



AIIA Policy Commentary
**Japan's New Trajectory:
Economic Prospects and
Security Challenges**

Japan is Back: Abe's Three Arrows and Prospects for an Economic Turnaround

Dr Nobuhide Hatasa, Japan Institute of International Affairs

Turning Japanese: The Future of the Australian-Japanese Economic Partnership

Tim Harcourt, University of New South Wales

Japan's Strategic Challenges in Asia

Dr H.D.P. Envall, Australian National University

Japan's Strategic Dilemmas: Navigating the US 'Rebalance' and the Rise of China

Professor Rikki Kersten, Australian National University

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32 Thesiger Court, Deakin ACT 2600, Australia
PHONE: 02 6282 2133 - FACSIMILE: 02 6285 2334
WEBSITE: www.aiaa.asn.au

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Australian Institute of International Affairs
32 Thesiger Court, Deakin ACT 2600, Australia
Phone: 02 6282 2133 Facsimile: 02 6285 2334
Website: www.aiia.asn.au; Email: ceo@aiia.asn.au

Preface

The Australian Institute of International Affairs (AIIA) was established in 1924 as an independent, non-profit organisation seeking to promote interest in, and understanding of, international affairs in Australia.

The AIIA provides a wide range of opportunities for the dissemination of information and free expression of views on these matters through discussion and publication. Precluded by its constitution from expressing any opinion of its own on international affairs, the AIIA provides a forum for the presentation, discussion and dissemination of a wide range of views.

The AIIA's series of Policy Commentaries aims to provide informed opinion and useful source documents on issues of topical concern to encourage debate among AIIA members, the media and the general public.

The Commentaries are edited by Melissa Conley Tyler, National Executive Director in the AIIA National Office, Canberra. I hope that you will find the current commentary timely and informative.

Associate Professor Shirley Scott
Research Chair
Australian Institute of International Affairs
Series Editor 2013-2014

Editorial

As its ‘lost decade’ has stretched to two, Japan, once the powerhouse of Asia, has often seemed mired in continual gloom. Australian coverage of Japan has tended to focus on its structural problems such as a stagnating economy, an aging society and the stark, strategic dilemmas caused by China’s rise and the relative decline of US power.

Prime Minister Abe’s election to office in December 2012 seems to mark a turn in Japanese politics. The last ten months have done much to induce optimism about the Japanese economy. Nonetheless, Abe is faced with a difficult strategic situation in the region which means that Japan must make some tough choices. These challenges and how Japan chooses to deal with them will have a significant impact on Australia’s interests.

The pieces in this policy commentary look at Japan’s economic and security trajectory. The introductory contribution by Nobuhide Hatasa of the Japan Institute of International Affairs sets the context by detailing the current state of the Japanese economy including the optimism following Prime Minister Abe’s return to power. ‘Airport Economist’ Tim Harcourt analyses Japan-Australia trade prospects and identifies the factors which could strengthen economic relations. While these two contributions are broadly positive on the economic side, the same cannot be said about the strategic challenges Japan faces.

ANU Fellow Dr David Envall identifies Japan’s strategic challenges in its major relationships. He argues that the return of Prime Minister Abe has not led to a major shift in strategic direction but rather significant continuity, with the main area of potential change in the area of constitutional reform. ANU Professor Rikki Kersten describes the dilemma caused by the revival of Japanese assertiveness since Abe’s re-election and Japan’s moves towards normalisation in the context of a US rebalance that will fundamentally affect Japan’s place in the US alliance system. She views the current trajectory of Japanese security policy as unlikely to achieve Japan’s strategic objectives.

In the last two decades, it has been easy for Australia to overlook Japan given dramatic changes elsewhere in Asia. This has led to a gap in comprehension of contemporary Japanese economic, political and strategic issues. Prime Minister Tony Abbott in October 2013 described Japan as ‘Australia’s best friend in Asia’ and expressed his desired to ‘keep it a very strong friendship’. This AIIA policy commentary hopes to contribute to understanding of Japan as it charts a new course for itself and the region in the 21st Century.

Melissa H. Conley Tyler
National Executive Director
Australian Institute of International Affairs

‘Japan is Back’, Speech by Prime Minister Shinzo Abe, Center for Strategic and International Studies (CSIS), Washington DC, February 2013*

[...] Last year, Richard Armitage, Joseph Nye, Michael Green and others published a paper about Japan in which they asked if Japan would end up becoming a Tier-two nation.

Secretary Armitage, here is my answer to you. Japan is not, and will never be, a Tier-two country. That is the core message I am here to make. And I reiterate this by saying, I am back, and so shall Japan be.

The time I spent - five long years - since leaving office as Prime Minister was my time for reflection. First and foremost, I reflected upon where Japan should stand in the future. I didn't consider WHETHER Japan could do this or that. I thought, more often, what Japan MUST continue to do.

Here are the three tasks that were always in my mind.

Firstly, when the Asia-Pacific or the Indo-Pacific region becomes more and more prosperous, Japan must remain a leading promoter of rules. By rules, I mean those for trade, investment, intellectual property, labour, environment and the like.

Secondly, Japan must continue to be a guardian of the global commons, like the maritime commons, open enough to benefit everyone.

Japan's aspirations being such, thirdly, Japan must work even more closely with the U.S., Korea, Australia and other like-minded democracies throughout the region.

* Available online (accessed 30 October 2013): <http://csis.org/event/statesmens-forum-he-shinzo-abe-prime-minister-japan>

A rules-promoter, a commons' guardian, and an effective ally and partner to the U.S. and other democracies, are all roles that Japan MUST fulfil.

I also looked at the globe.

It tells me that as your long-standing ally and partner, Japan is a country that has benefited from, and contributed to, peace and prosperity in the Asia-Pacific for well over half a century. The bedrock for that, needless to say, has been our alliance. It is high time, in this age of Asian resurgence, for Japan to bear even more responsibility to promote our shared rules and values, preserve the commons, and grow side by side with all the high achievers in the region. Japan cannot allow itself the luxury of becoming self-absorbed in its struggle against economic malaise.

My mental globe also told me that Japan must remain a robust partner in the fight against terrorism. My resolve is even stronger now, after what happened in Algeria: the killing of ten Japanese and three American engineers.

The world still awaits Japan, I thought, in promoting human rights, in the fight against poverty, illness, and global warming, and the list goes on.

That's why, ladies and gentlemen, I stood for office again. That's why I am resolved to turning around the Japanese economy.

I said a moment ago that the Asians are making great progress. With the exception of a single country, I should have added. That exception, of course, is North Korea.

My government, upon their nuclear test, introduced an added sanction against Pyongyang. Their nuclear ambition should not be tolerated. Unless they give up on developing a nuclear arsenal, missile technologies, and release all the Japanese citizens they abducted, my government will give them no reward. This is not only a regional matter, but a global one. Japan, on my watch, should work tirelessly with the U.S., South Korea, others and the United Nations to stop them from pursuing those ambitions.

Now, if you look at the lapel of my jacket, I am wearing a blue-ribbon pin. It is to remind myself, each and every day, that I must bring back the

Japanese people who were abducted by North Korea in the 1970s and 80s. Among them was a girl, Megumi Yokota, who was only thirteen at the time.

That is also the reason why, as a nation firmly behind human rights, Japan must stay strong, strong first in its economy, and strong also in its national defence.

Let me tell you, Japan must be austere as well. Yet, I led my government to increase, for the first time in many years, the budget for homeland defence. So today, here with you, Rich, John, Mike and all my distinguished friends and guests, I make a pledge. I will bring back a strong Japan, strong enough to do even more good for the betterment of the world.

The Japanese voters have given me a renewed opportunity as Prime Minister to turn my tasks into reality. Each morning, I wake up with a solemn and sombre sense of tremendous responsibility.

Now, there is something called 'Abenomics'. I didn't coin the word. Markets did. It is the name given to my three-arrowed economic booster plan. Japan has been battling deflation for more than a decade. My plan, or "Abenomics," is to put an end to that, first and foremost.

Indeed, it has made a jump start. As the first arrow, I urged the Bank of Japan to do their job, on a dimension they thought they couldn't do.

Investors, both Japanese and foreign, have started to buy Japanese shares. Japan's industrial wheels are better greased due to export growth, and Tokyo's stock index has risen as a result.

The second arrow is to carry out a supplementary budget, huge enough to lift the economy by 2 per cent and create 600, 000 jobs.

The third one is about growth strategy. Private consumption and investment will come much sooner than we expected. So far, all the economic indicators point north.

True, we have shot those arrows before, but only timidly, and incrementally. In my plan, the three arrows are being shot strongly, fast and

all at the same time. Soon, Japan will export more, but it will import more as well. The U.S. will be the first to benefit, followed by China, India, Indonesia, and so on.

That is not the end of the story, though. An even graver task remains. That is to enhance Japan's productivity. It is to retool Japan's economic structure. Women should be given much greater opportunities. The big savers, mostly the aged population, must be able to give their money with smaller tax burdens, to the younger generation, which is exactly what my government is now doing.

Before I conclude, let me say a few words on China, and then define how I view the Japan-U.S. relationship.

About the Senkakus, first. History and international law both attest that the islands are Japan's sovereign territory. After all, for the long period between 1895 and 1971, no challenge was made by anyone against the Japanese sovereignty.

