

Panel Session I

How Do China, Korea and Japan See the Regional Integration?

Japan’s Perspectives on Future of Regional Order in East Asia¹

Ken Jimbo²

1. Power Shift and Power Transition

The rise of China is rapidly changing the strategic landscape in the Asia-Pacific region. As China becomes a leading power in Asia, China’s growing influence is shifting strategic weight of bilateral and regional security relations. The rise of China is also a global phenomenon. The distribution of global wealth is further multi-polarized and diversified as China’s nominal GDP is going to match the size of the United States and EU. China, along with other emerging economies in the world, may gradually alter the rules, norms and institutions of global governance. Thus, for policy makers in Japan, days of old-fashioned management of Japan-China bilateral relations become utterly obsolete. Accordingly, Japan’s strategy toward China should be readjusted as a core of Japan’s regional strategy in East Asia and a gateway of a strategy toward emerging powers in the world.

One of the leading views suggests that as China gets more powerful and the U.S. position erodes, it inevitably leads to a serious strategic competition between China and the liberal order predominantly led by the United States.³ The result of these developments will be tensions, distrust

¹ This paper is based on the Tokyo Foundation’s Research Project “Japan’s Security Strategy towards China” (June 2011).

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³ See John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W. W. Norton, 2001); Aaron Friedberg, “The Future of U.S.-China Relations: Is Conflict Inevitable?,” *International Security*, Vol. 30, No. 2 (Fall 2005). For a prototypical form of the power transition theory, see A.F.K Organski, *World Politics* (New York: Alfred A

and conflict during the process of power transition. However, other views assert that while the "unipolar moment" will inevitably end, China can thoroughly accommodate with the United States since China has been highly integrated in the liberal international order.⁴ In this view, the U.S.-China relations will not necessarily be confrontational, and it will lead to wide potential of peaceful co-existence between two leading powers. Indeed, the Chinese government repeatedly proclaimed that China would be able to rise to prominence peacefully that does not challenge the existing order.

The peaceful rise of China, however, is not an easy goal to be realized without bridging a crevasse underlying between China and the liberal order. China's fundamental claims on territorial integrity and "core interests" are giving rise to tensions with concerned states. China's promotions of state capitalism, heavy involvement in the market and tight currency control have been sources of economic frictions with leading economies. China's limited progress on democracy, human rights and the rule of law also pose difficulty in sharing common values. In realizing the peaceful rise of China, China needs to clarify its road to bridge the gap between the concept and the reality.

Japan's security strategy toward China has to be based on the assessment of such dynamism of China's changing status in the power distribution in the Asia-Pacific, China's perspective and strategy for Asian security order and how much Japan, U.S.-Japan alliance and other regional partners can shape the strategic choice of China. The Tokyo Foundation Asia Security Project suggests introducing of *Integration, Balancing and*

Knop., 1958). A theoretical examination of how transitions of power from a hegemon to a challenging country tend to cause war can be found in Robert Gilpin, *War and Change in the World Politics* (New York: Cambridge University Press, 1981). A critical study of the theory of power transition in U.S.-China relations can be found in Steve Chan, *China, the U.S., and the Power Transition Theory: A Critique* (London and New York: Routledge, 2008).

⁴ John Ikenberry, "The Future of the Liberal World Order: Internationalism After America," *Foreign Affairs*, Vol. 90, No. 3 (May/June 2011); John Ikenberry, "The Rise of China and the Future of the West: Can Liberal System Survive?," *Foreign Affairs*, Vol.87, No.1 (January/February 2008).

Deterrence as Japan's three-layered security strategy toward China.⁵ This approach aims to overcome the simple binominal framework of *Engagement and Hedging*, because 1) China no longer belongs outside of the international system so that days of *engaging China* is over; and 2) in order to shape China's strategic choice to cope with the liberal order we need more proactive approach beyond merely *hedging China*. Japan should enhance to *Integrate* China in building bilateral, regional and global orders, should *Balance* China to make it expansive and institutionalized that China has no choice but become full-fledged member of the leading nations, and should *Deter* if China advances to change the status-quo by force.

For Japan, the year 2010 brought the dawn of a full-scale encounter with the rise of China. China has become the world's second-largest economy in 2010 by overtaking Japan's nominal GDP. China also has become Japan's top trading partner by replacing the U.S. in 2009. As Japan-China economic relations become highly interdependent based on mutual interests, two countries are now hardly separable. However, mutual distrusts and tensions linger in bilateral security relations, as highlighted in the confrontation over Senkaku Islands (in Chinese term: *Diaoyu Islands*) in September 2010. The incident also brought to light that Japan and China share little for effective mechanisms to reduce danger, managing the crisis, nor increasing their common interests when bilateral security issues at stake. As China is advancing the level of military activity in the East China Sea and Japan correspondingly placing emphasis on Southwest defense, there are greater needs to fill the vacuum of stability and crisis management in Japan-China security relations.

