

# Japan's Declining Soft Power and the US-China-Japan Relations

Miguel Santos Neves

*Head of the Asia Programme, Instituto de Estudos Estratégicos e Internacionais (IEEI). Director, Network of Strategic and International Studies (NSIS)*

## Resumo

### O Declínio do *Soft Power* do Japão e o Triângulo Estratégico EUA-China- Japão.

O artigo analisa a posição do Japão no contexto de segurança da Ásia Oriental, tendo em conta as mudanças no equilíbrio de poder na região e a crescente assimetria entre uma China poderosa e "musculada" e um Japão mais vulnerável que se debate com uma economia estagnada, uma população em rápido envelhecimento e uma imagem ambígua e problemática na região. A disputa territorial sobre as ilhas Senkaku/Diaoyu é uma manifestação da reorganização do poder na ordem regional na medida em que acentua a vulnerabilidade do Japão e foi usada pela China como um mecanismo para enfraquecer a aliança EUA-Japão e opor-se ao plano de expansão do *soft power* americano na região através do processo do TPP. Estas mudanças desencadearam uma alteração fundamental na estratégia de segurança do Japão no sentido da sua remilitarização e reconstrução do *hard power*, por forma a compensar o declínio no seu *soft power*, atualmente em fase de implementação pelo Governo de inspiração nacionalista liderado por Shinzo Abe.

## Abstract

The paper analyses Japan's position in the East Asia security context, taking into account the underlying changes in power balance in East Asia and an increasing asymmetry between a powerful and muscled China and a more vulnerable Japan, struggling with a stagnant economy, a rapidly ageing population and an ambiguous image in East Asia. The Senkaku/Diaoyu islands territorial dispute is a manifestation of the ongoing reorganization of power in the regional order insofar it accentuates Japan's vulnerability and was used by China as an opportunity to undermine the US-Japan alliance and at the same time to oppose the new US soft power move associated with the TPP. This seems to have triggered a fundamental change in Japan's security strategy in the direction of militarization and rebuilding its hard power, in order to compensate for its declining soft power, now under implementation by the new right-wing nationalist government led by Shinzo Abe.

East Asia is one of the powerhouses of the world economy but simultaneously one of the most critical areas for global security given the considerable level of tension and friction between major regional powers, frequently associated with territorial disputes that are increasingly linked with the problems of energy insecurity, the acceleration of the arms race and the existence of important “hot spots”. The deficit of regional multilateralism and the inexistence of institutions of collective security further aggravate the risks of serious inter-state conflict. So far, the United States (US) as the dominant power in the region has not only prevented the escalation of tensions but has also opposed any idea of East Asia regionalism thus addressing the symptoms but not the causes of the problem.

Japan is an Asian power that is presently facing a considerable number of challenges ranging from poor economic performance to a rapidly ageing population, political instability and strategic deficit. The recent territorial disputes in which Japan has been involved, in particular the one over the Senkaku/Diaoyu islands, have contributed to expose Japan’s vulnerabilities and increase the urgency of a strategic articulated response regarding the bilateral relations with China, the relations with the US and with other Asian countries, in particular South Korea, putting pressure on Japanese decision makers.

The paper is structured in three parts. The first section looks at the multidimensional vulnerabilities of Japan and the reasons why change seems to be blocked. The second section analyses the new developments in the security policy of Japan introduced by the new Abe Government and the implications for China-Japan relations. The third section looks in more detail into the Senkaku islands conflict between China and Japan, seen as a good case to understand not only the current state of relations between Tokyo and Beijing but also the underlying strategic dynamics and the rebalancing of the US-Japan-China triangle.

### **Japan Increasing Vulnerabilities**

From an economic perspective the Japanese economy has suffered from long term stagnation in the last decade with a persistent low growth between 2005-2007 and negative growth since 2008 until 2011, with the exception of 2010 (table 1).

**Table 1** – Japan Economic Growth, 2005-2012

Year	Growth rate % (nominal)	Growth rate % (real)
2005	0	1.3
2006	0.6	1.7
2007	1.2	2.2
2008	-2.3	-1.1
2009	-6.0	-5.5
2010	2.3	4.4
2011	-1.0	-0.7
2012	1.6	1.6

Source: Japan Statistical Bureau for 2005-2010 ([www.stat.go.jp/data/nenkan/pdf/203-6](http://www.stat.go.jp/data/nenkan/pdf/203-6)); IMF World Economic Outlook 23.1.2013 (table 1); UN DESA Global Economic Situation January 2013.

It entered recently in recession mainly because of the combined effect of a decline in exports and a persistently weak domestic demand. Real growth was slightly better because Japan has had a long period of deflation, a decline in prices that reached -1.4% in 2009 and -0.7% in 2010. This combination of stagnation and deflation has had a negative impact on investment which has been declining for the last 5 years. With two of the potential engines of growth, private consumption and investment, in paralysis for a long time, all prospects of growth became dependent on the evolution of the third engine, exports and external demand, which started to face problems from 2007 onwards.

However, despite economic stagnation, there are some positive aspects in Japan's economic performance. The first one is a low and declining rate of unemployment, one of the best in the OECD context, with a 4,5% unemployment rate in 2012, declining from 5.1% in 2009 (OECD, 2012). This clearly contrasts with other developed economies, namely the US and the EU afflicted with increasing unemployment after 2008. There is certainly a contradiction between a stagnant economy and a falling and low unemployment rate, one would expect the opposite. However, this apparent paradox is to a great extent explained by demographics and the ageing population so that there is not a teen employment pressure, as well as by the employment policy of Japanese conglomerates and the decline in real wages in Japan.