We simply cannot tolerate any challenge now, or in the future. No nation should underestimate the firmness of our resolve. No one should ever doubt the robustness of the Japan-U.S. Alliance.

At the same time, I have absolutely no intention of climbing up the escalation ladder. In fact, my government is investing more into people to people exchanges between Japan and China.

For me, Japan's relations with China stand out as among the most important. I have never ceased to pursue what I called a 'Mutually Beneficial Relationship Based on Common Strategic Interests' with China. The doors are always open on my side for the Chinese leaders.

That leads me to say, finally, a few words on our mutual ties between the U.S. and Japan.

In order for us, Japan and the United States, to jointly provide the region and the world with more rule of law, more democracy, more security and less poverty, Japan must stay strong. That is my first point.

I have started to revisit our National Defence Program Guidelines. Our Defence Ministry will receive an increased budget in order to do just that.

Looking back, it is remarkable that the bond we have developed between Japan and the U.S. has weathered bad days and good, to have lasted for well more than one fourth of the entire history of the United States.

Yet, that should not surprise anyone. The United States, the oldest and the biggest maritime democracy, and Japan, Asia's most experienced and biggest liberal democracy that is also an ocean-goer, are a natural fit. They have been so for many decades, and they will remain so for many more decades to come. Some say now, that the biggest emerging market is in fact middle-America, like the Dakotas and Carolinas.

So in conclusion, ladies and gentlemen, my task is to look toward the future, and make Japan the second biggest emerging market in the world, and the ever more trusted partner for the region and the world.

The road ahead is not short. I know that. But I have made a come-back, just to take on this task. For the betterment of the world, Japan should work even harder. And I know I must also work hard to make it happen.

So ladies and gentlemen, Japan is back. Keep counting on my country.

[...]

**Economic Policy Speech by H.E Mr Shinzo Abe,
Prime Minister of Japan, Guildhall
London, United Kingdom, June 2013**

[...] The nation of Japan as measured in nominal GDP is larger than Germany and the U.K. combined. And what if such a country were to experience negative growth? That would likely be the ultimate recipe for ‘beggar thy neighbour’.

Japan is a nation that takes responsibility for cultivating a peaceful and stable world order grounded in rules. For that kind of country to contract would already be in my view a cardinal sin in itself.

The Japanese economy is now on track for recovery, having expanded at an annualized rate of 4.1 per cent in the first quarter of 2013. Should the Japanese economy extend this 4.1 per cent growth rate across the whole year, it will have the same effect as a country larger than Israel suddenly emerging. Our growth rate in the third quarter of 2012 was minus 3.6 per cent. The change in absolute terms was therefore 7.7 points in the positive direction.

The mood in Japan has most certainly changed dramatically as a result of the first and second ‘arrows’ of economic revival that I launched, namely bold monetary policy and dynamic public finance policy. However, the most important ‘arrow’ in my armory is the third, my strategy for growth. The concepts underlying this Growth Strategy are captured in the three key words of ‘challenges’ – actively taking on challenges – ‘openness’ – openness to other countries – and ‘innovation’. Before I overview the key points of this Strategy, I would like you to understand that for Japan at this

juncture, to echo the approach of the late Baroness Margaret Thatcher, this is a case of ‘TINA’ – ‘there is no alternative’.

The reason for this is that Japan faces structural issues - firstly, to extricate itself from deflation; secondly, to improve labour productivity; and thirdly, to maintain fiscal discipline. These threefold structural issues must be resolved simultaneously, and growth is a necessary condition for success.

An Open Japan

So how will we achieve growth? We will open up the country and open up Japan's markets. This is a philosophy that has coursed through my veins consistently ever since I entered politics.

When I first became Prime Minister seven years ago, I accelerated negotiations to conclude the ASEAN-Japan Comprehensive Economic Partnership Agreement. Upon becoming Prime Minister again, the very first issues were whether or not to embark upon the Trans-Pacific Partnership (TPP) Agreement, which has the United States at the center, and whether or not to work towards an EPA with the EU.

Opposing voices were heard even among those supporting my own party, the Liberal Democratic Party. I did all I could do to change their views. And I made the determination in the end to participate in the negotiations. The Japan that I am pursuing is a Japan that leads to being wide open to the entire world.

What is necessary for Japan's revival is a powerful catalyst that will restyle the old Japan and then make the ‘new’ Japan even stronger. These are the expectations I hold towards direct investments into Japan.

By 2020, we will expand the balance of direct investment in Japan by foreign companies to 35 trillion yen, a doubling of the current figure. Converting that at the latest exchange rate, that figure exceeds 370 billion U.S. dollars in scale. [...]

A Japan seeking challenges

You may ask what kind of Japan I wish to create by inviting in foreign capital while proactively accepting from overseas human resources rich in knowledge and experience. It is a Japan that takes on challenges by boldly taking risks while sparking innovations in new fields, precisely as with our electricity market I just outlined. The target we intend to achieve includes, for example, the starting of new businesses. Japan will become fully in line with the United States and the United Kingdom in this area.

This autumn, major changes to the tax system will also be added. We will use these tax provisions as incentives in order to facilitate companies' exit and entry, retooling and restructuring. We will lower taxes on investments, incentivizing companies to take risks and invest in facilities and equipment. Over three years, we intend to restore the level of domestic private-sector investment to its pre-Lehman Shock level of 70 trillion yen, which is more than 700 billion dollars. [...]

I wish to restore all throughout Japan an energy that exceeds even the vibrancy of [the 1980s]. I hope you all encourage young people to go to Japan to take part in the great revival.

This is because we intend to deregulate thoroughly areas known as 'National Strategic Special Zones' under the direct responsibility of myself as Prime Minister in order to create in Japan places where capital and intellect gather from all around the world.

We will foster an international business environment that stands shoulder to shoulder with such cities as London and New York. I intend to create cities that bring together technologies, human resources, and capital from throughout the world.

We will conduct a review of our systems in order to enable top-class non-Japanese medical doctors to practice in Japan and make it easier to found international schools for children to attend. We will also revise zoning regulations to bring people back to reside right in the heart of our cities. I am totally committed to seeing these through.

We will bring in people, goods, and capital from around the globe and use that to nourish our growth, enabling still further growth. The battle to create such a Japan is a battle in which I myself will be fully engaged.

A Japan that innovates

You know, it's possible that Japan's stagnation is essentially men's fault. The period in which men with uniform ways of thinking dominated Japan's business community was too long. In contrast, women have been engaged in corporate management for much too short a time. The mission that I have imposed upon myself is to thoroughly liberate the power that women possess. I am determined to encourage women to break through the glass ceiling, and along with this, I will prepare the infrastructure to make that possible.

We will eliminate waiting lists for day-care centers for small children and provide assistance so that women who leave their jobs at some point are able to return to work multiple times.

My determination to reform university education is rooted in the same motivation. Innovation is what results when new thinkers bring to bear new ways of thinking. Our expectations towards women and towards young people will increase more and more as we go forward.

I would like to have at least ten Japanese Universities appearing within the rankings of the world's hundred best schools. First of all, we will work to double the number of foreign faculty members at universities where the national government is involved in the administration.

We will take comprehensive steps to enhance international awareness and interaction within higher education and send a greater number of young people off to experience the world outside Japan. At the same time, we intend to invite to Japan on a large scale young people from around the globe.

In addition, we should not forget that innovation will also be precipitated by the aging of society. As Japan will occupy a foremost position globally as society ages, we will be in a fortunate position compared to other countries when it comes to devising the services, industries, and technologies suitable for a mature society.

We will expand the health and elderly care markets from the current scale of approximately 42 billion U.S. dollars to more than 106 billion dollars by 2020. We will also enlarge the scale of the market for medical services-related businesses, including for example medicines, medical equipment, and regenerative medicine, from 127 to almost 170 billion dollars over this same period.

As you are well aware, a large number of innovative European companies are already active in this market. Please understand that these players are

also an important element forming the third of my three "arrows" of economic revival.

I want to make Japan become 'born again' by opening up Japan to the world, transforming it into a society that takes on challenges in the face of risk, and remake it into a place where innovation blossoms through harnessing the power of women, youth, and people from outside Japan. To draw a parallel here, I want to reshape Japan now so that some thirty or forty years hence, Japan as a nation will be qualified to play a match on Wimbledon's Centre Court. [...]

Address to the Japan National Press Club by Minister for Foreign Affairs Senator the Hon Bob Carr, 18 May 2012

[...]

Japan is Australia's closest partner in Asia. Our relationship is broad and it embraces:

- Trade and investment
- A strategic and defence partnership
- Global and regional cooperation
- Education and tourism

On trade: I was surprised to learn that the first coal was exported from Australia to Japan in 1865 – before the Meiji Restoration. The first wool was exported to Japan in 1888. And of course, the trade relationship has developed over more than a century to become broad, significant and two-way. It's interesting to note that, in 1897, the Japanese opened a consulate-general in Sydney.

I'd love a historian to go through the records, the diplomatic records, and find out what were the reports about the move towards the federation of the Australian colonies that came about in 1901 – what were the views of the colonial, and then later of the early Australian politicians. It would be an interesting exploration.

What's striking as well is that trade has increased significantly in the last decade. Australian exports to Japan have more than doubled over the last 10 years – from \$24 billion in 2001 to \$50 billion last year.

And then there's investment. Japan is the third largest direct foreign investor in Australia. Japan's total investment in Australia represents a portfolio of \$123 billion. That's both portfolio and FDI.