U.S-China-Japan GDP and Military Spending in 2030

Japan's China strategy should be founded upon the objective assessment of the future distribution of power, especially among the Japan, U.S. and

⁵ The Tokyo Foundation Asia Security Project, *Japan's Security Strategy towards China: Integration, Balancing and Deterrence in the Era of Power Shift* (October 31, 2011) See: <http://www.tokyofoundation.org/en/articles/2011/china-strategy>

China. For this purpose, our project conducted researches on economic projection and military spending trends toward 2030. Referencing the various economic projection studies of the IMF *World Economic Outlook* and the Goldman Sachs reports etc., we have updated and modified the projection trends reflecting the changes after the global financial crisis in 2008.

Our estimate suggests that China will surpass the U.S. GDP (nominal in U.S. dollar as of 2010) and become world’s number one economy in 2026. In 2030, it is estimated that the U.S. nominal GDP is at 28.4 trillion dollars, China at 34.7 trillion dollars, and Japan at 8.4 trillion dollars. The ratio of the size of GDP among U.S.:China:Japan will be 3.4:4.1:1 respectively.

Our study also discovered that the future projection of China’s military spending is also challenge the U.S. primacy. Most of the previous studies argued that China would not be able to compete with the U.S. in the military domain despite its economic ascendancy. Although military power should be measured in comprehensive manner, our project decided to compile a long-term outlook on national defense spending based on the GDP projection. The assumption is simple enough. We have calculated the defense spending by a fixed rate as the percentage of GDP, with high/low estimate path for the U.S. and China.

Table 1: Nominal GDP of Japan, China and the United States in 2010-2030

Units: 2010 USD/bn unmodified

	2010	2015	2020	2025	2030
Japan	5,458.87	6,379.66	7380.36	8,001.79	8,409.96
U.S.	14,657.80	17,993.10	22,205.97	24,916.36	28,411.29
China	5,878.26	10,061.80	16,136.70	24,163.59	34,657.70

Source: The Tokyo Foundation Asia Security Project⁶

⁶ **Assumption A:** High per capita GDP states: Japan, USA, Australia, and Singapore will maintain the average nominal growth rate of (2011-2016) until 2020. **Assumption B:**

Table 2: Military Spending of Japan, China and the United States in 2010-2030

Unit: 2010 USD/Million

	2010	2015	2020	2025	2030
Japan(1.0%)	51,420	63,797	73,804	80,018	84,100
U.S. (4.7%)	687,105	845,676	1,043,681	1,171,069	1,335,331
U.S. (3.0%)	N/A	N/A	666,179	747,491	852,339
China(H.Est.)	160,020	309,904	497,010	744,238	1,067,457
China (2.2%)	114,300	221,360	355,007	531,599	762,469

Source: The Tokyo Foundation Asia Security Project⁷

In the year 2030, the combination of the U.S. defense-cut path and China's high-end path is reversing their positions in the ranking of military spending. We are not suggesting that this may be the reality of power transition by the simple form of projection study, but we are calling

High per capita GDP states' 2020-2030 projection is based on the (GS,2007) data that provides projection data of every 5 years (modified by the margins of error between GS2007 and IMF/WEF 2011*). **Assumption C:** Emerging states: China, Korea and ASEAN5* (IMF definition of ASEAN5 includes Indonesia, Malaysia, Thailand, Philippines and Vietnam) corresponds with the average growth rate of (2011-2016) but adjusted to the rate (GS,2007) provides in every 5 years. For example, the Chinese growth model calculus is shown below.

⁷ Using data sets of the Stockholm International Peace Research Institute (SIPRI). Selecting countries from Asia-Pacific region and compare the data based on the constant USD as of 2009. **Basic Assumption:** The percentage of GDP allocated for the Military Expenditure in 2009 will be maintained till 2030. **Assumption on China 1):** It is widely recognized that Chinese official defense budget announcement (CHN Yuan) did not match the international standard. SIPRI has estimated that the real budget is 150-160% of the Chinese official announcement. **Assumption on China 2):** US DOD claims that SIPRI even underestimate the Chinese military budget. US Department of Defense, *Military and Security Developments involving the People's Republic of China* (August, 2010) estimates Chinese military counts up to more than 150 billion USD (SIPRI 140% added). Considering these views, this study also indicate [High Estimation Path] by adding 140% of the SIPRI standards. **Assumption on the U.S.:** The United States has announced to take major steps to reduce the military expenditure due to its severe fiscal pressure of the federal budget. This study also consider the rate at which if U.S. takes steps to reduce the budget to the level of Clinton Administration in 1999 (3.0%), shown as [Low Estimate Path]