The other positive aspect is related to equity. In spite of stagnation and difficulties there has not been an increase in social asymmetries and inequality. Japan has been able to preserve a reasonably even distribution of income with a Gini coefficient of 0.329 in the late 2000s, slightly lower than in 2000 with 0.34, in terms of disposable income after tax. However, in the OECD context Japan is a relatively unequal country, an above average country integrated in a group of 15 countries that are above the OECD-34 average of 0.316 (OECD, 2011).

The Japanese economy became highly interconnected and interdependent with the Chinese economy both in terms of trade and investment. China is Japan's largest trading partner since 2007 absorbing 20% of Japanese exports and accounting for 22% of Japanese imports (Statistics Bureau of Japan, 2012). Bilateral trade relations are increasingly unbalanced as the trade deficit of Japan has been widening to reach US\$ 42 billion in 2012. As far as investment is concerned China is the first destination of Japanese FDI and the accumulated stock reached in 2012 a total of US\$ 84 billion. In contrast China is Japan's biggest national debt holder with a total of US\$ 230 billion.

This high level of interdependence has relevant strategic and security implications insofar the positive expectations of closer economic relations bringing about better political relations and stable co-operation between Tokyo and Beijing have not materialize. On the contrary, a less positive scenario marked by the use of economic soft power to retaliate and exert coercion and an increasing perception of vulnerability on the part of Japan seem to prevail.

An important sign of Japan's declining economic power is the deterioration of its trade balance. In fact, one of the world top exporters that hold consistently large trade surpluses for decades, presented a considerable trade deficit in 2012 in the amount of US\$ 78 billion, the first ever since 1980 if we discard a small deficit in 2011, which might just indicate the beginning of a new trend. This deficit is explained by the interaction of different factors that led to a decrease in exports and an increase in imports. On the export side, the decline can be explained by three main reasons: the impact of a strong yen that revalued 8% against the euro and 4.5% against the dollar in the course of 2012; the impact of the slowdown in the EU and the US demand; the impact of the boycott of Japanese goods by China after the aggravation of the territorial dispute over the Senkaku islands in September. On the import side, the increase in the imports of energy caused by the shutting down of the majority of nuclear reactors following the Fukushima disaster was a key factor.

So, behind the 2012 trade deficit we find not only cyclical factors but also two structural factors that have long term implications: rising Japan's energy insecurity and an increasing dependency on energy imports as a result of the nuclear energy question; the effects of a growing interdependence with China and the risks of deteriorating political relations in a context where Beijing is increasingly willing to use its economic muscle and retaliate against countries that take decisions seen as contrary to China's interests, as previously seen in the case of the Philippines in the context of the territorial disputes in the South China Sea<sup>1</sup>. Fur-

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1 The tension between Manila and Beijing over the Scarborough Shoal in the South China Sea, which began on 8 April 2012 when the Philippines sent its Navy to intercept Chinese vessels fishing in the area, led China to impose restrictions on the imports of bananas and other fruits,

thermore, the deficit is not simply an economic problem but has political implications insofar it triggers a change in the international image of Japan and adds to a perception of vulnerability and fragility.

Furthermore, Japan is confronted with a rapidly ageing population, the fastest in the world, as a result of the combination between two key variables: very low birth rates and very high life expectancy. In fact, Japan has the lowest birth rates in the world, with 7.31 births p.a. per 1000 people, and simultaneously the highest average life expectancy in the world, with 83 years. With 23% of the population older than 65 years in 2010, up from 20% in 2005, Japan also possesses the highest old-age dependency ratio in the world (ratio of the population aged over 65 years to the working population) with 38% (Kashiwase *et al.*, 2012: 5)<sup>2</sup>.

The pace of the ageing process is an additional factor of vulnerability and poses enormous challenges for Japan insofar it has three fundamental implications. Firstly, it puts pressure on public expenditure, in terms of health expenses and pensions, making it particularly difficult for Japan to correct its large budget deficit which reached already 10% of GDP. Secondly, the ageing process – insofar older population is particularly concerned with the uncertainty of health care and the pension system and tend to save more – is a key factor behind the stagnant domestic consumption that in turn prevents growth recovery. Thirdly, it raises fundamental questions about Japan's immigration policy which has been traditionally very restrictive making Japan one of the countries with the smallest foreign community, accounting only for 1.6% of the total population<sup>3</sup>, and the need to open up to inflows of young and qualified immigrants.

Governance problems are also part of the equation. In the last decade Japan tried twice to rethink its growth and development model in the face of poor economic performance and the need to address the challenges of an ageing society. The first structured attempt was launched in October 2006 by the Abe Government, the "Innovation 25" Strategy, aimed at promoting the transition towards a knowledge society/economy and marked by two innovative perspectives: first, the adoption of a systemic view of competitiveness, no longer associated with individual firms or units; second, broadening the concept of innovation which was no longer re-

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or to delay customs procedures that caused the loss of the products. These were real trade sanctions outside WTO rules that severely hurt the Philippines as China accounts for more than 30% of its banana exports. See Yale Global Online, Yale Center for the Study of Globalization, China-Southeast Asia Relations; on China's two path relations with ASEAN see Robert Sutter and Chin-hao Huang (2012).

