was in the U.S.-Korea FTA.

There may be even thornier substantive issues facing TTIP. Transatlantic tariffs are low and Washington and Brussels have engaged in a regulatory dialogue for years. But there have been transatlantic disputes over agricultural issues — poultry, beef hormones, bananas, and genetically modified organisms — since the 1960s. And the U.S. federal structure, which gives states regulatory power over insurance, professional services, and public procurement, will pose a major obstacle to further liberalization of the U.S. market, especially in light of the anti-Washington sentiment in some states. With state governments protective of their prerogatives, past U.S. administrations have been largely unsuccessful in convincing them to harmonize their procedures in accordance with an

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FTA. In the new digitally driven economy, differing U.S. and European perspectives on privacy may also make it difficult for Washington and Brussels to agree on privacy rules, especially in the wake of revelations of the U.S. National Security Agency's widespread surveillance of phone and internet data.

The EU-Japan FTA, too, confronts substantive obstacles. These include opposition from European automakers to greater Japanese access to the European car market and a potential clash between the interests of niche European agricultural producers and the Abe government's desire to encourage more value-added food production in Japan.

Ultimately, however, the more challenging impediments to TPP, TTIP, and an EU-Japan FTA may prove to be psychological. Brussels, Tokyo, and Washington have never engaged in major bilateral or regional trade negotiations with equals. These three negotiations will require true give and take at the bargaining table, not explicit or implicit dictating of terms. U.S., European, and Japanese politicians will have to accept that long-sacrosanct special interests can no longer be fully protected. And publics in all three jurisdictions will need to understand that a new phase of globalization means that issues that were once considered purely domestic in nature are now integral parts of a global economy, and that the neat dividing line between domestic and international spheres of regulation and cooperation is now increasingly blurred.

Moreover, past trade negotiations have been single undertakings; nothing was agreed upon until everything was decided. The negotiation was then concluded and the result was presented to the public as a final product. TTIP, in particular, is consciously structured as a rolling negotiation. There is an acknowledgement from the beginning that some issues will be resolved in a defined period

of time, while others will not be resolved and will require continued deliberation even after a TTIP is agreed upon. This may be a realistic way to deal with new, extremely thorny issues. However, it also may lower the bar for success at a time when all three negotiations purport to aim for high standard agreements. This rolling negotiation potentially complicates trying to sell an eventual deal to skeptical publics and parliaments because the final agreement may look like it dodged many of the tough issues.

### **Geostrategic Implications**

TPP, TTIP, and the EU-Japan FTA break new ground because they are consciously geo-strategic in nature and intent. China is the elephant at the negotiating table. How to deal with the economic and strategic challenge posed by an increasingly competitive, successful, and aggressive China is a prime motivating force for all three initiatives. This is something that Brussels, Tokyo, and Washington never acknowledge publically, but which U.S., European, and Japanese officials all admit privately.

The explicit goal of these three negotiations is not to contain China (although Beijing sees it that way). One goal of all three agreements, however, is to craft a set of regulatory and technical standards that will require China to play by U.S.-European-Japanese rules if it wants to compete in those markets and other markets that may adopt the agreed upon standards. The geo-economic importance of common trilateral standards cannot be overstated. Shared technical standards in a \$38 trillion market will enable economies of scale unheard of in the past, while creating a level competitive playing field. It will encourage Chinese, Korean, and other manufacturers to conform to those standards in order to sell in the trilateral market, thus removing impediments to U.S., European, and Japanese companies entering their markets.



Of even greater importance, in their attempt to synchronize regulatory standards, TPP, TTIP, and the EU-Japan FTA will also begin to harmonize rule-making procedures in the three polities. To the extent that transparency, due process, and the rule of law can become the norm in regulatory standard making in such a large segment of the global economy, this could have a powerful influence on rule setting in other parts of the world.

China's recently expressed interest in joining TPP must be seen in this light. No senior officials in Brussels, Tokyo, or Washington seriously believe that China is ready to meet the high standards aspired to in TPP, TTIP, and the EU-Japan negotiations, if only because that would require a wholesale transformation of the Chinese economy. But Beijing does not want future technical and regulatory standards to be set by the Americans, Europeans, and Japanese. Hence the desire to slow down these talks by holding out the prospect that China might be willing to join.

### **Revitalizing Global Trade Liberalization**

It is unlikely at any time in the immediate future that these three agreements will be merged into a formal, single trilateral free trade area. Small differences will exist, reflecting different special interests and national regulatory cultures. But, if the deals are done at roughly the same high standard, the economies will be effectively integrated to an unprecedented degree. This will, in turn, create a powerful attraction for others to join, as already demonstrated by the late entry into TPP by Japan, Mexico, and Canada. Once the Canada-EU FTA and TTIP are completed, there will effectively be a North American (Canada, Mexico, United States)-European FTA, because Europe will have deals with all three countries in North America. Similarly, South Korea may find it politically easier to join TPP than to do an FTA with Japan. Likewise, Tokyo may find it politically easier to establish a trade deal with Seoul.

Over time, Brazil, India, Indonesia, South Africa, and Turkey may have a growing incentive to join one or more of these groupings. Their membership would effectively create a global free trade agreement that encompasses the vast majority of the world market. Even before this happens, other members of the World Trade Organization may be encouraged to overcome their differences and revive meaningful multilateral negotiations.

### **Advancing Trilateral Cooperation**

To accelerate completion of TTIP, TPP, and the EU-Japan free trade agreement, Brussels, Tokyo, and Washington need to work more closely together, both on the substance of the deals they are crafting and on their shared long-term vision for this \$38 trillion market they are creating.

Their first task should be to better coordinate negotiating objectives, modalities, implementation timeframes, and exemptions. Each deal is unique and must stand on its own. There will never be cross-negotiation trade-offs, where the United States is compensated by Europe in TTIP for market access granted Japan in TPP thanks to an understanding reached in the EU-Japan negotiation. Nevertheless, the fact that all three of these talks are going on simultaneously and the fact that at the end of the day, one trilateral-integrated market will be created enables negotiators to take a broad view. They must be expected to see the forest they are creating, not just the trees. Doing so would help with the creation of complementary objectives, ways of handling issues that do not contradict each other, parallel phase out periods for the most difficult trade and investment barriers, and short, balanced lists of exemptions.