This includes major investment by INPEX in the \$34 billion 'Ichthys' Liquid Natural Gas project in northern Australia – with construction

commencement announced only this morning by Australia's prime minister. Huge Japanese investment in liquid natural gas from northern Australia. This will be the largest ever single investment by a Japanese company in an Australian project.

It's proof positive that our relationship is every bit as significant as it was when it was pioneered in the 1950s. That LNG will be a significant and reliable source of energy for Japan.

Bear in mind as well that Australia is Japan's largest and most reliable supplier of energy and a major supplier of other resources. High food safety standards mean that Australia can be one of Japan's largest and most reliable sources of clean, safe food. We're the biggest supplier of beef. We're a key supplier of other staples in the Japanese diet – wheat, sugar, dairy products.

Think of it this way: Australian exports underpin Japan's energy and food security. And in return, Japan has been over many decades, our most reliable customer.

Bilateral Trade – Free Trade Agreement

Our economic relationship will be taken further through a Free Trade Agreement or, as it's known in Japan, an Economic Partnership Agreement. A high quality Free Trade Agreement will be good for Japan and good for Australia.

There has been recent progress on negotiations but after five years however, businesses in Japan and businesses in Australia are looking to both our governments to close the deal. With continuing global economic uncertainty, a high-quality Free Trade Agreement or EPA is a growing imperative. Later this month my colleague, Trade Minister Craig Emerson, will visit Japan in an effort to move the negotiations forward.

Uncertain global circumstances mean we now face other economic challenges. We know of the problems caused for Japan by the appreciation of the Yen against other currencies. We understand this because the

Australian dollar has, over the last four years, appreciated significantly against other currencies including the Yen.

A higher Australian dollar, a higher yen create particular pressures for Australia and Japan as exporters. Our countries have much to learn from one another on this common challenge.

And we both have much to gain from promoting stability and economic growth in Europe and in the United States. That's why we welcome the Noda Government's initiatives to open the Japanese economy still more. Australia welcomes Japan's interest in joining the Trans Pacific Partnership, or TPP.

As a supporter of free trade we welcome, the announcement on May 13, that Japan, China and the Republic of Korea will enter negotiations by year's end for a Free Trade Agreement of their own. We will watch with interest as negotiations advance.

Strategic and defence partnership

The shift in global economic power to Asia, and the pace and scale of change, make Australia and Japan even more important to one another. That's why on this visit I have focussed on further strengthening our strategic partnership.

An economically strong and internationally engaged Japan is vital to Australia's and the region's security and prosperity. And the Australian Government acknowledges Japan's economic reform agenda.

On this visit, I have discussed with Japanese Ministers the scope for us to further deepen bilateral defence and security cooperation, and that includes peacekeeping and disaster relief. I look forward to welcoming the Japanese Foreign and Defence Ministers to Australia for the next 2+2 meeting to further advance this cooperation. Our two countries are working together to set a date. Australia's and Japan's bilateral and trilateral security ties are increasingly important to both countries. There remains scope for even more cooperation.

Only last night, Foreign Minister Gemba and I signed an Information Security Agreement to create the framework for increased information exchanges over time. The ability to communicate classified information effectively is crucial to building strategic partnerships, so this is a very important development. The Information Security Agreement builds on the Acquisition and Cross-Servicing Agreement, or ACSA, signed at the last '2+2'. The ACSA, when ratified, will enable easier sharing of supplies and services between our Defence Forces.

These legal frameworks have practical consequences. They mean, for example, that the Australian Defence Force and the Japanese Self Defence Forces will be able to work more effectively together to assist with disaster relief in our region. And Australia and Japan have good results in this area. Our forces have worked together on peacekeeping in Iraq, disaster relief in Pakistan and the reconstruction in East Timor. And of course, our forces worked side by side following last year's tsunami here in Japan.

On overseas aid, we are also stepping up efforts to co-ordinate our respective programs – with the signing of a memorandum of understanding between Australia's AusAID and Japan's JICA last year. All this is about advancing the nature of our relationship so that it becomes a true partnership – one of mutual benefit and of benefit to our region. And one which means that when something happens in our region, our first thought is to talk to each other and work out what we can do together.

Global and Regional Cooperation

Australia and Japan share a commitment to democracy, the rule of law, openness and competitive markets. These are shared values: democracy, rule of law, openness, and competitive markets. So we have a lot to gain from working closely together in global fora to achieve shared objectives and that means as well regional security, nuclear non-proliferation, climate change and liberalisation of global trade.

We think, that is Australia, like Japan, we think it is vital for the United States to have a continuing role in the Asia-Pacific. We view the US-Japan alliance as fundamental to regional stability.

Australia, like Japan, has a strong interest in continuing to develop mutually beneficial relations with China. We have a strong interest in seeing China play a constructive role in a rules-based, international order. Established realities are being challenged as the economies of China, India, Brazil and other nations grow and as they rise, or in the case of China, re-emerge, into the ranks of major world powers. In doing so, they are transforming their economies and raising the living standards of hundreds of millions of people. Japan and Australia benefit from these developments. Growth in these economies – China, India, Brazil and others – increase demand for our exports. They create opportunities for our companies –they make our populations wealthier too.

But these changes are eroding existing certainties. Bigger economies, naturally seek military strength commensurate with their economic power. But clarity around the purpose of that strength will help others to accept this as a natural development.

Make no mistake, the re-emergence of China, and the rise of India and others is desirable. Last month in Washington, I made this point in relation to China's economic growth: Few could be untouched, I said, by what it means for the Chinese people – liberated from poverty, historic poverty; few would be reluctant to see this renewed China take its place in the councils of the world. But this observation applies equally to many other countries.

The challenge for all of us is to work together to create the environment where all concerned accept it's in our own best interests to participate constructively and adhere to agreed norms of behaviour. The institutions that govern international relations are under pressure to reform, and to become more representative. On this visit, I have emphasised the importance Australia attaches to working with Japan at the United Nations and in the G20 and in the East Asia Summit.

Japan and Australia have been major stakeholders in the existing regional structures. We are both key allies of the major security guarantor for the region – the United States. And, this is important; we have a track record of working together on major projects to create international public good.

More than 20 years ago, Australia and Japan took the lead in negotiating the creation of Asia Pacific Economic Cooperation, APEC. APEC now encompasses all key Asia-Pacific economies and is working to facilitate economic liberalisation throughout the region.

In 2008, Australia and Japan also brought together a group of eminent persons – the International Commission on Nuclear Nonproliferation and Disarmament – chaired by former Foreign Ministers Evans and Kawaguchi – to create a blueprint, with a noble objective, to rid the world of nuclear weapons. Since then we have, with Germany, formed cross-regional groups of Ministers to pursue the non-proliferation goal.

And by 2011, Australia and Japan had also worked with others to bring key regional players – the United States and Russia – into the East Asia Summit, thus cementing the EAS as the central forum for discussion of regional political issues. It's clearly in our interests to continue this type of co-operation. And we welcome Japan's active role in shaping our regional environment.

On this visit I have had discussions with Japanese Ministers a range of issues of mutual interest to Australia and Japan including:

- There's the threat posed by North Korea
- There is the support needed for reform in Burma
- There are developments in Afghanistan
- There are concerns about Iran's nuclear program and, of course,
- Climate Change

And we have discussed the ways we can work together to achieve the best outcomes on matters like these in bilateral discussions and in multilateral fora.

In this century, the Asia-Pacific will be at the forefront. Managing these challenges properly, will make this century one of opportunity. Australia, as a creative middle power committed to multilateralism, will be looking to work with Japan to realise these opportunities. [...]

Japan is Back: Abe's Three Arrows and Prospects for an Economic Turnaround

Dr Nobuhide Hatasa[†]

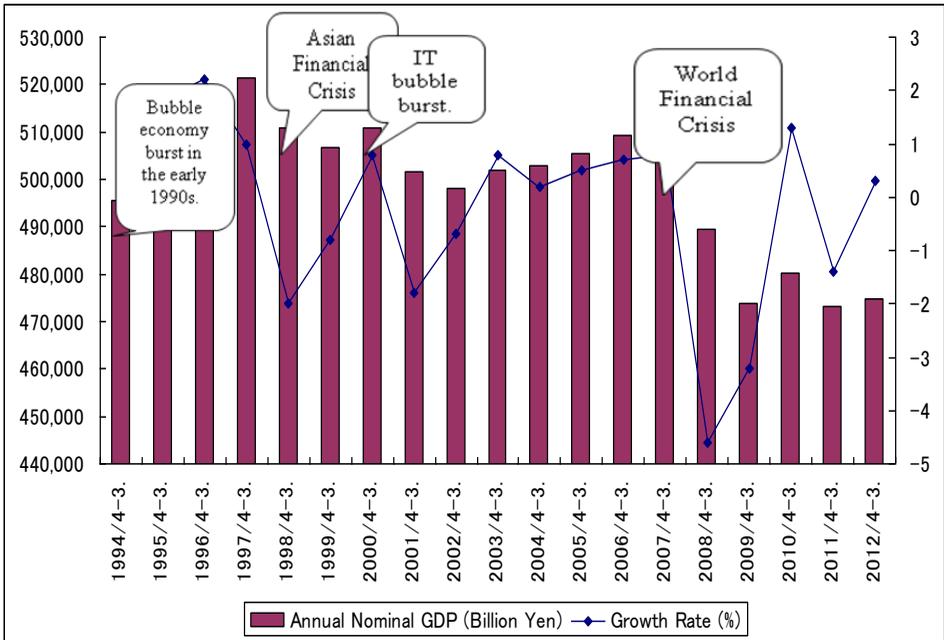
Japan has witnessed seven years of political fragility with governments changing frequently and a new Prime Minister almost every year since 2006. These changes have impeded Japan's progress and prevented it from playing an important role in the region.