2 See also Statistics Bureau of Japan (2011). *2010 Japan Census*.

3 According to the data from Japan 2010 Census, there were a total of 2.134.151 foreigners residing in Japan, a country with a total population of around 128 million, the large majority more than ¾ (1,6 million) from Asia, especially Chinese (32%) and Koreans (26.4%).

stricted to “technological innovation” but extended also to social innovation. As a result of the fall of the Abe government and the impact of the 2008 financial crisis which required short term focus, the long term strategy was forgotten and never implemented.

The second attempt was made in 2010 by the Democratic Party government trying to break the impasse of the Japanese economy and the persistent economic stagnation through the definition and implementation of a new approach named “The New Growth Strategy” approved by the Cabinet in June 2010<sup>4</sup>. The main purpose was to formulate a long term strategic plan, up to 2020, to revitalize the Japanese economy through a new demand-side growth approach seen as an alternative to the previous two failed strategies adopted by the LDP: the public works strategy that prevailed in the 60s and 70s and the productivity-oriented supply-side strategy of the 80s and 90s.

The strategy attached priority to three main objectives, a strong economy, robust public finances and strong social security. In terms of operational objectives it represents a departure from standard practice insofar it identifies four new areas of growth that should be able to fuel the process and achieve the proposed target to raise the annual average real growth rate from less than 1% in the previous decade to 2% in the following decade until 2020. These strategic areas of growth included: (1) “green innovation” the new role green technologies can play in meeting sustainable objectives in particular in the area of reduction of greenhouse gases and creating jobs; (2) “life innovation” that could turn Japan in a healthcare superpower and enhance its capacity to deal with the ageing population problem, providing high quality services; (3) “Asian economy” in the sense that Japan can take the opportunities presented by the fast growing economies in Asia in terms of meeting their demands for infrastructure, services and technology; (4) “tourism and the regions”, as tourism should become one of the engines of growth, turning Japan into a tourism-oriented nation able to reach the target of 30 million tourists per year.

To a certain extent the “New Growth Strategy” recovers some of the ideas contained in the “Innovation 25 Strategy”, in particular the dimensions of the green innovation and life innovation as well as the necessity of a more open Japan, willing to receive highly skilled immigrants which partly depend on the implementation of the university students exchange programme. So far it is restricted to Asia, particularly China and South Korea, aimed at sending 300.000 Japanese students overseas and to receive 300.000 foreign students in Japan until 2020.

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4 On the contents of the New Growth Strategy see Cabinet decision 18.6.2010; on implementation assessment in 2011 see Cabinet decision 25.1.2011.

Yet, once again political instability and the impact of the "Great East Japan Earthquake" (with its triple dimension an earthquake, a tsunami and a nuclear accident) refocused the agenda with an emphasis on infrastructure reconstruction, preventing the implementation of the New Growth Strategy. It is true that in both cases the impact of large scale unforeseen factors played a role, but above all it highlights the extent to which a dysfunctional political system dominated by power politics and the associated level of political instability and rapid succession of governments since 2006 – seven governments in six years<sup>5</sup>, an average duration of less than one year – has prevented a systematic and persistent implementation of structural reforms indispensable to solve Japan's economic problems.

### **Political Instability and Governance**

One of the fundamental factors that limit Japan's ability to sustain the declining trend in economic, political and strategic influence and respond to new challenges has been the rigidity of Japan's political system and its lack of renovation. The system has been dominated since 1955, for nearly 60 years, by a single party the Liberal Democratic Party, which was uninterruptedly in power until 2009 (with a small exception between 1993-1994).

Although a democracy, the system has some specific features that differentiates Japan from other mature democracies. Firstly, the dominance of a single party and the absence of alternation in power which means that new ideas and policies are difficult to flourish. Secondly, the elected Prime-Minister and political leadership have limited power as real power rests with the "Iron triangle", the alliance between politicians, bureaucrats and big business and therefore a high interdependence between economic and political power and considerable levels of corruption. Thirdly, a high level of political turbulence. Above all it is a system where there is no competition but rather a monopoly of a single party, with a high resistance to change.

No doubt the system has evolved, however the most significant changes that have taken place over the last 20 years, such as the 1994 reform of the electoral system which replaced a multi-seat constituency system by a single-member constituency, or the increasing role of civil society in Japan politics following the 1998 law that allowed the creation of thousands of associations and lobby groups, were insufficient to bring about any real structural change.

As a result of the unprecedented victory of the Democratic Party of Japan (DPJ) in 2009 with an absolute majority (308 seats out of 480 in the Lower House), there were high expectations on a structural change in the political system. The DPJ

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5 Since 2006 Japan had seven different governments: Shinzo Abe (2006-2007), Fukuda (2007-2008), Taro Aso (2008-2009), Yukio Hatoyama (2009-2010), Naoto Kan (2010-2011), Yoshihiko Noda (2011-2012) and Shinzo Abe (2012-... ).

was elected on the basis of far reaching proposals to eliminate corruption, assert leadership over the bureaucracy, overcome stagnation by stimulating economic growth through changes in the development model, to build a more sustainable welfare system and, on the external front, to reduce the dependence on the US and strengthen ties with East Asia through new forms of regional cooperation. In short, the new government wanted to change the system put in place by the LDP which proved no longer able to deliver economic prosperity nor security and strategic relevance to Japan.