TPP, TTIP, and the EU-Japan FTA are a direct response to the shortcomings of the multilateral system. But they do not create meaningful trade diversion. They can create market opportunities for other countries by affording those nations the

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opportunity to join this new trilateral market on a reciprocal basis.

TPP, TTIP, and the EU-Japan FTA should be equipped with docking provisions that allow other nations to participate in these agreements in the future if they meet the standards and norms adhered to by Europe, Japan, and the United States. Such a docking mechanism would create an even broader trade and investment area free of most barriers. Moreover, if other countries are worried about the potential discriminatory nature of TTIP, TPP, and the EU-Japan agreement, a docking provision creates an opportunity to free them of that discrimination. Avoiding discrimination should not be solely the responsibility of Brussels, Tokyo, and Washington. With a docking option, other governments can control their own fate if they are willing to commit to the same level of market opening. If they are not, then the onus for any discrimination rests on their shoulders.

Finally, Europe, Japan, and the United States should launch a discussion with China to ensure

that Beijing fully understands what is and is not being negotiated in TPP, TTIP, and the EU-Japan agreement. The goal of such a dialogue would be to allay unreasonable Chinese fears about containment. But it would also provide an opportunity to make it clear to the Chinese that the U.S., European, and Japanese goal is to create a barrier-free, integrated market — nearly four times the size of the Chinese economy — with common technical and regulatory standards. The message should be unequivocal: if the Chinese want to compete in this new trilateral commercial space, they are welcome. However, they both have to meet those standards and open their own market to others on reciprocal terms. A joint dialogue with Beijing would also send a message that Brussels, Tokyo, and Washington are ready to work together in dealing with China, and that the Chinese will find it increasingly difficult to play one party off another.

# 3

## WHY MYANMAR MATTERS: ENSURING THE FUTURE OF THE LIBERAL INTERNATIONAL ORDER IN EAST ASIA

TSUNEO WATANABE

The global policy community sees East Asia as a prosperous and stable region, an engine of economic growth, and the locus of business opportunities. The region's development began with Japan's "economic miracle" of the 1960s and 1970s, which was followed by rapid growth in South Korea, Taiwan, Hong Kong, and Singapore in the 1980s, China in the 1990s, and India in the 2000s. Members of the Association of Southeast Asian Nations (ASEAN), such as Indonesia, Malaysia, and the Philippines, have also recently been growing steadily. The latest business "frontier" in Southeast Asia — for developed economies like Japan, the United States, and the European Union — is Myanmar under President Thein Sein's initiative for democratization and market reform.

An interesting aspect of the current Myanmar boom among businesses in developed economies is Myanmar's own decision to wean itself from an exclusive diplomatic and economic relationship with China. The closed, military government is now taking steps toward becoming a more open and democratic society and economy. Analysts view these moves as part of President Thein Sein's strategic calculation to maintain an appropriate distance with China, which had virtually monopolized economic relations with Myanmar over the past 20 years.

Naturally, the Myanmar case has attracted the interest of Western observers because it offers hints regarding the shape of the future liberal international order in the light of the structural power shift in Southeast Asia, prompted by China's rise. The Obama administration's initiatives to engage positively with Myanmar are part of its "rebalancing" policy toward the Asia-Pacific, which emphasizes its relations with Southeast Asia, as a region where U.S. administrations had not spent much political capital following the retreat from the Vietnam War.

In the face of the Asian financial crisis of 1997, which dealt a body blow to most Southeast Asian economies, Washington's commitment was regarded as minimal, while Japan's New Miyazawa Initiative provided huge financial support. This was a case in which Japan-U.S. coordination broke down. The U.S. commitment to addressing disputes in the South China Sea was also minimal in 1995, when China built structures on Mischief Reef, over which the Philippines also claims sovereignty. The United States now appears ready to seriously address issues pertaining to the future governance and order of Southeast Asia, where participants are worried about the consequences of China's rising economic and political influence. Myanmar is definitely a case offering a glimpse of the future shape of the regional order, where the forces of China's rise and U.S. rebalancing interact.

### Dreams and Anxieties

New Chinese President Xi Jinping has vowed to achieve the "Chinese Dream" of great rejuvenation of the Chinese nation. This is a vague slogan with many connotations, and has invited myriad interpretations. Xi himself ascribes four meanings to the slogan: a strong China, a civilized China, a harmonious China, and a beautiful China. He has also vowed to achieve the "two 100s": a moderately well-off society by 2020 — the 100<sup>th</sup> anniversary of the Chinese Communist Party — and a fully developed nation by 2049 — the 100<sup>th</sup> anniversary of the People's Republic. Although the slogan does not contain any aggressive elements, countries embroiled in territorial disputes with China in the South China Sea are worried that they may be trampled upon as China forges ahead toward its dream.

For example, Vietnamese scholar Nguyen Hung Son points out that China's neighbors are wondering whether Xi's "Chinese Dream" can really

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coexist with their own.<sup>1</sup> China has grown very assertive in territorial disputes with its neighbors in the South China Sea. In addition, China does not respect many international rules, such as the United Nations Convention on the Law of the Sea (UNCLOS) and the Declaration of Conduct (DOC) over the South China Sea, although China is formally committed to them. Nguyen states that China pursued a moderate and cooperative approach to these issues in the past, but that its attitude has changed as a result, he believes, of the relative decline of U.S. strength and Japanese economic power.

Japan, too, shares such worries, owing to tensions over the Senkaku/Diaoyu Islands in the East China Sea, as does the United States and the European Union. Chinese assertiveness is a concern not just for the regional order but for international rule-making in the East Asian region, where the West has extensive business and economic interests.