However, with the election of Shinzo Abe as Prime Minister in December 2012, there has been a revival of Japan's fortunes. Abe is an experienced leader who has led the country previously and is well-versed in Japanese and international politics. The victory of Abe's Liberal Democratic Party (LDP) in the Upper House elections in July 2013 and overwhelming majority in both houses have given him a clear mandate of the Japanese public. This victory has also ensured that legislation can pass through the Diet smoothly, making it more likely that the government will remain stable and last its full tenure.

Japan's Economic Status

Japan has so far experienced about two decades of a stagnant economy since its economic bubble burst in the early 1990s. The economy has suffered setbacks in the form of the Asian Financial Crisis of 1997/98, the IT bubble burst in the early 2000s and the Global Financial Crisis of 2008. As a result, the Japanese economy has experienced a slowly declining trajectory made worse by political instability and the natural disaster of 2011. From a peak of 18% in 1994, Japan's share of global GDP fell to 8% in 2012¹. As expected, it has been overtaken by China as the second largest economy in the world in terms of GDP². In terms of per capita income, Japan has slid from being ranked 4th in 1994 to rank 20 in the world in 2011³.

[†] Dr Nobuhide Hatasa is a Research Fellow at the Japan Institute of International Affairs (JIIA).



Source: Cabinet Office, <http://www.esri.cao.go.jp/jp/sna/menu.html>

Abe's Three Arrows

Upon assuming leadership, one of Abe's first actions was the introduction of a series of economic stimulus policies. Abe's economic recovery policies – popularly known as 'Abenomics' – consist of three approaches, often symbolised as 'three arrows'.

The government first focused on ceasing the declining trend in domestic prices that had lasted throughout the economic downturn. The first arrow was therefore to pressure the Bank of Japan to launch more aggressive monetary easing and to set an inflation target of 2%. The Bank of Japan has in fact pumped an unprecedented amount of money into the economy under the bank's new governor, Haruhiko Kuroda.

The second arrow was to increase government spending to 10.3 trillion Yen. These Keynesian set of reforms have been initiated at the behest of

the monetary authorities and the government to provide much-needed resuscitation to the economy.

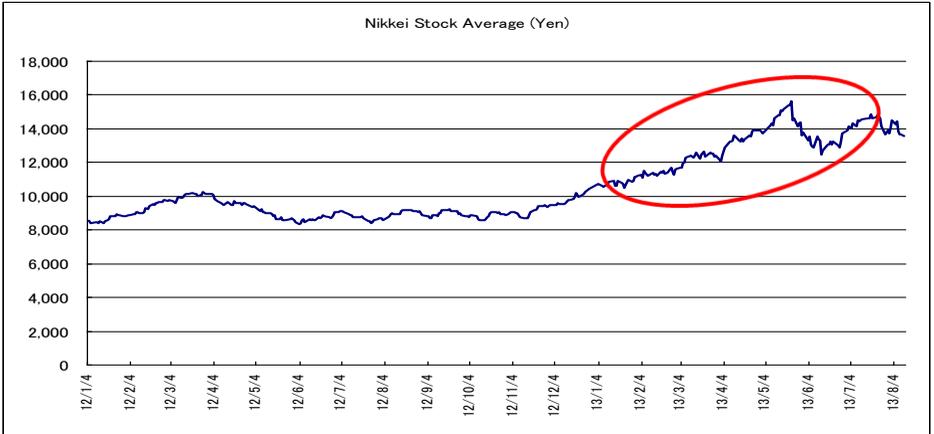
In June 2013, the third arrow - multiple sets of structural reforms - was fired by Prime Minister Abe. The third arrow represents the most important economic policies designed to boost competitiveness and achieve solid long-term growth. Some of these reforms include: the relaxation or elimination of government restrictions and regulations; establishment of national strategic special economic zones; expansion of investment in the energy sector; augmentation of agricultural product and food exports and the enhancement of the competitiveness of domestic universities.

So Far So Good

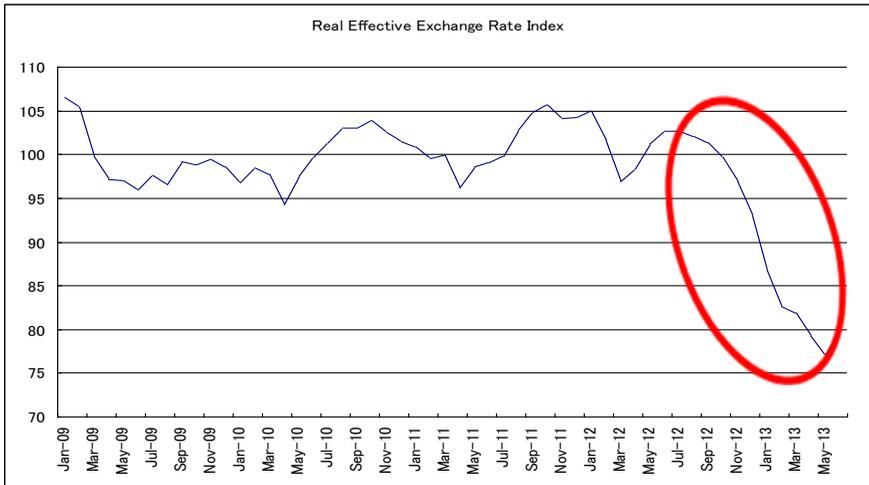
Abenomics has been functioning well to date, though it is still just getting underway and there remain many economic reforms to be planned and steadily implemented. At the end of July 2013, just six months after the launch of Abenomics, the Nikkei Stock Average reached a level 30% higher than the end of 2012. Accommodating monetary policies effectively worked to rectify the overvaluation of the yen and exporting industries were able to boost their profits.

There are also good signs of economic recovery in active investment and consumption. According to a report released in June by the Cabinet Office, January-March real GDP growth was revised upward from the previous 0.9 percent to 1.0 percent, an annualised rate of 4.1 percent. Japan's Cabinet Office as well as international organisations such as the International Monetary Fund (IMF) and Asian Development Bank (ADB) upgraded their economic forecasts of Japan's GDP growth rate recently due to the effects of the stimulus policies.

There is an indication that the deflationary trend has been broken with prices increasing steadily this year⁴. More importantly, the effects of Abenomics have been permeating into households. Most recent surveys show that summer bonuses this year are higher than those of the previous year and that unemployment figures are at their lowest since June 2008.



*Source:Nikkei, <http://indexes.nikkei.co.jp/nkave/index/profile?idx=nk225>.



Source: Bank of Japan

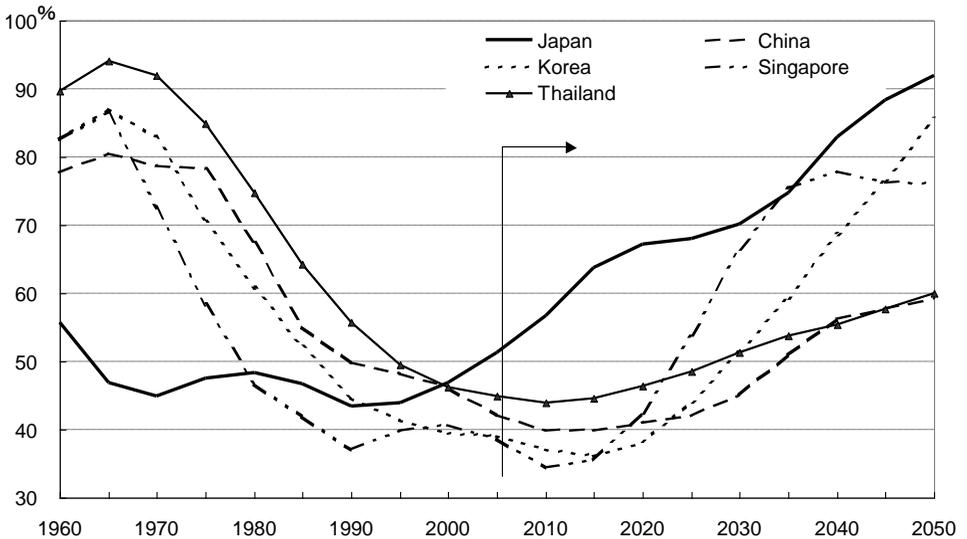
Challenges Ahead

Nonetheless, there continue to be pressing challenges. These include the increasing percentage of the population that is classed as dependent due to sociological trends such as low representation of women in the work-force

and an ageing population. Japan's 'population bonus period', during which its dependent population index was decreasing, terminated in 1990.

This is likely to have major social and economic ramifications causing a decline in overall growth potential intensifying labour shortage and adversely impacting the savings rate. Social implications include increasing pressure on the social security system with pension schemes and medical expenses demanding unprecedented attention.