However, the high political instability caused by the succession of three Prime-Ministers in just three years under the Democratic Party, first Hatoyama who was forced to step down because of corruption scandals, followed by Naoto Kan (2010) who had to manage the difficult process of the earthquake and the Fukushima problem, and finally Yoshihiko Noda (2011), meant that the new power lost control of the agenda and the vast majority of promises of change remained unfulfilled.

The frustration with the lack of reforms and the return to economic stagnation and even recession, after the short interruption in 2010 when the economy grew at a rate of 4%, were major ingredients to understand the return to power of the LDP, led once again by Shinzo Abe, that won the election held on 16 December 2012 with an absolute majority of 298 seats out of 480. The LDP decided to form a coalition government with the New Komeito Party as together they will secure a 2/3 majority in the Lower House of Parliament, thus enabling the new majority to override a veto by the Upper House, where the Democratic Party has still a majority, thus overcoming the problems of a “twisted Diet”. This rapid return to the LDP means that Japan is back to business as usual and consequently that the renovation of the political system has failed and does not look likely in the near future. The paralysis of Japan’s political system is part and parcel of Japan’s problems.

The new cabinet headed by Shinzo Abe is dominated by conservatives as the Prime-Minister, just like the two former LDP prime-ministers Koizumi and Fukuda, belongs to the most conservative faction (*Seiwa Seisaku Kenkyukai*) supported by big business (*keiretsu*) and traditional elite families, of the three main factions within the LDP<sup>6</sup>. It has been regarded as a highly nationalistic cabinet (The Economist, 2013), where the great majority of cabinet members support visits to the controversial *Yasukuni* shrine and a firm stand vis-à-vis neighbours as far as territorial disputes are concerned. Although it is uncertain whether the new government will

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6 The Liberal Democratic Party has been traditionally divided in three main factions the liberal wing (*Heisei Kenkyukai*) supported by farmers, blue-collar workers, construction industry; the liberal keynesian faction supported by the bureaucracy, white-collar workers, traders; and the nationalist faction (*Seiwa Seisaku Kenkyukai*) supported by the big business and conglomerates.



be able to implement its political strategy, it is certain that a more nationalistic and radical stand of Japan is a risky strategy likely to further worsen relations with China and indeed to fuel tensions with, and raise concerns in other Asian countries.

In short, it can be argued that the dysfunctional nature of the political system emerges clearly as one of the fundamental factors behind Japan's relative decline and constitutes a bottleneck to Japan's revitalization. Moreover, the lack of competition both in politics, dominated by a single party, and in the economy, dominated by big conglomerates, is, as rightly noted by some authors (Emmott, 2009), a structural problem that afflicts Japan. The paradox is that this non-competition system is increasingly exposed not only to global competition but above all to an enormous competition pressure by China.

### **Security Policy**

The security environment in East Asia is clearly more challenging and less favorable today to Japan than ever before. This is clearly recognized in Japan Ministry of Foreign Affairs', *Japan Diplomatic Bluebook* (2012: 30) which states that "The security environment surrounding Japan is becoming increasingly severe year to year". Japan has identified since 2004 two main threats to its security, two neighbour countries, North Korea and China. North Korea is seen as a major threat taking into account its nuclear programme and policy of development and proliferation of weapons of mass destruction as well as its military actions and provocations on the Korean Peninsula.

As far as China is concerned the main argument has consistently been the lack of transparency of Beijing's policy of increasing defense expenditure and modernization of military forces strengthening its power projection capabilities. An additional point has been added more recently related to the expansion of China's maritime activities in the surrounding waters of Japan, as a result of various incidents since the 2004 incident with the Chinese nuclear-powered submarine that entered Japanese waters (near southernmost islands), seen as an attempt to test Japanese and American detection technology, followed by various incidents with Chinese exploration vessels and fishing boats.

In the new security strategy incorporated in the 2010 National Defense Program Guidelines (NDPG) for the period 2011-2015, approved by the Cabinet in December 2010, a third threat was identified, Russia, as a consequence of its renewed military build up and the increasing activity in the Far East, and fuelled by renewed tensions around the dispute over the Northern territories/Kurile islands as a result of president Medvedev's 2010 visit to the islands.

It is interesting to note that Japan had already anticipated in the 2010 document an increase of what was called the "gray zone disputes", confrontations over

territory, sovereignty and economic interests which are unlikely to escalate into war.

The NDPG adopts a new concept of “Dynamic Defense Forces”, which re-present a subtle departure from the traditional concept of a basic defense force. This implies greater proactivity, greater mobility, sustainability, flexibility and versatility, but within the constitutional limits. It does not go as far as to support the expansion of the forces, or relevant changes in their mission, or any increase of the defense budget. At the same time it made clear that effective deterrence was a key area and that priority would be attached, among others, to respond effectively to attacks on offshore islands and to cyber attacks, clearly with China in mind. In the 2012 Japan Defense White Paper (Japan Ministry of Defence, 2012) this concept was further developed in more specific terms and associated with the flexible deployment of the SDF to Japan’s southwest island chain, including Okinawa and the Senkaku/Diaoyu islands, clearly to address China’s maritime challenge.