In this context, the Obama administration's rebalance toward Asia is resisted by China and warmly welcomed by its worried neighbors. At the same time, Japan and other U.S. allies and friends are aware of the United States' limited financial resources and political capital, and they grew concerned when Washington began seriously contemplating intervening militarily in Syria to oppose the Bashar al-Assad regime's use of chemical weapons. However, it would not be constructive for East Asian nations to restlessly fret over the fluctuating balance of power between the United States and China. It is not the U.S. goal to antagonize China through containment or encirclement, nor would that be in the interest of Japan or the EU. On the other hand, U.S. power is still regarded as an effective tool in inducing China to be a more cooperative player in regional rule-

making and in hedging against China's arbitrary exercise of power against asymmetrically smaller neighbors.

It is the imperative of the international community — particularly the EU and Japan — to work with the United States to create a stable Southeast Asian environment where all actors, from small to large, respect common rules and enjoy the fruits of peace and prosperity. The EU has an advantage in dealing with China since it does not have a territorial dispute or direct conflict with China while being an influential economic and trading partner. By working with countries sharing vital interests, Japan, too, needs to proactively support the shaping of the regional order.

#### **Japan's New Approach to Assistance for ASEAN**

For Japan, stability in the South China Sea and the ASEAN region is critically important for its own security and prosperity. Japan is still heavily dependent on the sea lane from the Gulf region through the Strait of Malacca and the South China Sea to the East China Sea for imports of energy resources critical to its economic survival.

In the past, Japan's vital interests were protected by the U.S. military presence. Although this fact has not changed, Japan has gradually begun to cooperate more fully with U.S. and regional efforts to stabilize the Southeast Asian region, which can be a choke point in the energy flow to Japan and where countries share Japan's interests in tempering China's territorial aggressiveness.

Japan plans to provide capacity building to Southeast Asian countries suffering from a wide maritime capability gap with China, which has rapidly increased the number of patrol ships, surveillance vessels and aircraft, submarines, and fifth generation jet fighters. Japan has been providing official development assistance to ASEAN countries throughout the post-World

<sup>1</sup> Nguyen Hung Son, "Can the Chinese Dream Coexist with Other Dreams?: Views from Vietnam" (in Japanese), in *Gaiiko* (Diplomacy) published by the Ministry of Foreign Affairs of Japan, July 2013, pp.36-37.

War II period. This was regarded as a form of war reparations for Japan's military aggression in the 1930s and 1940s.

Recently, Japan has found a new rationale for its assistance to ASEAN nations: to help them reduce the economic and military gap with China — a country to which Japan has also provided substantial economic assistance in the past.

During the Japan-ASEAN Summit Meeting in November 2011, then Prime Minister Yoshihiko Noda pledged \$25 billion to promote projects for enhancing ASEAN connectivity. In the Japan-Mekong Summit in April 2012, Japan offered \$7.4 billion over three years to help five Mekong states build up their infrastructure.

The Japan Self-Defense Forces (SDF) have actively participated in joint military exercises for humanitarian assistance and disaster relief in Southeast Asia, including the U.S.-Thai Cobra Gold joint/combined exercises since 2005. In July 2011, Japan joined, for the first time, the joint maritime military exercise with U.S. and Australian forces in the South China Sea off the coast of Brunei. And in spring 2012, the SDF joined the U.S.-Philippine joint military exercises called Balikatan.

In addition, Japan is helping to directly strengthen regional maritime security capabilities by providing patrol vessels to Southeast Asian countries. In December 2011, the Noda administration eased Japan's self-imposed restrictions on weapons exports. Japan is still committed to not exporting weapons to other countries, although exceptions have been made in the past for Japan's alliance partner, the United States. Now, exceptions are being made in cases that contribute to peace and advance international cooperation.

Japan is planning to provide the Philippines with patrol vessels for its coast guard and maritime communication systems using its official

development assistance (ODA) budget in the coming years. Contributing to ASEAN's capacity building in such a manner is a new approach for Japan.

Japan's mainstream assistance to ASEAN has traditionally been for economic development, and this is a policy that has the support of all political parties. However, assistance for capacity building in the security arena was quite controversial among liberal opposition parties. Now aware of the tough reality faced by Southeast Asian nations in dealing with an assertive military giant, public opinion has gradually changed. Many scholars have begun to address this new frontier, calling on Japan to offer direct assistance to enhance developing countries' security capacity, although Japan still avoids transferring combat weapons.

Importantly, Japan's new approach is coordinated with U.S. policy in Asia. At the two-plus-two meeting in April 2012, Japanese and U.S. foreign and defense ministers agreed on joint cooperation to assist other Asian countries' security efforts. The agreement is as follows:

*The Ministries confirmed the great importance of working together to promote peace, stability, and prosperity in the Asia-Pacific region, and enhancing effective, efficient, and creative cooperation. In this context, the U.S. government plans to continue to help allies and partners in the region to build their capacity with training and exercises. The government of Japan, for its part, plans to take various measures to promote safety in the region, including strategic use of official development assistance, for example through providing coastal states with patrol boats.<sup>2</sup>*

Although China may be irritated by such cooperation, it is an important step toward creating

<sup>2</sup> Secretary of State Hillary Clinton, Secretary of Defense Leon Panetta, Minister for Foreign Affairs Koichiro Gamba, and Minister of Defense Naoki Tanaka, *Joint Statement of the Security Consultative Committee*, April 27, 2012.

*The situation in Myanmar is an omen of developments that could influence regional rule making over the long term.*

a stable regional balance by enhancing the security capacity of the region's states. The EU has a part to play in such efforts as well, as many EU countries are experienced in providing capacity building assistance to Middle Eastern and African nations.

### **The Challenge of Myanmar**

The situation in Myanmar is an omen of developments that could influence regional rule making over the long term. Its political and economic structures are far from stable, however, and there is no guarantee that the process of democratization advanced by President Thein Sein will not be reversed.