readers' attentions that the power shift is occurring at a much faster pace than perceptions of most critics. The projection manifests in even more drastic form in Japan-China relations. China's national defense spending is rising beyond Japan's defense expenditures at a rapid rate, and the bilateral military balance between Japan and China is expected to tip over to a state of overwhelming ascendancy on China. Chinese defense spending will be 4.8 times (6.5 times in high-estimate) larger than that of Japan's in 2020 and 9.1 times (12.7 times) larger in 2030. The power transition is a reality of the Japan-China relationship and that foretells the coming era when Japan will find it increasingly difficult to deal with China's military rise on its own resources alone.

2. Spiral Dynamics of U.S.-China Security Relations

Four Types of Order in the U.S.-China Relationship

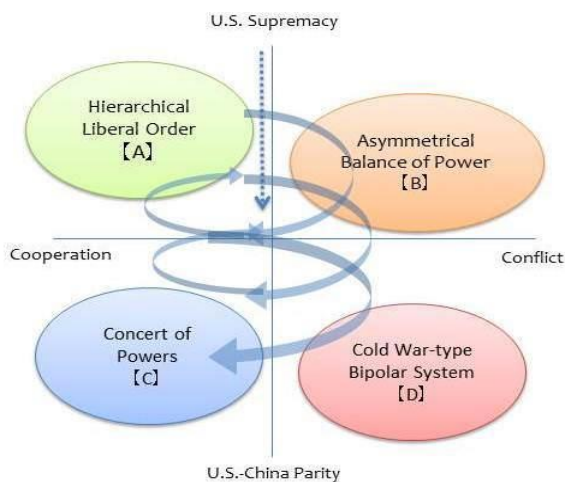
The discussion to this point has related to the changing distribution of power among Japan, the U.S., and China, and the possibility that those changes may dramatically alter the basic composition of international politics in the Asia-Pacific region in the coming 20 years. The below discussion will examine the fluctuating shifts that may be engendered in the security order of the Asia-Pacific region by the changing distribution of power among Japan, the U.S., and China. This study has taken up the relationship between the U.S., the superpower that supports the security order of the Asia-Pacific region, and China, which maintains growth at a rate that brings it closer to the same level as the superpower. Taking this relationship as the greatest variable that defines the international order, the discussion has positioned 1) the U.S.-China power balance (the U.S. ascendancy model and the U.S.-China parity model) and 2) the basic character of the U.S.-China relationship (cooperative and confrontational) as vertical and horizontal coordinate axes.

If this classification is adopted, then the following four types of order between the U.S. and China can be envisioned (Figure 7):⁸

⁸ Representative studies that find a hierarchical order in Asia positing U.S. ascendancy

- A) **Hierarchical Liberal Order:** The distribution of power has the U.S. dominant, and cooperativeness is maintained in the U.S.-China relationship.
- B) **Asymmetrical Balance of Power:** Although the distribution of power has the U.S. dominant, the U.S.-China relationship experiences deepening conflict.
- C) **Concert of Powers:** As the distribution of power between the U.S. and China reaches parity, cooperativeness is maintained in the U.S.-China relationship.
- D) **Cold War-type Bipolar System:** The distribution of power between the U.S. and China reaches parity, and the U.S.-China relationship experiences deepening conflict.

Figure 1: The Spiral Dynamics of U.S.-China Security Relations



include the following: Michael Mastanduno, "Incomplete Hegemony: The United States and Security Order in Asia," Muthiah Alagappa, ed., *Asian Security Order: Instrumental and Normative Features* (Stanford: Stanford University Press, 2003); Evelyn Goh, "Hierarchy and the Role of the United States in the East Asian Security Order," *International Relations of the Asia Pacific*, Vol. 8 (2008).

In the world as of 2011, for example, it should be possible to grasp the situation under the two mixed patterns a) and b) (with a power distribution in which the U.S. is dominant, there is amplitude of conflict and cooperation in U.S.-China relations).

A closer examination of these four types would be worthwhile. First of all, in the **hierarchical liberal order [A]**, China adopts a cooperative stance toward the liberal international order that has been developed by the U.S. and other industrialized democratic countries since the WWII and participates in it. The engagement theory held during the Clinton administration and the responsible stakeholder theory put forward in the latter part of the George W. Bush administration sought to induce the Chinese government to take cooperative action in bilateral relationships, and beyond that in regional and global dimensions of policy, as well, on the basis of this a) view of order.⁹ The "peaceful rise" theory and the "harmonious world" theory being held up by the Chinese government and China's policy community also stand upon this view of order. They may be considered concepts that point respectively to China's cooperative participation in the world community and its peaceful resolution of international conflicts.