There is an increasing concern of Japan with maritime security and freedom of navigation not only in the Southeast Asia region sea lanes and the threats in the Malacca Straits, but increasingly in waters closer to Japan. This results from the combination of two factors. Firstly, a renewed awareness and concern<sup>7</sup>, brought about by recent natural disasters, of Japan’s vulnerability which derives both from the possession of vast territorial waters hard to control and ensure surveillance, and the fact Japan is a global trader, highly dependent on imports of fundamental goods, such as food and oil, and exports to foreign markets which are mostly transported by sea. Moreover, Japan has key infrastructures located in coastal areas. Secondly, China’s priority to develop its maritime power and to acquire a blue water navy, expanding its range of action and increasing assertiveness in the East China Sea, just like in the South China Sea, raises security concerns in Tokyo as well as in other parts of Asia.

In short, maritime security is a fundamental condition for both Japan’s security and prosperity but the sea became the realm of competition between the two rival powers in Asia for complex reasons: (1) energy insecurity as the two powers are highly dependent on foreign supply, and rich reserves of oil and gas exist in the East China Sea; (2) risks of food insecurity making the access to alternative food supply in the future, especially fishing resources, critical - the region is rich in such resources thus generating a competition to ensure fishing rights; (3) nationalism, prestige and rivalry for leadership in Asia.

As a reaction to recent developments, the new Abe government intends to go further and to take a more radical stand. It has already announced last December it

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<sup>7</sup> See *National Defense Program Guidelines for FY 2011 and Beyond*.

will undertake a revision of the 2010 NDPG. This revision is aimed at expanding the size and activities of the Self-Defense Forces and its equipment, creating new military bases, like the new base in the Ishigaki-Jima island, and consequently at increasing the defense budget. Furthermore, Prime Minister Abe wants to revive the 2006 project to amend the Japanese constitution, with a view to amend article 9 which enshrines the "pacifist clause". According to the interpretation consolidated since 1954<sup>8</sup>, the clause allows for Japan's right of self-defense and the possibility of having self-defense forces, but prohibits the existence of normal and full armed forces, the possession and use of offensive weapons as well as the participation of Japanese forces in any external mission not directly related with the defense of Japan nor in collective security operations. The constitutional framework not only sharply contrasts with the current military capacity of Japan, which possesses the most sophisticated navy in Asia and has a high level of military expenditure, the sixth largest in the world<sup>9</sup>, but prevents Japan from assuming greater responsibilities in international security and participating in operations of collective security.

If implemented this represents a significant change in Japan's policy and the preference for a more militaristic strategy rather than a diplomatic one to respond to the new security challenges posed by China, North Korea and other players. It is uncertain whether Abe will be able to implement all his plans considering he faces two important obstacles. First the opposition of the leader of the New Komeito Party, the other member of the coalition, Natsuo Yamaguchi, who clearly does not support the revision of the Constitution (Japan Times, 2012) and has also expressed different views on how to deal with China over the Senkaku dispute. Second, the public finance serious constraints to accommodate a considerable increase in public expenditure in defense.

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8 The interpretation of article 9 of the Cabinet Legislation Bureau (CLB) allowed for the creation of the Self Defense Forces without any amendment of the Constitution and paved the way for the approval of the SDF Establishment Law. The argument was that Japan as a sovereign state had the right to self-defense under certain conditions which were specified: it could only respond with "minimum necessary force"; could not participate in any collective security arrangements; can not send forces abroad. On Constitutional revision see Samuels (2004).

9 According to the Stockholm International Peace Research Institute (SIPRI) Yearbook 2012, in 2011 Japan was the 6th largest military spender with US\$59.3 billion while China was the 2nd largest spender with US \$143 billion, more than the double of Japan's expenditure. 2006 was the year when China for the first time surpassed Japan in terms of military expenditure: Japan's total military expenses reached then US\$ 43.7 billion, the 5th largest military expenditure in the world accounting for 4% of global military expenditure, while China maintained the trend of rising military expenditure reaching a total value of US\$ 49.5 billion.

### **The Senkaku Dispute and China-Japan-US Relations**

One of the main causes of change has been the aggravation of the dispute with China over the Senkaku/Diaoyu islands which offers also an excellent opportunity to explore the recent changes in East Asia strategic setting.

The dispute over the Senkaku islands, which have been administered by Japan since 1895 but claimed by China, increased the level of tension already in 2010 when a collision between a Chinese fishing boat and a Japanese Coast Guard vessel occurred. Reacting to this incident, the US in a statement by the Secretary of State Hillary Clinton (2010) in Hanoi, declared that the Senkaku islands were within the scope of application of the US-Japan Security Treaty stating “... with respect to the Senkaku Islands, the United States has never taken a position on sovereignty, but we have made it very clear that the islands are part of our mutual treaty obligations, and the obligation to defend Japan”. There was nothing new in the statement, it merely confirmed the US traditional position with two components: the US adopts a neutral position with regard to the substance of the problem and the sovereignty issue; however, article II of the US-Japan Security Treaty is applicable to the Senkaku islands because they were included in the 1971 Okinawa Reversion Treaty (Manyin, 2012). This was a clear sign that led China to refrain its actions in the region thus diffusing tension at the time, also because the US pressed for a negotiated solution and made itself available to host trilateral talks on the issue.