The initial challenge will be whether Myanmar can amend its constitution, under which the military is granted 25 percent of all parliamentary seats and three important ministers — the internal minister, border management minister, and defense minister — are appointed by the supreme commander of the national military. Since a constitutional amendment requires the approval of a 75 percent-plus-one-seat majority in both houses of parliament, it remains a high hurdle. Opposition leader Aung San Suu Kyi is now cooperating with the Thein Sein government in seeking an amendment. One litmus test will be how steadily democratization proceeds in the next election, scheduled for late 2015. A critical task for the international community regarding Myanmar will be to share its notions about and technical knowledge of establishing a healthy civilian-military relationship through the process of democratization and economic development.

The second challenge will be to address the ethnic conflict from which Myanmar is still suffering, even after 25 ethnic groups signed a ceasefire agreement with the military government in 2007. The Karen and Shan (Myanmar National Democratic Alliance Army) continue to fight the central government in the east of the country. Small, armed ethnic Rohingya groups are active in the west. Ethnic

conflicts are a grave matter that could derail Myanmar's economic and democratic development. Economic assistance, combined with reconciliation support, from the international community will be a critical facilitator.

In this area, Japan has demonstrated new thinking. To facilitate the reconciliation process, the government is collaborating with an NGO that has been assisting ethnic minorities in Myanmar for decades. The Nippon Foundation — one of the largest nonprofit, philanthropic organizations in Japan (which also helped establish the Tokyo Foundation) — has been providing food and medical assistance to ethnic minorities since 1976. In February 2013, the Japanese government appointed Nippon Foundation Chairman Yohei Sasakawa as special representative to help achieve ethnic reconciliation in Myanmar. Sasakawa was the sole observer at the first official peace talks between the Myanmar government and the United Nationalities Federal Council — an alliance of 11 ethnic militias — held in Thailand in February 2013. That the chairman of a Japanese NGO would be granted government status to facilitate such a reconciliation process is a new development. This shows that collaboration between the Japanese government and NGOs in the international arena has been growing in areas such as in advancing disarmament demobilization, and reintegration (DDR) activities in Afghanistan and Africa, and Japan's civil society can henceforth be expected to make further contributions to expanding the role of civil society throughout East Asia.

Myanmar faces enormous challenges, however, and addressing them is beyond the task of any one NGO or foreign government. Sasakawa has stressed the critical importance of the international community's continued economic support for Myanmar's ethnic minorities, many of whom are suffering from extreme poverty. This can play a key role in the domestic reconciliation process and abet

the country's democratic development.<sup>3</sup> Such a role may be identified as a common mission for the civil societies of Japan, the United States, and Europe.

### **Japan-U.S.-EU Trilateral Cooperation**

The international community's role in helping Myanmar meet the challenges of reconciliation, democratization, and economic development must be considered wisely. One dilemma would be an excessive emphasis on business development in urban areas, as this could widen the gap between the rich, urban majority and

<sup>3</sup> Interview with Yohei Sasakawa, "Toward Reconciliation with Minorities and Ending Poverty: Issues in the Current Democratization Process in Myanmar" (in Japanese), *Gaiko* (Diplomacy), published by the Ministry of Foreign Affairs of Japan, July 2013, pp. 51–56.

the poor, rural minority. In this context, the international community's continued assistance to rural, minority areas is of critical importance. Formulating a common strategy and enhancing coordination among Japan, the United States, and the EU in their assistance would be a symbolic model case in supporting the steady economic and peaceful development of Myanmar and other ASEAN countries. Such trilateral cooperation, moreover, would not conflict with China's rise in the region, as long as all actors share the common goal of a stable and prosperous East Asian region. The process itself may contribute to creating a rule-based and liberal international order throughout East Asia.

*The international community's continued assistance to rural, minority areas is of critical importance.*

# 4 NATIONAL INNOVATION SYSTEMS: INVENTION TO INNOVATION

BHAVYA LAL AND STEPHANIE SHIPP

A nation's success in being innovative depends on how it uses its endowments and shapes its policies to create a thriving market-oriented economy.<sup>1</sup> A national innovation system emerges from a spirit of techno-nationalism, combining a belief that the technological capabilities of a nation's firms are key sources of their competitive performance with a belief that these capabilities are in a sense national and can be built by government action.<sup>2</sup> We posit that it is not a generic checklist of policies that determine a nation's innovative capacity, but rather its ability to leverage its endowments. Central to leveraging endowments are collaborations within a country between government, academia, and the private sector as well as international partnerships. In this context, our paper provides a brief overview of the national innovation systems of Germany, Japan, and the United States.

## Defining a National Innovation System

The term innovation is ubiquitous and difficult to define precisely. There are likely as many definitions as there are experts. Using an amalgam of various authoritative sources,<sup>3</sup> innovation can be defined as *the introduction of a new, or improved upon, product, process, model, or service in any field, that produces a new advantage or value, and is either widely disseminated into the market, or influences the market such that economies are impacted.*<sup>4</sup> The term covers a broad spectrum of business activity,

and Stone et al.<sup>5</sup> describe the breadth of the term by pointing to its presence in new or improved products (as at firms like Microsoft and Nintendo), processes (as at Toyota or Siemens), experiences (as at Disney or Facebook), or business models (as with Apple's iTunes store + iPod, or Car2Go).

Because innovation is a process that involves new ideas, concepts, and/or technology, is not limited to only science and technology but can cross over into many fields (manufacturing processes, business practices, etc.), and is directly tied to its adoption into the economy and therefore qualified by its successful transition into the economy, it is often spoken of as an interconnected innovation system. Differentiating from an innovation system, a national innovation system refers to a system of primary actors and their relationships — viewed from the national level — that are rooted in one nation state, and interact to influence and/or foster innovation in the nation. National innovation strategies aim to incorporate the principles of creating a healthy innovation ecosystem and numerous productive innovation pipelines into functional policies that then guide stakeholders toward fostering innovation.

## Elements of a National Innovation System

Nations pursue innovation for a range of motives but more often than not, innovation is considered a pathway for economic development, helping to increase wealth or prosperity through the creation of new products and services and in turn (preferably high-paying) jobs. Given this goal, a national innovation system is not a cookie-cutter blueprint and means different things in different countries.