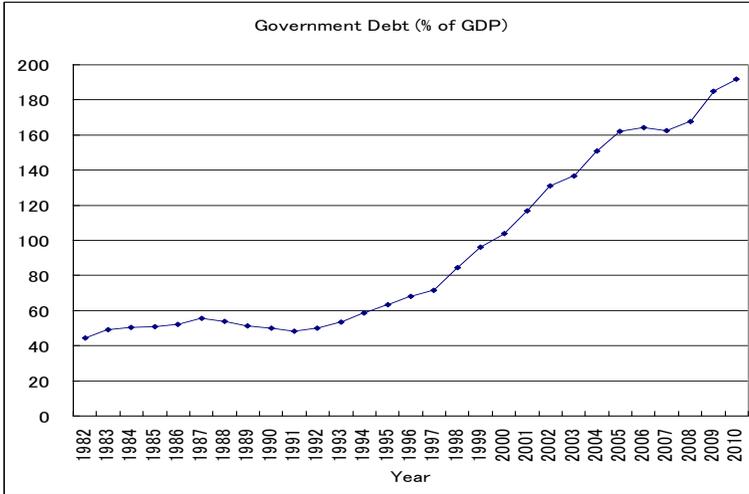
Dependent Population Index



Note: Dependent population indexes = (Young population [0-14] + Elderly population [65-]) / Working age population [15-64]. Source: Takao Komine, 'A Long-term Forecast of Demographic Transition in Japan and Asia,' 19th PECC General Meeting, October 21st, 2010

Another important problem is the steep trajectory of government debt. Furthermore, Japan faces a huge task in trying to promote free trade agreements (FTAs) with other countries with around ten Economic Partnership Agreements currently under negotiation. An indicator of future challenges in this realm lays in the fact that Japan's FTA partners consist of only 20% of total Japanese exports. Interestingly, efforts to cultivate FTAs

with Japan’s key trade partners, through the Regional Comprehensive Economic Partnership (RCEP), Trans Pacific Partnership (TPP), China-Japan-Korea FTA and the European Union-Japan agreement, have only commenced this year with Abe at the helm



Source: Bank of Japan and Cabinet Office

It is too early to evaluate the overall effects of Abenomics but it has great potential to pull the Japanese economy out of decades of mild recession. If the Japanese economy recovers fully, Japan as the third largest economy can have a positive influence on the world economy. Fortunately, the global financial crisis did not have much negative impact on Japan. The US and EU economies are taking a little more time to recover, and the economies of emerging countries including China are currently slowing down. Who then can lead the world economy? Perhaps Japan can. Japan still has good potential to act as a global economic leader; in fact, current domestic political and economic conditions are conducive for Japan again to play an important role in the global economy and the world market.

¹ The World Bank, World Development Indicators, <http://data.worldbank.org/indicator>

² Ibid.

³ Ibid.

⁴ Ministry of Internal Affairs and Communication, Statistics Bureau, Consumer Price Index, <http://www.e-stat.go.jp/SG1/estat/List.do?bid=000001033702&cycode=0>.

Turning Japanese: The Future of the Australian-Japanese Economic Partnership

Tim Harcourt*

When thinking of Australia's future in the Asian Century, most minds turn to China; perhaps India, ASEAN and the rest of emerging Asia.

However, it is really Japan that Australia should thank for enabling Australia to get a foothold into the East Asian region in the first place. In fact there was talk about 'Abe-nomics' over 50 years ago in 1957 when Trade Minister Abe (the current Prime Minister's grandfather) signed the Commerce Agreement with John 'Black-Jack' McEwen, Australia's Country Party Deputy Prime Minister and Trade Minister. (In those days the Country Party which later became the National Party always took the trade portfolio and Black Jack McEwen was followed by National Party icons like Doug Anthony, Tim Fischer in the trade portfolio in a tradition that was only ended a few weeks ago when new Prime Minister Tony Abbott gave the portfolio to Liberal Andrew Robb).

The 1957 Agreement on Commerce with Japan was the bedrock of the Australia-Japan bilateral relationship. It enabled Australia finally to *embrace* its geography and take commercial advantage of the industrial giant that Japan later became. Back in 1957, with the memory of the Pacific War still vivid, and with Cold War tensions afoot, it took great courage to negotiate the deal and as it turned out, great foresight, given Japan's subsequent economic development. Japan played a crucial role in developing Australia's export potential and gave Australia the confidence to embrace the region further with the Asian Tigers, ASEAN and now the emerging giants of China and India. In many ways, it was Japan who

* Tim Harcourt is the J.W.Neville Fellow in Economics at the Australian School of Business at the University of New South Wales and author of *The Airport Economist* www.theairporteconomist.com. Thanks to Tom Kenny, Gary Hansen, Tomoko Ichikawa and colleagues at Austrade Japan for their assistance.

allowed Australia to break free from the ‘tyranny of distance’ mentality to embrace its geographical position in the world. Thanks to Japan and Australian trade officials’ initiative to forge the agreement in 1957, the tyranny of distance has been replaced by the ‘power of proximity’. By embracing the rise of Japan and Asia, Australia now finds itself in the right place at the right time.

That’s the history, but what about the future? There is no doubt that China is replacing Japan as the main driver of Australia’s resource export development, playing a similar role now that Japan played in the 1960s and 1970s. There are also signs that ASEAN and India (despite recent troubles) are on the march as well. But given all the success we have had with Japan in the past, what more can be done in the future?

How can Australia and Japan widen and deepen its economic relationship over the next 20, 30 or 50 years? The future of this overall happy economic partnership will depend on the seven ‘F’s of Australian-Japan economic relations¹.

1. Free Trade Agreement

There’s plenty on offer in negotiations for an Australia-Japan free trade agreement (FTA) particularly in agriculture and services. Australia is seeking cuts in tariffs and non-tariff barriers and more openness in Japan’s previously closed rural and services markets whilst Japan is seeking energy security, particularly in Liquefied Natural Gas. Both nations are seeking to expand investment in each other’s countries.

Despite the potential gains to be had from the FTA, estimated to be AUS \$39 billion and AUS \$27 billion to the GDP of Australia and Japan respectively, there is still little awareness about the agreement. In fact, according to a survey of FTAs released by logistics company DHL, only 13 per cent of Australian businesses knew that there was an FTA being negotiated with Japan, compared to 44 per cent who knew about the negotiations with China².

2. Foreign Direct Investment

While Japan is a major investor in Australia, Australian companies could invest more in Japan. A more open Japanese economy should provide Australian businesses with greater opportunities to work in-market in Japan. According to research by Austrade, Sensis and the Australian Bureau of Statistics, more than 3,600 Australian businesses export to Japan and 14% of all Australian exporting small and medium enterprises sell to Japan, although very few base themselves there. Fewer than 100 Australian businesses have offices or investments in Japan despite Japan's long held position as one of Australia's top export destinations³.

3. Finance

As pointed out by Huw McKay and Malcolm Cook in a paper for the Lowy Institute, Australia and Japan are the leaders of the region when it comes to the size and sophistication of their financial markets⁴. China's market may be growing but is still in the early stages of development. Japan and Australia could play a key leadership role in financial issues facing the Asia Pacific region, including the frequent calls for reform of the world's major economic institutions such as the International Monetary Fund, the World Bank and the G20.

4. Freeing up services

While Australian-Japanese trade flows are dominated by resources, there's clearly room for expansion in trade in *services* between the two nations. During his term, former Prime Minister Koizumi introduced a number of reforms in areas like education, healthcare and government services which had been regarded as 'untouchable' parts of the Japanese economy. A new wave of reform under Abenomics has the potential to open up the economy especially given Japan's return to growth and with it a community that is much more conducive to microeconomic reform. According to a local services sector expert, Professor James Kondo of Tokyo University, Australian exporters have a comparative advantage in many areas that will open up: 'The healthcare, wellbeing, education and the lifestyle sectors have traditionally been closed in Japan, but this will soon change to Australia's benefit.' As the ANZ's Tom Kenny has said: 'The reflationary macroeconomics (of Abe) introduced so far have had a positive impact on confidence, expectations and now activity. However, to lift Japan out of its

long term funk will require reform aimed at improving long term potential growth.⁵

5. Freeters

Whilst Japan is often viewed as the land of the greying sun because of its ageing demographics, there is an influential younger generation with different attitudes to travel, culture and work. The Japanese labour market is shifting away from the Japanese tradition of life-time employment and salary-men working for the same company towards one characterised by the 'freeter' phenomenon, where casual employment and ever-changing jobs and careers changes the dynamics of the Japanese employment relationship.

There has been debate about the freeter concept. Some older scholars have claimed it is the *choice* of younger people to not be tied down to one employer or one job, whilst many freeters themselves claim that they would prefer more job security but cannot find permanent positions because of the changing nature of work in Japan. The 'freeter' phenomenon however has opened up opportunities for Australian service exporters specialising in job placement and career services. For example, Australian Terrie Lloyd, President of Linc Media, has set up an on-line recruiting company, Dai-job.com aimed at 'freeter' job seekers. According to Lloyd, 'traditionally Japan engineers society, but now Japanese society is opening up in a manner that is neither engineered nor controlled.' He believes that technological advancement is 'setting up a whole new youth sub-culture which is more open to Western influences than ever before⁶.'