In 2012 again the tensions increased after the April declaration of Governor Shintaro Ishihara, a nationalist, saying he intended to lead a movement to purchase three of the eight islands from their private owner and advocating that Japan should demonstrate control by building infrastructures there (telecommunications, a port, a meteorological station). He started implementing the plan by raising money from the public through the internet. This caused large protests in China and in September the Japanese Government purchased the three islands justifying the decision to prevent the group of nationalists to get hold of the islands. The tension increased even further and violent anti-Japanese riots erupted in China in more than 50 cities (Asahi Shimbun, 2012) at the same time the activities by fishermen, patrol vessels and activists from the Japanese and Chinese sides increased around the islands.

China considered the acquisition of the islands by the Japanese government as a change in the *status quo* and therefore adopted a hardline position implementing various retaliation measures with significant impact on bilateral relations. Firstly, Beijing requested the cancellation of all the celebrations planned for the 40<sup>th</sup> anniversary of the normalization of Japan-China relations back in 1972. Secondly, it promoted a systematic entrance of Chinese ships in Japan territorial waters around the islands culminating on 13 December with the en-

trance of a China State Oceanic Administration airplane in Japan's airspace over the Senkaku.

Thirdly, economic retaliation involving the boycott to Japanese goods and tourism leading to a considerable decline in trade and investment flows. China imports from Japan are believed to have declined 14% in September alone and even more in October. Japanese firms producing in China were also hit not only in terms of destruction of factories during the riots (Panasonic factory in Qingdao and Mitsumi Electric factory in Shandong are examples) but also in terms of decline in sales. The car sector was one of the most affected leading suddenly to a sharp decline in Japan's share of China car market from 23% in January-August to 14% in September-October<sup>10</sup>.

It should be stressed that the territorial disputes between China and Japan in the East China Sea are not limited to the Senkaku islands but include also two other issues. Firstly, a dispute over the maritime boundary in the East China Sea where China claims the all continental shelf of the Okinawa Trough and Japan claims the same shelf to a median line between the Chinese and Japanese territories. There has been some progress in this issue as the two parties signed in 2008 an agreement for joint exploration of gas and oil in some fields in the area around the median line, but in reality there was no real progress as the agreement has not been implemented. Secondly, the issue of Okinotorishima islet and to what extent it is entitled to have an Exclusive Economic Zone (EEZ), as Japan claims, or has no grounds for that, as China argues, because it is a simple rock which can not support human life.

It is true that competition for the control of resources, oil and natural gas but also marine fish resources and the attempt to secure fishing rights, is a key factor to understand the conflict over the Senkaku. However, the conflict goes well beyond that and has a fundamental strategic dimension, which also explains Beijing's strong reaction, insofar it touches simultaneously on the two most sensitive security issues for China: the Taiwan question and the US-Japan alliance strategic scope.

It is useful to recall that the Chinese claimed rights over the Senkaku/Diaoyu are supported by the proximity to Taiwan and its alleged integration in Taiwan's territorial waters which Beijing considers part of China's sovereign ter-

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10 For a detailed analysis of the various impacts on bilateral relations and a first assessment of the decline in trade and investment see Przystup (2013). In the car sector Honda reported a decline of 40.5%, in sales in September compared to September 2011, Toyota a decline of 48.9% and Nissan 35.3% in the same period. Pharmaceutical companies also reported a abnormal levels of products returned from Chinese hospitals. In the same spirit Chinese construction companies boycotted the use of Japanese elevators.

ritory. So the Senkaku are directly interconnected with Taiwan and the fact that it is Beijing, not the Taiwanese government that remained relatively invisible throughout the crisis, which confronts Japan is indirectly a demonstration of Beijing's exercise of sovereignty over Taiwan. In addition, Beijing has been always very concerned about the interference of Japan in Taiwan, the existence of close ties between Japanese nationalists and Taiwanese sectors pushing for independence, and so considers that the April 2012 initiative carried out by nationalists had to be firmly dealt with in order to prevent any risk of further destabilization of Taiwan.

Secondly, the Senkaku dispute calls directly into question the issue of the strategic scope of the US-Japan alliance as the 2010 Clinton statement clearly indicates. For Beijing this is regarded as a hostile alliance to contain China and to counter China's increasing power in Asia. I would argue that one of the structural causes of Japan-China political tension since the late 90s has been the strengthening of the US-Japan security alliance and the adoption of the 1997 Guidelines for US-Japan Defence Cooperation that replaced the 1978 Guidelines. Beijing perceived the inclusion of the new dimension of "*cooperation in situations in areas surrounding Japan*" as an expansion of the scope of the alliance, with clear implications for Taiwan and therefore as being directed against China and aimed at containing it. In this light the increase in China-Japan tension is for Beijing a way to test the consistency of the US-Japan alliance as well as a potential mechanism to undermine the alliance, explore its contradictions and erode it, certainly one of the key objectives of China's foreign policy.

There is a new "soft power" dimension to this related to the development of the Trans-Pacific Partnership Agreement (TPP) founded in 2005 in the context of APEC by four countries, Singapore, New Zealand, Brunei and Chile and later on expanded to include five other major economies from Asia and the Americas, the US, Malaysia, Peru, Australia and Vietnam. Both Mexico and Canada are also joining the negotiations and the same position might be taken by South Korea and Japan. China has not been invited and the requirements could not be met by Beijing at the present time.