Many policymakers across the world, in modifying or developing their national innovation policies, appear to give the impression that there is a checklist of generic policies available (science,

*A national innovation system is not a cookie-cutter blueprint and means different things in different countries.*

<sup>1</sup> Lewis Branscomb used the term "invention to innovation" to convey the notion of moving technologies from the laboratory to the marketplace with the goal to create an innovative economy. See Branscomb, Lewis M. and Phillip E. Auerswald. "Between Invention and Innovation: An Analysis of Funding for Early-Stage Technology Development." Gaithersburg, MD: Report for National Institute of Standards and Technology, 11 2002.

<sup>2</sup> Nelson, Richard. 1993. *National Innovation Systems: A Comparative Analysis*. Oxford University Press Place. New York.

<sup>3</sup> Stone, A., S. Rose, B. Lal, and S. Shipp. 2008. "Measuring Innovation and Intangibles: A Business Perspective," IDA Document D-3704, December 2008. <https://www.ida.org/upload/stpi/pdfs/ida-d-3704.pdf>

<sup>4</sup> OECD. 2005. *Oslo Manual: Guidelines for Collecting and Interpreting Innovation Data*, 3<sup>rd</sup> Edition. Paris.

<sup>5</sup> Stone, A., S. Rose, B. Lal, and S. Shipp. 2008. op cit.



*The first element of a national innovation system is the presence of endowments.*

technology, engineering, and math education; patent policies; R&D investments; etc.) that they need to implement to become innovative. The approach is not incorrect, and many of the checklist items are well worth the investment. However, we posit that it may be more effective for policymakers to better understand their own endowments (whether natural resources, culture, or other) and leverage them to improve the innovative capacity of their nations.

A national innovation system is not a *tabula rasa*. At its core are what could be considered a nation's *endowments*, which drive its approach to innovation. For example, countries that lack natural resources must import them, which forces their economies toward export-oriented manufacturing and an innovation system that supports mercantilism. Countries that have natural resources benefit from revenues and foreign investment that leverages those resources.

Of course, natural resources are not a nation's only endowments. So are socio-economic, cultural, and political circumstances (e.g. diversity, size of country, demographics, attitudes toward education, authority, risk and entrepreneurship etc.).

Figure 1 summarizes the components of a national innovation system and shows how they are interlinked and influence each other. This figure also helps explain that a wide range of factors influence the innovative performance of a nation (and its industries), and clarifies that the features of a country's innovation system can vary significantly.

*The first element of a national innovation system is the presence of endowments.* Differences in endowments change how a government structures its innovation policies. For example, Germany and Japan's lack of natural resources have led them to develop strong manufacturing sectors with a focus on high technology. Their high-tech industries

require a supply of educated, technologically competent workers who are trained by firms themselves or in external training systems linked to firms, or both. Japan and the United States have invested heavily in university education, and scientific and technical educational structures more generally. Germany has invested relatively more in vocational training and has new policies in place to increase university attendance and the number of doctorates in the workforce.

Countries use a variety of policies to support industry-oriented research and to ensure that there is a central locus of research and development (R&D) in the disciplines associated with particular technologies. The United States is in the process of designing and setting up three new Innovation Manufacturing Institutes focused on specific technologies<sup>6</sup> to replicate other successful national institutions like the Fraunhofer Institutes in Germany.<sup>7</sup>

Endowments, such as a nation's size and natural resources, affect comparative advantages but also drive conscious decisions to develop and sustain economic strength in certain areas. The United States' abundance of natural resources in agriculture and energy has historically focused its research. The recent breakthroughs in shale

<sup>6</sup> The three new Innovation Manufacturing Institutes to be competed are "Digital Manufacturing and Design Innovation," "Lightweight and Modern Metals Manufacturing," and "Next Generation Power Electronics Manufacturing." See White House, Office of the Press Secretary. 2013. Obama Administration Launches Competition for Three New Manufacturing Innovation Institutes. May 9. <http://www.whitehouse.gov/the-press-office/2013/05/09/obama-administration-launches-competition-three-new-manufacturing-innova>

<sup>7</sup> "The National Network for Manufacturing Innovation (NNMI) program has the goal of advancing American domestic manufacturing. This program will seek to accomplish this by creating a robust national innovation ecosystem anchored by up to fifteen Institutes for Manufacturing Innovation." See Executive Office of the President, National Science and Technology Council, Advanced Manufacturing National Program Office, 2013. "National Network for Manufacturing Innovation: A Preliminary Design," January. [http://manufacturing.gov/docs/NNMI\\_prelim\\_design.pdf](http://manufacturing.gov/docs/NNMI_prelim_design.pdf)

**Figure 1: The Three Core Components of a National Innovation System**



Germany's innovation strategy is documented in the 2012 Federal Report on Innovation and Research and emphasizes increasing the number of researchers, maintaining the quality of research institutes, and continued development of small and medium sized companies.<sup>9,10</sup> The *High Tech Strategy for Germany* focuses on forward-looking projects in climate and energy, health and nutrition, mobility, safety, and communication, strengthening cooperation between industry and science, and integrating Germany's national approach into the Europe 2020 innovation process.<sup>11</sup>

*Endowments, such as a nation's size and natural resources, affect comparative advantages but also drive conscious decisions to develop and sustain economic strength in certain areas.*

oil discoveries were due to a combination of government action and market drivers.<sup>8</sup>

Governments can promote policies that make the business environment more favorable to foreign investors. These include establishing research priorities, implementing policies to address industrial mergers and acquisitions, encouraging inter-firm agreements and joint ventures, and creating analogs to venture capital. *The second element of a national innovation system is therefore the way a government leverages its nation's endowments.*

Germany, Japan, and the United States each have an innovation strategy to guide decision-making and investments over the next five to ten years.