6. Football

In cricket, Australia has the Ashes against England and the Bledisloe Cup against New Zealand as well as a ferocious trans-Tasman rivalry in netball. What about Japan? It could be that football (soccer) is the answer. With Australia in the Asian Football Confederation in FIFA and the Asian clubs championships, Australian and Japan are likely to develop a strong football rivalry. This is already happening at club level not to mention at the FIFA World Cup.

7. Feminisation

As well as ageing, Japan's population is becoming more female. This is occurring in the economy (more women shareholders, entrepreneurs and consumers), in politics and in society as a whole. This is changing the nature of Australia's services with Japan. For example in the tourism sector, Japan's new class of retirees prefers longer, more health conscious and reflective activities instead of short, intense bus tour holidays. This is helping grow opportunities for health and well-being, education and creative-based activities beyond the old golf and karaoke routine of the salary-men of long ago. If you think Bill Clinton's 'soccer moms' were important back in 1996, just wait until you see the economic and political influence of Japanese women in future years. As Japan's population ages, and its dependency ratio increases (UCLA Economist Gary Hansen has predicted this will increase up to 2050 as net debt to output has already reached nearly 150 per cent⁷) Japan will need to rely on increasing the participation rate of women in the work force to enlarge the tax base as well as to create a more mobilised society.

In conclusion, while the Australia-Japan partnership has been very successful, there's plenty to be done in the future as even healthy relationships need work. It's a matter of keeping the dialogue open, keeping it fresh and working on the old trouble spots tirelessly. Under this care, the Australia-Japan relationship should bloom like a cherry blossom garden in Kyoto.

¹ For a fuller treatment, please see T. Harcourt (2014) *Trading Places – The Airport Economist Flies Again* (forthcoming UNSW Press).

² T. Harcourt, 'DHL Export Barometer Australian Export Trends' issue 12, August 2012, http://www.dhl.com.au/content/dam/downloads/au/Express/pdf/dhl_barometer_results_au_en_2012.pdf (accessed 16 October 2013).

³ In conversation with the author.

⁴ M. Cook and H. McKay 'Japan: Ripe for Reassessment' *Perspectives: Lowy Institute for International Policy*, February 2006.

⁵ Tom Kenny (2013) "Japan Macro Update." ANZ, August.

⁶ In conversation with the author.

⁷ Gary Hansen and Selahattin Imrohorglu (2013) "Fiscal reform and Government Debt in Japan: A neo-classical perspective."

Japan's Strategic Challenges in Asia

H. D. P. Envall*

Often, a change of government implies a shift in a nation's strategic direction. In Japan, however, the return of the Liberal Democratic Party (LDP) to government in December 2012 — replacing the Democratic Party of Japan (DPJ) — has brought about no such change. Under Prime Minister Shinzō Abe, in his second time as leader after an unsuccessful period in 2006–07, the Japanese government is continuing to pursue strategies developed under DPJ Prime Ministers Naoto Kan and Yoshihiko Noda which broadly follow the normalisation agenda pursued by Japan through the post–Cold War period. In particular, the Japanese government's focus remains on the strategic challenges presented in the East China Sea and on the Korean peninsula. The one issue where the new government may implement major change is constitutional reform and the right to collective defence.

Japan's Major Relationships

Both LDP- and DPJ-led governments have struggled to maintain solid, constructive relationships with other Asian nations in recent years. Under Prime Minister Jun'ichirō Koizumi, the LDP found its dealings with China and South Korea especially troubled due to Koizumi's visits to the controversial Yasukuni Shrine and other historical disputes. The DPJ under Yukio Hatoyama (2009–10) sought to reverse this, especially in terms of the Chinese relationship. However, its policy was undermined by several incidents in 2010, most notably the collision between a Chinese finishing boat and a Japanese Coast Guard vessel near the disputed Senkaku islands (known as Diaoyutai to the Chinese).

During his first term as Prime Minister, Abe also visited China and South Korea in an attempt to mend the difficulties experienced under Koizumi. At

* Dr H. D. P. (David) Envall is a Research Fellow in the Department of International Relations, ANU College of Asia and the Pacific, The Australian National University.

the same time, Abe attempted to establish a regional framework which was viewed as seeking to contain China. In particular, Abe advocated for India to join the Trilateral Security Dialogue, a grouping which included Australia, Japan and the US. Though this initiative had lost momentum by late 2007, it demonstrated that Abe was a key supporter of closer relations with India¹. In 2006, Abe had contended that Japan should pursue closer relations with India, in a group of ‘Asia-Pacific democracies plus America’ (including Australia), while then Foreign Minister Tarō Asō also promoted the idea of an ‘arc of freedom and prosperity’ linking these countries. Abe may be seeking to follow a similar approach today. In late 2012, he argued for the creation of a ‘security diamond’ encompassing Australia, India, Japan, and the US (specifically, Hawaii). He has also been active in strengthening Japan’s ties in Southeast Asia, especially with those countries that he perceives share similar values of democracy, the rule of law, and human rights.²

Despite these shifts however, Japan’s key strategic relationships in Asia remain fairly consistent. The most important of these continues to be the military alliance with the United States. Now more than 60 years old, the alliance is still the bedrock of Japan’s security guarantee, notwithstanding the tensions that regularly erupt over the issue of US military bases in the prefecture of Okinawa.³ Beyond this keystone relationship, the rise of China is Japan’s greatest strategic challenge. Recent tensions over the Senkaku Islands further underscore this point. The most obvious partner for Japan in the region, beyond the US, continues to be South Korea. However, the ongoing territorial and historical disputes between the two countries mean that this relationship remains significantly underdeveloped. Finally, Japan’s other two important strategic relationships are with Australia and India. Japan has signed joint security declarations with both countries (with Australia in 2007 and with India in 2008), and in 2013 finalized an acquisition and cross-servicing agreement with Australia.⁴

Article 9: No Longer a Peace State?

A major area of potential change in Japanese strategic thinking is in the area of constitutional reform. Abe has long hoped to revise the Constitution especially the famous ‘peace clause’ (Article 9) which prohibits Japan from maintaining armed forces for ‘settling international disputes’ and does not

recognise the ‘right of belligerency of the state’. Before becoming prime minister in 2006, Abe argued that constitutional revision was both a ‘symbol’ and a ‘concrete approach’ to achieving a ‘restoration of independence’ for Japan. After becoming prime minister, he stated that he hoped to ‘accomplish’ constitutional revision while ‘in office’, a sentiment he repeated in 2013. Although failing to carry out these plans during his first term, the LDP passed legislation enabling a referendum to be held on constitutional revision.⁵

This time around, Abe has continued pushing for constitutional reform. However, he has not focused his attention on outright revision but has also opened up the possibility of further extending the government’s interpretation of the Constitution. Abe seems chiefly concerned not with excising or amending Article 9 but with reinterpreting the Constitution so as to remove the prohibition on collective defence. An advisory panel, originally established by Abe in 2007, was reconvened and is expected to promote such a reinterpretation, with the panel’s head, Shunji Yanai, arguing this position publicly in August. Abe has also appointed Ichirō Komatsu, a known supporter of reinterpretation, as the new head of the Cabinet Legislation Bureau (CLB), the bureaucracy tasked with interpreting Article 9.⁶

Despite Abe’s efforts there are a number of roadblocks that lie in the way of such reform. The complexity involved in revising the Constitution (a two-thirds majority in both houses of parliament as well as a majority at a national referendum) may explain why Abe has postponed the constitutional debate until next year and is considering reinterpretation rather than just the bolder but more difficult task of revision. However, there are challenges to reinterpreting the Constitution. Although the LDP almost universally supports reinterpretation, the bureaucracy may still oppose it. The CLB has historically resisted any moves towards change on collective defence. Abe’s hope appears to be that a stronger CLB director general would be able to push the change through even if stymied by the bureaucracy. A further political challenge for Abe is the question of how to manage the LDP’s coalition partner, New Komeito. Traditionally adverse to any reinterpretation of Article 9, New Komeito leaders have publicly expressed their doubts about whether change is necessary.⁷

Strategic Continuities under Abe

Japan's strategic thinking during the Cold War was dominated by the Yoshida Doctrine, under which Japan relied on the US for its security (in return for providing bases) and instead focused on economic development. In the post-Cold War period, Japan has slowly shifted away from this approach. Under what has been described as security 'normalization', the country has become more active internationally and assumed greater responsibilities within the US-Japan alliance.⁸ Outside constitutional reform, the Abe administration appears largely to be following the normalisation agenda.