From a strategic point of view, the TPP has been seen as a mechanism to strengthen the ties between the US and Asian countries and rebuild Washington's declining soft power, eroded by Beijing increasing soft power during the last decade, not only as a means to reassure Asian countries about the US commitment to the region, but also to offer an alternative to China's increasing power. In other words, the TPP process aims at preventing that Asian countries, in particular South Korea, Taiwan and Japan, be absorbed into China's giant magnet economy and to serve as a second leg that complements US hard power in Asia, thus enhancing Washington's smart power, in order to rebalance power in the region and contain China

(IISS, 2012). Beijing clearly perceives the TPP as a mechanism to marginalize China and to contain it<sup>11</sup>.

Japanese Prime Minister Noda took a step forward in 2012 when he announced that Japan wanted to accelerate talks with the US to overcome obstacles for Japan to enter TPP negotiations (Daily Yomiri, 2012). South Korea will also consider that possibility in the medium term. For China this means that not only the TPP will make Japan less dependent on China's economy, thus weakening one of the most effective instruments for Beijing to press Tokyo, but the TPP becomes a competitor solution and a threat to China's preferred basis for regional integration the ASEAN+3 framework under China's dominance.

So Beijing's strong reaction to the Senkaku/Diaoyu dispute is to a great extent a reaction to a broader context where structural changes that could reshape the balance of power in Asia are taking form. It constituted a clear attempt to condition Japan's possible decision to join the TPP and it can be said it yielded some results insofar as in late November it was announced the launch of negotiations in early 2013 for a trilateral FTA between China, Japan and South Korea (China Daily, 2012).

It should be stressed that Japan's position vis-à-vis China is potentially further weakened by the proliferation of Japan's simultaneous territorial disputes with other neighbouring countries, South Korea and Russia. This high level of conflict, opening too many fronts at the same time, tends to affect negatively Japan's image in the region and might be seen as an expression of poor strategic thinking in Tokyo. Regarding the Northern Territories dispute with Russia (Kurile islands for Moscow), occupied by Russia since 1945 but claimed by Japan, 2010 was a delicate year for Tokyo as President Medvedev visited the islands, the first ever Russian/Soviet leader to do so, in a clear gesture of assertion of sovereignty making clear that Russia had no plans to cede the territory. Again in August 2012 Russian naval vessels were sent to the waters surrounding the islands allegedly to participate in a ceremony to honour WWII soldiers.

As far as the dispute with South Korea over Takeshima islets in the Sea of Japan (Dokdo for South Korea), administered by South Korea but claimed by Japan, is concerned, 2012 witnessed also a significant development following the unprecedented visit of ROK President Lee Myung-bak to the islands also in August. The visit triggered a strong reaction on the part of Japan that considered Mr. Lee's visit "unacceptable" and recalled its ambassador from Seoul in protest.

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11 See article "TPP may drive Brics into action" in China Daily (6th September, 2012). One of the comments was "China's exclusion is strange given its huge economic presence in Asia-Pacific. This has given rise to views that the US is driving the TPP with the strategic objective of marginalizing China".

Later on Tokyo decided to invite South Korea to jointly refer the dispute of Takeshima islands to the International Court of Justice (ICJ) (Japan Times, 2012)<sup>12</sup> in a strategy with a double objective. On the one hand to de-escalate the conflict and move to a peaceful solution format insofar a serious dispute with the ROK, also a key ally of the US in the region, is unthinkable. On the other hand, in a context of interlinked territorial disputes, the initiative was aimed at sending a clear message to Beijing in the sense that China should also go to the ICJ in order to exercise its claim to the Senkaku islands. As a response to South Korea's refusal of the ICJ alternative, Tokyo considered the possibility to take unilaterally the territorial dispute to the ICJ in late 2012. However, recently the new Prime-Minister Abe decided to suspend it for the time being as a gesture of goodwill towards South Korea to pave the way to an improvement in bilateral relations (Asahi Shimbun, 2013).

These territorial disputes have a direct impact on China-Japan relations in two different ways. Firstly, the interlinkages between the different disputes reduces Tokyo's room for manoeuvre and flexibility in the sense it has to be extremely coherent in all cases and can not show more flexibility in the Senkaku case because of the precedents and side impact this could have on the other two disputes; by the same token, it can not be more flexible in the disputes with South Korea or Russia because it could give Beijing arguments or a precedent it could use in the Senkaku case.

Secondly, China has argued that all these simultaneous disputes prove that Japan is artificially fuelling a series of territorial disputes and tension in order to justify and find a legitimacy basis, both domestically and internationally, to rearm and follow a militaristic and "normalization" path by revising the Constitution and abolishing the "pacifist clause" which was Japan's conservative nationalists' main objective in the first place. Of course that China is speaking to the region and trying to raise fears in other Asian countries about a potential remilitarization of Japan, trying to play the history card and diverting attention from its own coercion policy in the South China Sea. However, if the Abe Government adopts a hardline response, changes the status of the Self-Defense Forces and raises the defense budget, China will gain political points and this will have a negative impact in the region.

One of Japan's fundamental responses to the security vulnerabilities will be strengthening the US-Japan alliance, the cornerstone of Japan's foreign and security policy. More than ever before, Japan needs the US support and security guarantees to face the challenges of a rising China which is increasingly resorting to coercion, absorbed by its own national interests and unable to exercise leadership.