<sup>8</sup> A. Andrews. 2006. "Oil Shale: History, Incentives, and Policy." Congressional Research Service. April 13. <http://www.fas.org/sgp/crs/misc/RL33359.pdf>; N. Onishi. 2013. "Vast Oil Reserve May Now Be Within Reach, and Battle Heats Up." *New York Times*. February 3. <http://www.nytimes.com/2013/02/04/us/vast-oil-reserve-may-now-be-within-reach-and-battle-heats-up.html?pagewanted=all&r=0>

In Japan, the March 2011 Fukushima nuclear catastrophe is reshaping the local culture, domestic politics, urban planning, and science, technology, and innovation policies. The Japanese government has passed a "Law on Special Measures for Industrial Revitalization and Innovation" to support business reconstruction, equipment investment,

<sup>9</sup> Federal Ministry of Education and Research. 2012. "Federal Report on Innovation and Research." [http://www.bmbf.de/pub/bufi\\_2012\\_en\\_abstract.pdf](http://www.bmbf.de/pub/bufi_2012_en_abstract.pdf)

<sup>10</sup> H. Belitz, A. Eickelpasch, and A. Lejpras. "Innovation Policy for SMEs Proves Successful." *DIW Economic Bulletin*, ISSN 2192-7219, Vol. 3, Iss. 4, pp.11-19 <https://www.econstor.eu/dspace/bitstream/10419/74674/1/741336871.pdf>

<sup>11</sup> Federal Ministry of Education and Research. "High-Tech Strategy 2020 for Germany. Ideas. Innovation. Prosperity." [http://www.bmbf.de/pub/hts\\_2020\\_en.pdf](http://www.bmbf.de/pub/hts_2020_en.pdf)

*Industries in Germany, Japan, and the United States have invested in creating value through knowledge assets, characterized by an increased focus on design, adoption of open innovation, and implementation in existing clusters.*

and financing of business investments in various industries.<sup>12</sup>

The United States *Strategy for American Innovation* has three broad pathways.<sup>13</sup> The first is to “invest in building blocks of American innovation” with a focus on education, fundamental research, infrastructure building, and advancing the IT ecosystem. The second is to promote market-based innovation through R&D tax credits, intellectual property policy, entrepreneurship, and open markets. The third is to catalyze breakthroughs for national priorities and advanced manufacturing and health care through the development of clean energy, biotechnology, and nanotechnology. This strategy emphasizes the use of prizes and grand challenges to encourage public-private partnerships as a starting point to their research.

Governments are not the only agents leveraging a nation’s endowments. Not all of the activities and investments made in innovating are conducted by R&D labs or get counted as R&D. Nonetheless, while drawing extensively on external sources like universities and government labs, in most industries, the majority of innovative effort is made by the firms themselves. This is due to the fact that in most cases, profiting from innovation requires the coordination of R&D, production, and marketing, which tends to proceed much more effectively within an organization. Industries

<sup>12</sup> What is the Law on Special Measure for Industrial Revitalization and Innovation. <http://www.meti.go.jp/sankatsuhou/outline/data/etc-1/SummaryTheLaw.pdf>

<sup>13</sup> The White House. 2011. “A Strategy for American Innovation: Securing Our Economic Growth and Prosperity.” <http://www.slideshare.net/whitehouse/a-strategy-for-american-innovation>

**Table 1: Regional Knowledge Powerhouses — Japan, United States, and Germany are Top 5<sup>1</sup>**

Region	Country	Number of patent applications in 2010
Tokyo	Japan	8,914
Osaka	Japan	4,821
California	United States	3,586
Bavaria	Germany	3,240
Baden-Wuerttemberg	Germany	2,793
Seoul	Korea	2,335
Paris	France	2,334
Singapore	Singapore	2,017
Shenzen	China	1,914
Amsterdam	Netherlands	1,435

Source: WIPO, DB Research 2011

<sup>1</sup> I. Rollwagen and S. Voigt. 2013.

in Germany, Japan, and the United States have invested in creating value through knowledge assets, characterized by an increased focus on design, adoption of open innovation, and implementation in existing clusters.<sup>14</sup> Currently, the key existing centers of knowledge are Bavaria and Baden-Wuerttemberg, Tokyo and Osaka, and California. However, new knowledge-based clusters in South Korea, China, and Singapore are emerging.<sup>15</sup> Many of these new centers of knowledge were created through government incentives and programs, such as the creation of special economic development zones and technology parks that leverage and enhance a

<sup>14</sup> I. Rollwagen and S. Voigt. 2013. “More Value Creation Through Knowledge Assets.” Deutsche Bank, DB Research. January 7. [http://www.dbresearch.com/PROD/DBR\\_INTERNET\\_EN-PROD/PROD000000000299481.pdf?kid=dbr.inter\\_ghpen.headline](http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD000000000299481.pdf?kid=dbr.inter_ghpen.headline)

<sup>15</sup> I. Rollwagen and S. Voigt. 2013.

country's endowments.<sup>16</sup> *Thus, the third element of a national innovation system is how firms leverage their nation's endowments.*

Competence in design and production, effective overall management, ability to assess consumer needs, and links into upstream and downstream markets (which often tend to be transnational) are all vital to innovation. Strong does not mean large, nor does it necessarily entail heavy government spending on formal R&D. Rather, a dynamic national innovation system requires that the bulk of the inputs and direction for innovative activity come from the firms themselves.

### **Leveraging Endowments through Collaboration**

There are several opportunities for Germany, Japan, and the United States to collaborate in order to leverage endowments and improve their innovative capacity.<sup>17</sup> They could create international clusters of knowledge, providing complementary skills and information to advance a field or to enhance their strengths. One recommendation would be to focus on a field that is still high risk, that will require investments over the medium to long term, and that, if successful, could fundamentally change manufacturing. One such area might be additive manufacturing, more commonly referred to as 3D printing. The United States is currently an industry leader in many areas of additive manufacturing, including low- to mid-priced

machine manufacturing and adoption. The United States accounts for 38 percent of all industrial additive manufacturing installations; Japan is second with 9.7 percent, followed by Germany with 9.4 percent.<sup>18</sup> Japan was historically a leader in additive manufacturing technology but, over the last few years, has produced relatively few machines that sell outside its domestic market.