A key turning point in recent Japanese strategic thinking occurred in 2010 with the release of the National Defence Program Guidelines for the period beginning in 2011 (FY2011 NDPG) by the DPJ. If taken in the context of the Yoshida Doctrine, the FY2011 NDPG was a radical document. It finally abandoned the narrow Cold War focus on defending against a 'full-scale invasion' by the Soviet Union, emphasising instead the need to prepare for more limited 'gray zone' conflicts over territorial disputes occurring in the maritime region to the southwest of Japan under the concept of 'dynamic defense'. Yet, the FY2011 NDPG also represented a return to Japan's post-Cold War orthodoxy after the missteps of the DPJ under Prime Minister Hatoyama. Hatoyama had promoted a multilateral strategy that sought to find a more evenly balanced position for Japan between the US and China under the rubric of *yūai* (fraternity). As this strategy was undermined by worsening regional relations, the DPJ used the FY2011 NDPG to return to a more familiar Japanese strategy of developing its own defence capabilities and cooperating closely with the US and its allies. In these respects, it was a document entirely at ease with previous LDP thinking and the post-Cold War normalisation agenda.⁹

Consequently, with the LDP's return to power under Prime Minister Abe, the new government has not sought to undo the FY2011 NDPG even as it plans to release a new version for 2014 and beyond. Although Minister of Defense Itsunori Onodera was initially unsure of whether 'dynamic defense' helped Japan's 'deterrence capability', there is little in the interim report released in July 2013 to suggest a divergence from the 2010 approach. For instance, the report continues to stress the likely rise in 'gray

zone' (*gurē zōn*) conflicts, as well as the need to strengthen intelligence, surveillance and reconnaissance capabilities¹⁰. Indeed, it is possible to identify four basic strategic priorities that have emerged during the nine months of the Abe administration; the first three fit within the broad direction of the FY2011 NDPG, while the fourth has been the (largely missed) ambition of every government since the economic bubble burst in 1991. These are to:

- 1) increase defence spending (or at least reverse its decline in the short-term);
- 2) strengthen Japan's security institutions;
- 3) continue the reorientation of Japan's defence posture (southward and towards new types of conflict and crisis, such as a nuclear crisis on the Korean peninsula); and
- 4) revitalise the Japanese economy (through Abe's 'three arrows' of economic reform).

Strategic Outlook

Overall, Japan's current strategic environment is in a state of flux with significant new challenges emerging, especially China's greater assertiveness in the East China Sea. Despite this, Japan's response (aside from the exceptional and as yet unrealised areas such as constitutional revision) has been to continue with the pattern of slow normalisation established across the post-Cold War period: a gradual strengthening of defence capabilities and institutions combined with a widening of Japan's strategic relationships across Asia. Multilateralism and regionalism have not disappeared from Japanese diplomacy; however the weaknesses made obvious under Hatoyama have highlighted the dangers in basing strategy on too optimistic a reading of regional stability. The danger for the Abe administration is that it might move too far in the opposite direction. If the government fails to reassure the region of Japan's intentions, it risks adding to Asia's already problematic security dilemma and so might worsen the very regional disorder it hopes to avoid.

¹ R. Medcalf, 'Chinese Ghost Story', *The Diplomat*, (14 February 2008) available online: thediplomat.com/2008/02/14/chinese-ghost-story/ (accessed 31 October 2013)

² For Abe's 2006 arguments, see S.Abe, *Utsukushii Kuni e* [Towards a Beautiful Country], (Tokyo: Bungei Shunjū, 2006) pp. 158–61. For his 2012 statement, see S.Abe, 'Asia's Democratic Security Diamond', *Project Syndicate* (27 December 2012) available online: www.project-syndicate.org/commentary/a-strategic-alliance-for-japan-and-india-by-shinzo-abe (accessed 31 October 2013). Regarding the 'arc of freedom and prosperity', see Y. Hosoya, 'The Rise and Fall of Japan's Grand Strategy: The "Arc of Freedom and Prosperity" and the Future Asian Order', *Asia-Pacific Review* vol. 18, no. 1 (2011) pp. 13–24. Finally, on Abe's Southeast Asia strategy, see D. D. Trinidad, 'Abe's ASEAN Tour', *East Asia Forum*, (6 September 2013) available online: www.eastasiaforum.org/2013/09/06/abes-asean-tour (accessed 31 October 2013).

³ For Okinawa's basing problems, see H. D. P. Envall, 'Underplaying the "Okinawa Card": How Japan Negotiates its Alliance with the United States', *Australian Journal of International Affairs* vol. 67, no. 4 (2013), pp. 383–402.

⁴ On Japan's difficulties in the East China Sea, see S.A. Smith, 'Japan and the East China Sea Dispute', *Orbis* vol. 56, no. 3 (2012) pp. 370–90. Recent Japan–South Korea relations are well described in B.Taylor, 'Japan and South Korea: The Limits of Alliance', *Survival*, vol. 54, no. 5 (2012), pp. 93–100. On Japan's India relationship, see S.Gupta, 'Japan–India Strategic Ties: Still Stuck in "Feel Good" Mode', *East Asia Forum*, (12 June 2013) available online: www.eastasiaforum.org/2013/06/12/japan-india-strategic-ties-still-stuck-in-feel-good-mode/ (accessed 31 October 2013)

⁵ S. Abe, *Utsukushii Kuni e*, p. 29; J. Tang, 'Abe Aiming to Realize Constitution Revision during Prime Ministership', *Kyodo News*, (19 December 2006); and 'Abe on "Historical Mission" to Amend Constitution', *Asahi Shimbun*, (13 August 2013). See also H. D. P. Envall, 'Abe's Fall: Leadership and Expectations in Japanese Politics', *Asian Journal of Political Science* vol. 19, no. 2 (2011), pp.149–69..

⁶ R.Yoshida, 'Abe-Revived Body Looks to Authorize Collective Defense', *Japan Times*, (6 August 2013), available online: www.japantimes.co.jp/news/2013/08/05/national/abe-revived-body-looks-to-authorize-collective-defense/ (accessed 31 October); Komatsu Posting Sets Stage for Reinterpretation, *Japan Times*, (8 August 2013), available online: www.japantimes.co.jp/news/2013/08/08/national/komatsu-posting-sets-stage-for-reinterpretation/#.UnH2u3CBk7o (accessed 31 October)

⁷ According to a recent poll, 97 per cent of LDP politicians believe the Constitution should be revised. See 'Most LDP Candidates Favor Revision of Constitution', *Kyodo News*, (29 June 2013) available online: www.globalpost.com/dispatch/news/kyodo-news-international/130629/most-ldp-candidates-favor-revision-constitution (accessed 31 October). For more on the CLB, see R.J. Samuels, *Securing Japan: Tokyo's Grand Strategy and the Future of East Asia*, (Ithaca: Cornell University Press, 2007), pp. 46–51. On New Komeito's public statements, see 'Already Allowed Self-Defense Right Enough for Japan: New Komeito Head', *Jiji Press*, (26 July 2013).

⁸ Regarding the Yoshida Doctrine, see Samuels, *Securing Japan*, pp. 34–6.

⁹ On the DPJ's strategic failures, see H. D. P. Envall and K.Fujiwara, 'Japan's Misfiring Security Hedge: Discovering the Limits of Middle-Power Internationalism and Strategic

Convergence’, in W.T. Tow and R.Kersten (eds.) *Bilateral Perspectives on Regional Security: Australia, Japan and the Asia-Pacific Region*, (Houndmills: Palgrave Macmillan, 2012), pp. 60–76.

10 A. Mie, ‘Onodera to Review Defense Plans, Up Spending’, Japan Times, (31 December 2012); and Ministry of Defense, Government of Japan, ‘Bōeiryoku no ArikataKentōniKansuruChūkan’ [Interim Report on the Current State of Defense Capabilities], (26 July 2013) available online: www.mod.go.jp/j/approach/agenda/guideline/2013_chukan/20130726.pdf. (accessed 31 October 2013)

Japan's Strategic Dilemmas: Navigating the US 'Rebalance' and the Rise of China

Rikki Kersten *

In the second decade of the 21st century, the geostrategic environment in Northeast Asia is forcing Japan to confront some long-standing strategic dilemmas. Can Japan keep the US engaged in the defence of Japan, when the interests of the US are leaning towards China? How can Japan reconcile its pacifist national identity with its desire for greater autonomy in its alliance with the US? And can Japan be recognised as a legitimate post-war power, when war continues to frame Japan's contemporary relationships in the region?

As the US pursues its 'rebalance' policy framework and implements its global force posture review, the conservative Abe administration is assessing its policy options in the realm of security. In doing so, it is attempting to prepare public opinion to accept a more assertive and independent security stance.

To date, Japan has been understood mainly as a constrained security actor: subordinate to the US, and prioritising its economy over defence. In order to comprehend the fundamental changes that are underway in Japan's approach to security, we must overturn redundant analytical assumptions concerning Japan's national interest, its national identity and its aspirations as a power in contemporary Asia.

Japan's Geostrategic Context

Most commentators agree that Asia is undergoing strategic transition featuring rising powers (China, India, Indonesia and others) and growing

* Rikki Kersten is Professor in the Department of Political & Social Change, School of International, Political & Strategic Studies at the College of Asia and the Pacific, The Australian National University.

strategic competition. There is also broad agreement, including amongst Japanese analysts that the post-Cold War world is moving from unipolarity towards multipolarity. This implies a relative decline in the influence and impact of the US even before other factors, such as austerity, come into play.

Moreover, this dynamic situation of strategic transition is underscored by a threat spectrum that requires multilateral cooperation for any response to be effective. From climate change to terrorism and other asymmetrical threats, transnational threats make a mockery of attempts to contain this array of challenges within the borders of a single nation-state.

Japan's response to this threat environment is itself hostage to difficult domestic circumstances. The nuclear threat from North Korea and a number of territorial disputes have taken centre stage in Japanese debates at a time of national hypersensitivity. Japan's status as an economic superpower has taken a battering as the downturn of the 1990s lingers into the second decade of the 21st century. Yes, Japan remains the third largest economy in the world, but its trajectory is heading downwards and psychologically this is jarring. As a lopsided superpower in the post-war world, Japan has relied on its economic performance to sustain its influence in the world.