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12 The proposal was formally presented to the ROK on 21 August 2012. See the press release of the Japanese embassy in the Netherlands. "Japan's position on Takeshima". Available at <http://www.nl.emb-japan.go.jp/e/policy/response%20takeshima.html>.



The relation with the US has experienced some difficulties during the DPJ period, as a result of the Okinawa dossier but also of the strategy implemented since the mid 2000s that the "normalization" of Japan would benefit from greater autonomy in relation to the US and diversification of relations. Presently, a more fragile Japan is probably convinced that the search for greater autonomy from the US is a risky strategy insofar it can jeopardize the alliance and further accentuate Japan's vulnerability. However, Japan's dilemma has not been resolved, at best it will be dormant for the time being. Tokyo will remain divided between a desire to reach a normal power status and the necessity to ensure its security by relying on the US protection.

Moreover, Tokyo tensions with fellow US allies as South Korea are seen as dysfunctional by Washington and a potential factor to erode Japan's value for the US. The same could be said about Japan's eventual refusal to join the TPP, a fundamental instrument for the US to reassert its influence and soft power in Asia.

Japan is increasingly aware that the fundamental nature of the US-China relationship at the global level is a constraining factor in the development of the US-Japan relation. It is clear that there is a limit to the costs the US is prepared to bear to support Japan's position. In addition, China will do its best to undermine the US-Japan alliance by testing its consistency and trying to deepen closer economic ties with Japan.

The way in which the US-Japan alliance will evolve is also dependent on the capacity to coordinate two different agendas and objectives. One interesting perspective is to look at the balance between soft and hard power in the context of the alliance (Arase, 2013: 170) and the extent to which there is a mismatch between the US and Japan. For the US the agenda involves the moderation in the use of its hard power, in many respects abused and ineffective in the Bush era, and the investment in its soft power in Asia to counterbalance China's strong influence in the region. For Japan the direction seems to be the opposite. Confronted with a decline in its soft power and a deficit in its relation with Beijing unlikely to be reversed in the near future, Tokyo is increasingly inclined to invest in its hard power as the only option left. Abe's options seem to prove that. The problem is that a greater investment in hard power is likely to trigger a strong reaction in the region because of history, at the same time it might introduce further tension inside the alliance.

### **Conclusions**

The security framework in East Asia is and will remain anchored in the US-China-Japan triangular relation. However, the rise of China and its status as a prominent regional power has changed the balance of power inside the triangle and triggered a complex process of readjustment involving a new US approach

to the region as well as an increasingly intense and hot rivalry between Japan and China.

So far Japan has not been successful in dealing with China's rise and predominance in Asia and is being forced to rethink its strategy. There are signs of a decline in Japan's economic power as a result of a stagnated economy, large macroeconomic imbalances with a huge public deficit and the highest level of public debt in the world, the loss of leadership in many areas of technology and a rapidly ageing population that is risk-aversion prone unwilling to consume, politically conservative and resisting change in the political system. In 2012 Japan registered for the first time in decades a considerable trade deficit which might constitute a turning point in its traditional image as a global trade power.

The dysfunctional nature of Japan's political system marked by the absence of competition and resistance to change is a major factor to explain Japan's difficulty in implementing structural reforms and flexibly adapting to the new challenges of globalization as well as to the evolution of Asia's regional order. Moreover, the absence of domestic competition both in Japan's economic and political system is a limiting factor in terms of Japan's capability to cope with an increasing external competition, especially China's pressure.

The recent preeminence of territorial disputes in East Asia in which Japan and above all China are actively involved is a symptom of structural changes in the power balance in Asia. The Senkaku islands dispute between China and Japan is a complex case that goes well beyond competition for the control of resources, oil and natural gas but also marine fish resources and the attempt to secure fishing rights, insofar it has a fundamental strategic dimension touching simultaneously on the two most sensitive security issues for China: the Taiwan question and the US-Japan alliance strategic scope. It also illustrates the current state of affairs between China and Japan. Beijing's muscular approach and trade retaliation in September clearly confirmed Japan's deficit of soft power in its relation with Beijing as well as its vulnerability deriving from a growing economic interdependence with China.

The new Abe government approach to the conflict and overall relation with China, highly influenced by a strong nationalist perspective, seems to reveal a preference for a militarization of Japan and the change in the numbers and nature of the SDF. The main argument of the paper is that Japan is trying to address the problem of its declining soft power, and major constraints to rebuild it in Asia, by rebuilding its hard power. In addition Tokyo is aiming at strengthening the US-Japan alliance as the anchor of its own security, especially in a context where Japan looks weaker and more vulnerable.

However, this compensation strategy is likely to be counterproductive in the sense that it might further erode Japan's soft power because of the negative impact on

other Asian countries and the escalation of tension with China. It is a situation where the exercise of hard power might undercut soft power. Moreover, this might create tensions inside the US-Japan alliance when the US is keener to invest in soft power and is increasingly constrained by the centrality of its relation with China increasingly global and no longer restricted to Asia.

Given the complementarity between soft and hard power and the necessity to combine them in the right proportions in order to be effective (Nye, 2008: 43), Japan has to invest seriously in rebuilding its soft power which will require painful domestic economic and political reforms to restore its dynamism, greater openness to the world, a new strategy to deal with history and a balanced foreign and security policy. No doubt Japan has the qualified human resources, the technology and the will to succeed in this endeavor but for the moment still lacks leadership.

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