By creating an “international cluster” of expertise, each partner country could provide resources and knowledge in their areas of research and manufacturing strengths, learning from each other and enabling all partners to address research and related challenges collectively.<sup>19</sup> Thus Germany, Japan, and the United States can each leverage their endowments and at the same time increase their level of innovation capacity in the additive manufacturing arena over and above what they could do on their own.

### **Conclusion**

In this paper, we emphasize the central role of national endowments in developing national innovation systems. These include traditional endowments such as natural resources as well as endowments that each country develops to leverage their natural resources or sometimes their lack of natural resources. Thus, their endowments also include culture, government policies and investments, and firms' approaches to conducting business, which are instrumental in creating a national innovation system. One significant way to leverage these endowments is through international cooperation. Germany, Japan, and the United

<sup>16</sup> OECD. 2012. “OECD Science, Technology, and Industry Scoreboard 2011: Innovation and Growth in the Knowledge Economies.” Paris. In Germany, the Fraunhofer Institutes are well-known examples of public, university, and private partnerships working together on applied problems of direct interest to firms.

<sup>17</sup> For example, investing in students and researchers and supporting their study and work overseas is occurring in Germany, Japan, and the United States. Investments in increasing the number of students in science, engineering, and mathematics and supporting their study on an international scale is also important. In 2011, there were 700,000 foreign students in the United States, 200,000 in Germany, and over 100,000 in Japan, (UNESCO, <http://stats.uis.unesco.org/unesco/TableViewer/tableView.aspx?ReportId=171>) but the numbers could be larger, given the global nature of business.

<sup>18</sup> “U.S. Lead in Additive Manufacturing Base Narrows.” From the ControlDesign.com News Desk. 06/06/2013. <http://www.controldesign.com/industrynews/2013/us-lead-in-additive-manufacturing-base-narrows.html>

<sup>19</sup> Stephanie S. Shipp, Nayanee Gupta, Bhavya Lal, Justin A. Scott, Christopher L. Weber, Michael S. Finnin, Meredith Blake, Sherrica Newsome, and Samuel Thomas, *Emerging Global Trends in Advanced Manufacturing*, IDA Paper P-4603, March 2012. [https://www.ida.org/upload/stpi/pdfs/p-4603\\_final2a.pdf](https://www.ida.org/upload/stpi/pdfs/p-4603_final2a.pdf)

States have been successful in leveraging their endowments to spur innovation and are still world leaders, but other countries' innovative capabilities are rapidly emerging. To accelerate innovation, Germany, Japan, and the United States should

collaborate to create and implement policies to increase knowledge creation among themselves. These policies can work to leverage each nation's endowments while enhancing the strength of the three countries individually and collectively.

# 5

## CHINA AND THE FUTURE OF THE INTERNATIONAL ORDER

BONJI OHARA

The international community remains uncertain about whether China will ultimately support the existing international order or go its own way. To gain new insight on Beijing's current approach, this chapter analyzes China's white paper on national defense, which was released this past April.

### China's Real Intentions

On April 16, 2013, the Japanese government lodged a protest with Beijing over a statement in China's white paper on defense, released earlier that day. The problematic passage, as translated by the Chinese government, reads "On the issues concerning China's territorial sovereignty and maritime rights and interests, some neighboring countries are taking actions that complicate or exacerbate the situation, and Japan is making trouble over the issue of the Diaoyu [i.e., Senkaku] Islands." The statement appears in Section I, "New Situation, New Challenges, and New Mission," in the midst of a long passage enumerating the challenges facing China's security apparatus.

Noting that this is the first time a Chinese defense white paper has referred to Japan by name, many observers in Japan have concluded — based on this sentence — that Beijing is doubling down on its hard-line, anti-Japanese stance. To understand China's real intentions, we need to consider the statement in the context of the white paper as a whole and also in relation to previous reports.

China's white papers on defense are issued every two years, and the latest edition represents a departure in some respects. Titled "The Diversified Employment of China's Armed Forces," it is the first Chinese defense white paper organized around a specific theme, as Xinhua pointed out in its news coverage.

Section I articulates Beijing's perception of the current security situation, as well as the basic

policies and principles governing the use of its armed forces. Warning of new potential for instability, the first paragraph concludes with this statement: "The Asia-Pacific region has become an increasingly significant stage for world economic development and strategic interaction between major powers. The United States is adjusting its Asia-Pacific security strategy, and the regional landscape is undergoing profound changes." In short, China perceives troubling changes in its security environment as a result of the strategic rebalance to Asia announced by the Barack Obama administration.

The second paragraph in Section I elaborates on the challenges and threats of this changing security situation. After observing that a "certain country" has "strengthened its Asia-Pacific military alliances, expanded its military presence in the region, and frequently makes the situation there tenser," it notes further that "some countries" in the immediate region are making the situation worse. The "certain country" is clearly the United States, and the "some countries" obviously includes Japan, which is explicitly criticized in the second part of the sentence for "making trouble over the issue of the Diaoyu Islands." Taken as a whole, the passage strongly implies that the United States has created a tense situation, in the midst of which Japan is beginning to cause trouble. In short, China regards the United States, not Japan, as its main security issue. The specific reference to Japan sends a message that when it comes to the Senkaku Islands, Beijing refuses to gloss over its dispute with the Japanese government.

### The United States as China's Rival

China's defense policy and behavior reflects its perception that the United States is a rival. The South China Sea is a priority area that it believes it must control if China is to be a true rival, establishing "mutually assured destruction" with the United States by being able to launch a nuclear

China perceives troubling changes in its security environment as a result of the strategic rebalance to Asia announced by the Barack Obama administration.

China knows it cannot win a war with the United States, so it wants to avoid any conflict that might escalate into a military confrontation.

retaliation in case of a U.S. nuclear attack. China already knows it cannot operate nuclear-powered ballistic missile submarines in the East China Sea because it is effectively controlled by Japan's Maritime Self-Defense Force and the U.S. Navy. Therefore China insists on controlling the South China Sea.