This situation is made even more unsettling by the rise of China as a global economy and a regional military power. Japan's status relative to that of China is a constant preoccupation for Japanese political leaders. But just as Japan has started to look to its ally for reassurance, the US has shifted its global posture, disturbing established parameters of security policy planning in Japan.

The US Rebalance and its Implications for Japan

It is likely that the US 'rebalance' will fundamentally affect Japan's place in the US alliance system. While the strategic underpinning of the policy is still being elaborated, it has already altered the way in which regional security policy is framed. Although the Secretary of State, John Kerry, has shown little interest in the Asia-Pacific to-date, the 'rebalance' is driven by

long-term strategic interests on the part of the US. The ‘rebalance’ is here to stay.

The defining features of the ‘rebalance’ policy will require a reconfiguration of the structure of the US alliance system. The military aspects alone tell the story: assets and forces will be more dispersed, with mobile, rotational deployments supported by prepositioned logistics and materials. This means that there will be less need or use for large, permanent bases such as those in Japan. There is also a clear expectation on the part of the US that alliance relationships and partnerships will be upscaled. This in turn implies that burden-shift, rather than burden-share, is the outcome desired by the US. Allies will have to contribute more not only to their own defence, but to the effectiveness of the alliance as a whole.

This is where the impact of austerity is being felt. Increasingly, US allies such as Australia, Japan and South Korea are exploring enhanced spoke-to-spoke security relationships within the hub-and-spokes system. The intriguing contradiction at the heart of the ‘rebalance’ is that even while the Obama Administration declares a commitment to the Asia-Pacific, allies are contemplating the partial withdrawal of the US from the region due to budgetary pressures. The ‘rebalance’ was designed to reassure allies and demonstrate to potential adversaries that despite war-weariness and the global financial crisis, the US was ‘all in’ (to quote President Obama) when it came to Asia. But the thrust of the ‘rebalance’ together with attention-sapping developments in the Middle East are inciting allies such as Japan to hedge.

For Japan, the rebalance has been a catalyst to rethink the premises of Japan’s post-war security policy. The advent of the second Abe administration in 2012 has accelerated this trend. The confluence of these two developments has in turn exposed the fact that many assumptions underpinning our understanding of Japan as a security actor are redundant.

The bargain struck between the US and China in 1972 included an essential agreement about Japan. This agreement was that the US, through its security treaty with Japan and bases on Japanese soil, would act as a ‘cap in the bottle’ of Japanese militarism. But since 1952, when the US occupation of Japan ended, Japan has been a good global citizen, a contributor to peace

and a major aid donor. Moreover, its ‘constraints’ – such as a 1% ceiling on defence spending, three non-nuclear principles and non-recognition of collective self-defence – have been self-imposed. Indeed, since 1991 the US and much of the global community has expected Japan to make a greater contribution to global peace-keeping and peace-building. It is time to shed the ‘cap in the bottle’ depiction of Japan as a security actor.

Similarly, the logic of the Yoshida Doctrine is tired and has outlived its usefulness. Japan no longer needs to deny itself the right to maintain armed forces or to project power in order to rebuild its economy. The challenges Japan faces today are quite different from those of the early 1950s, when preventing Japan from turning communist was uppermost in the minds of conservatives. Today, Japan is seeking to participate actively in missile defence and has loosened its own constraints on exporting weapons.

In addition, Japan is no longer a ‘passive’ pacifist nation. The public broadly accepts that Japan needs to make a contribution to international peace and stability, including through military means, however constrained this may be. The proactive turn in Japanese pacifism does not negate popular commitment to the pacifist national identity, but it does signal that the logic of self-imposed constraints on Japan’s ability to act at home and abroad is less salient. Abe’s recall of the Yanai Committee to advise on the viability of collective self-defence and the revision of the National Defence Program Guidelines are developments that ought to be seen in this light

While the ‘rebalance’ has been a catalyst to rethink security policy in Japan, it is the alliance relationship between Japan and the US that will need to ultimately reflect changed attitudes within both countries. We are now entering an era when the extent of common ground between Japan and the US is being assessed, particularly by Japan.

The Rise of China and the Obstacles to New Security Thinking in Japan

Japan’s deteriorating relationship with China in the wake of rising tensions over the East China Sea has highlighted other transformations in Japanese thinking about the US alliance.

Japan's disagreement with China over the Senkaku Islands has seen both countries trash the status quo, opening the way for testing and signalling behaviour that has caused concern around the region. Japan's response to the 2010 collision between a Chinese fishing vessel and a Japan Coast Guard ship and Japan's clumsy 2012 'nationalisation' of two of the islands threw the sovereignty question wide open in China's eyes. China's apparent squeezing of rare earth metals exports and the reported weapons radar lock incident of 2013 likewise hardened Japan's resolve not to budge on sovereignty. The bilateral relationship has stalled across the board ever since.

Both Japan and China have been testing the US and the US-led alliance system, as much as they have been testing each other. If China can expose the reluctance of the US to come to the aid of an ally, then the integrity of the entire US alliance system will come into question. For Japan, the Senkaku issue is a test of the essential mission of the US-Japan alliance, namely the defence of Japan. This represents a major departure in the dynamics of the alliance: in the past Japan strove to avoid entanglement in US global strategy, but now Japan is singularly focused on entrapping the US in Japan's own strategic priority.

Some people might assume that the East China Sea predicament is an excellent excuse for the rightist Abe administration to accelerate Japan's 'normalisation' as a security actor. But Abe finds himself caught in what is an increasingly uncomfortable wedge of his own. Abe needs the US security guarantee, especially when facing off against China on island disputes and when confronting the volatile North Korean nuclear menace. But the language of parliamentary debates and commentary in Japan reveals a counter-veiling imperative, namely, the desire for greater autonomy for Japan within the alliance system. Abe's administration wants to exercise Japan's right to self-defence for its own purposes, and not necessarily for the sake of shoring up the US 'rebalance' in the region. Abe needs the US to commit unreservedly to Japan, but he does not want to be locked in an embrace that is too tight.

Abe's second dilemma is one of his own making. China has presented the East China Sea issue as one that evokes Japan's militaristic, expansionist past. This conjures up all of the redundant logic surrounding the 1972

portrayal of Japan as a power that must be constrained. Abe has poured oil onto the flames by repeatedly calling into question the extent of Japan's war guilt, its responsibility for atrocities (for instance for the enslavement of 'comfort women') and even playing word-games about the 'true meaning' of 'aggression'. In the process Abe is proving China right about Japan and alienating the US and other pivotal security partners in Southeast Asia. Worst of all, he is undermining Japan's interest by preserving redundant renderings of Japan in the 21st Century, negating the positive and responsible record of Japan as a post-war nation-state.

Abe's discordant performance of Japanese security policy means that while incremental steps towards 'normalisation' will occur during his administration, it will not achieve the strategic objectives Japan seeks. Indeed, it may even undermine their credibility at home as well as abroad. Abe is proving to be the agent of redundancy, constraining Japan from achieving its desired status as a balanced power that can contribute to peace and stability in the Indo-Pacific region and beyond.

Biographies of Contributors

David Envall is a Research Fellow in the Department of International Relations, ANU College of Asia and the Pacific, The Australian National University. He is the Department's undergraduate course coordinator as well as the editor of the *Policy Background Paper* series, which is part of the ANU-MacArthur Asia Security Initiative (ANU-MASI) Project. In addition to having worked as a copy editor and corporate editor/writer, he has formerly held appointments teaching Japanese foreign relations at Tokyo International University and politics at La Trobe University. He has been a visiting researcher at Hitotsubashi and Waseda Universities, Japan, and has been the book reviews editor for the *Electronic Journal of Contemporary Japanese Studies* since 2001.

Tim Harcourt, 'The Airport Economist', is the J.W. Nevile Fellow in Economics at the Australian School of Business at the University of New South Wales (UNSW). Tim was also for over a decade the first chief economist of the Australian Trade Commission (Austrade). Tim is currently the inaugural Adviser-Global Engagement to the Hon Jay Weatherill MP, the Premier of South Australia, a position he holds on a part-time basis. Tim is also an Expert Panel Member, Minimum Wage Review, for the Fair Work Commission. Tim is an active commentator in the Australian and international media. Tim is the author of 6 books on the international economy. His best known book *The Airport Economist* is a business bestseller and has been translated into several languages.

Nobuhide Hatasa is a Research Fellow at the Japan Institute of International Affairs (JIJA). He received his Ph.D. from the Graduate School of International Development, Nagoya University, in 2002. His research interests include regional economic cooperation in the Pacific Asia and East Asian Economy. He has experiences working at National Institute for Research Advancement (NIRA), Tokyo Metropolitan University (TMU), Asian Development Bank Institute (ADB), Waseda University Institute of Asia-Pacific Studies (WIAPS) and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). He is currently engaging in various activities for the Pacific Economic

Cooperation Council (PECC) and research projects on economic integration in the Pacific-Asia.

Rikki Kersten is Professor of Modern Japanese Political History in the School of International, Political and Strategic Studies at the Australian National University. She is a graduate of Adelaide and Oxford Universities. Rikki has served in the Australian Public Service in the Department of Foreign Affairs and Trade, including a posting to the Political Section of the Australian Embassy in Tokyo between 1988-1991. Thereafter she has engaged in research and teaching on Japanese history and politics at Sydney University, Leiden University and from 2006 at the Australian National University. From February 2014 she will be Dean of the School of Arts at Murdoch University in Western Australia.