This perception suggests that China was not really intending to dwell on the Senkaku issue. China knows it cannot win a war with the United States, so it wants to avoid any conflict that might escalate into a military confrontation. But on the other hand, China cannot back down from a territorial dispute. This means that the Senkaku issue presents a thorny dilemma for China.

In the remaining paragraphs of Section I, the white paper articulates a doctrine for dealing with various challenges, predicated on a basic policy of "diversified employment of China's armed forces" and guided by five principles.

The first of these principles is "Safeguarding national sovereignty, security, and territorial integrity and supporting the country's peaceful development." In the explanatory text, the report makes it clear that defending the nation and its territory from security threats is "the goal of China's efforts in strengthening its national defense and the sacred mission of its armed forces, as stipulated in the Constitution of the People's Republic of China and other relevant laws."

Maintaining the traditional emphasis on a "military strategy of active defense," this year's white paper differs in that it makes special mention of maritime rights, outer space, and cyberspace as areas of national defense, echoing the Pentagon's designation of outer space and cyberspace as the fourth and fifth domains of warfare, respectively. Cyber warfare appears to be an issue of particular concern to the Chinese.

Here, we also encounter the assertion: "We will not attack unless we are attacked, but we will surely counterattack if attacked." In Japan, some have taken this as a stern warning regarding the Senkaku Islands, but the use of this expression is nothing new for the Chinese; indeed, its earliest official use appears to be a 1939 statement by Mao Zedong aimed at a rival political party, the Kuomintang. (The Chinese online encyclopedia Baidu Baike traces the expression all the way back to Cao Cao [155–220], a military leader of the Eastern Han dynasty.)

When Mao used it, he was issuing a warning against a preemptive strike, but in the years since then, it has become a fairly common slogan conveying the notion that anyone who attacks China will pay the ultimate price. In the most recent white paper, it appears in quotation marks, followed immediately by the explanatory comment: "China will resolutely take all necessary measures to safeguard its national sovereignty and territorial integrity." In short, the phrase expresses China's determination to defend its sovereignty and its territory — which, as Beijing sees it, includes the Senkaku/Diaoyu islands.

### **Safeguarding Economic Activity**

Regarding the remainder of the document, the main focus of concern in Japan has been those passages dealing with "maritime rights and interests" and "overseas interests." Under the heading "Safeguarding Maritime Rights and Interests," the white paper highlights efforts to boost cooperation between the Navy and various law-enforcement organs, citing the "Donghai Collaboration 2012" joint exercises held in the East China Sea in October 2012. Under "Protecting Overseas Interests," it stresses the role of the People's Liberation Army in safeguarding Chinese economic activity around the world, including its anti-piracy operations in the Gulf of Aden and

the waters off Somalia and its mass evacuation of Chinese nationals from Libya.

Interestingly, the sub-section on “Safeguarding Maritime Rights and Interests,” which has received so much attention in Japan in relation to the Senkaku/Diaoyu dispute, is found not under Section III, “Defending National Sovereignty, Security, and Territorial Integrity,” but under Section IV, “Supporting National Economic and Social Development.” This serves as a reminder that China regards the matter of maritime rights and interests in the East China Sea as more than a territorial issue.

This was apparent also in the Report on the Work of Government that outgoing Premier Wen Jiabao submitted to the National People’s Congress in March, which mentions the need to safeguard China’s maritime rights and interests in an economic and environmental context, unrelated to security.

Addressing economic problems is the priority for the Chinese leadership at present, and Beijing will try to protect its global economic interests in any way it can. China is building up its military capability, but this does not mean that China is eager to start a war. On the contrary, China is afraid that the United States and some other countries may blockade the Strait of Malacca and harm China’s economic interests and development. Shipments of energy resources from the Middle East are vital for the Chinese economy, so China is making efforts to build alternative routes that do not pass through the strait, such as pipelines through Myanmar and Pakistan.

China is now contemplating a “March West” strategy to build land transport routes, solidify relations with Central Asian countries, and develop inland areas of China. This also demonstrates that

China’s foreign and security policies are deeply linked to the development of its domestic economy.

### **A Need for Restraint**

With a few exceptions, China’s new defense white paper falls short of Xinhua’s claims regarding transparency and specificity, but it does reveal an effort to move in that direction. China will henceforth need to disclose its security perceptions more clearly.

The white paper is also marked by a new consciousness of the role of the People’s Liberation Army within the international community. While conveying a strong commitment to defend the nation’s sovereignty and territory, it stresses compliance with international law, norms, and treaties, which would seem to preclude a nuclear first strike or any other act of unilateral aggression.

That said, governments frequently disagree on the line between defensive and preemptive action, and international law is often willfully interpreted by each government. China’s latest defense white paper betrays a deep concern over the consequences of the United States’ rebalance to Asia, and given the report’s specific mention of Japan in relation to the Senkaku/Diaoyu Islands, the prospects for an end to the current standoff in the East China Sea seem dim.

In such a tense security environment, should either Japan or China decide to take military action in the East China Sea for their own reasons, the role of the international community, especially the European Union, would be significant. Any action taken by a government will be criticized if it is seen to be improper.

There is a huge perception gap between Japan and China, and this gap must be narrowed to avoid a military confrontation. Enhancing understanding between Japan and China can be difficult due to a

*Addressing economic problems is the priority for the Chinese leadership at present.*



lack of mutual trust, so there might be an important role for international players that are not directly parties to regional disputes. The EU is such a player, especially as it has a major voice in the interpretation of international laws. The EU may be able to provide Asian countries, including China, with a framework for bridging perception gaps with the international community.

Any military conflict between Japan and China will cause extensive damage not only to the two

countries but also to the global economy and security environment. Therefore, it is crucial for all sides to exercise the utmost restraint and react calmly to each situation, so as to avert misunderstandings and clashes that might escalate into war. For all the major powers, avoiding a collision is imperative and will require greater coordination in the pursuit of policies that each can accept.

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