In the **Assymetrical Balance of Power [B]**, the U.S. power exceeds that of China in scale, as before, and the U.S. evinces the will to exercise leadership in forming the international order. Despite this, however, the dominance of its power is gradually being relativized, and scenarios can be expected in which China, however partially, refuses certain specific courses of action to the U.S., and in which China increasingly takes antagonistic measures. In the military sphere, for example, it is conceivable that China will increase its A2/AD capability

⁹ Thomas J. Christensen, "Fostering Stability or Creating a Monster?: The Rise of China and the U.S. Policy Towards East Asia," *International Security*, Vol.31, Issue 1 (Summer 2006). Regarding the lineage of the responsible stakeholder theory, see Ken Jinbo, "'Sekinin aru Sutekuhoruda Ron' to Beichu Anzen Hosho Kankei" [The Responsible Stakeholder Theory and the U.S.-China Security Relationship], *Toa* [East Asia] (September 2006).

with regard to military actions by the U.S., and increase its freedom to act so as to resolve disputes in forms that China itself finds desirable. It is also possible that China will not necessarily be disposed to participate in a liberal order, and that it may set out to create a new international framework, or explore the alteration of existing frameworks, or form international rules according to declared principles or values unlike those of the developed countries so far. Specifically, China's approach differs from the so-called Washington Consensus with its fundamental orientation toward a market economy and free trade. China instead presents a Beijing Consensus for continuing growth under an authoritarian system, and further indicates its inclination to challenge the realm of the global commons in terms of freedom of navigation, space, and cyberspace.¹⁰ It can be envisaged, at this stage, that the network of alliances centered on the U.S. as well as their relations with partner countries will be reinforced in order to realize the balance of power, and that China may take similar actions.

The **Concert of Powers [C]** refers to the state of affairs in which U.S. and Chinese economic power approach equilibrium, and in situations that move toward increasing military antagonism. In the **Cold War-type Bipolar System [D]**, the U.S. and China engage in ongoing power struggles in a bipolar system that is equivalent to the U.S.-Soviet relationship during the Cold War, or the two countries engage in action with that aim, taking their relationship more deeply into hostility.

Repeating Cycles of Cooperation and Conflict amid Moving toward U.S.-China Parity

This study estimates that the U.S. and China are gradually moving from

¹⁰ Abraham M. Denmark and James Mulvenon, eds., *Contested Commons: The Future of American Power in a Multi-Polar World*, Center for New American Security (January 2010);

http://www.cnas.org/files/documents/publications/CNAS%20Contested%20Commons_1.pdf (accessed May 31, 2011); Ian Bremmer, *The End of the Free Market: Who Wins the War between States and Corporations* (New York: Portfolio, 2010).

the power distribution of U.S. ascendancy to that of U.S.-China parity (moving down the vertical axis). At the same time, they are repeating the cycle of pendulum-like change back and forth between conflict and cooperation (moving laterally on the horizontal axis). This is the pattern of movement that the international order and U.S.-Chinese relations are projected to follow. Expressing this in terms of a moving body, the order of U.S.-China relations can be described as descending in a spiral fashion from **【A】** to **【B】** and gradually **【C】** to **【D】** . This is a downward spiral movement (see Figure 1).

Trends in the world economy, maturation of the Chinese market, and the status of stability in China domestically, energy trends, and other of many such factors could bring China growth at a more relaxed pace than that discussed in the preceding sections. If this turns out to be the case, the downward movement along the vertical axis is also likely to be slower in pace, and the speed of the oscillation between conflict and cooperation, as well as its magnitude, are likely to fluctuate in accordance with the postures of the U.S. and Chinese governments (and militaries) of the time. However, the downward spiral structure by which the power shift takes place in the form of repeated descending movements with lateral amplitude is the model envisioned here for the future of U.S.-China relations and the international order, and this model will be further discussed in the following.

3. Japan's Security Strategy toward China: Integration, Balancing, and Deterrence

Beyond Engagement and Hedging

The concepts that have shaped U.S. policy regarding China since the end of the Cold War have been actively discussed over the past two decades. As this debate accumulates, some observe that the U.S. policy community is highly polarized with regard to the policy toward China.¹¹ They argue

¹¹ Kurt M. Campbell, "Zoellick's China" in Richard Baum, Kurt M. Campbell, James A. Kelly, and Robert S. Ross, "Whither US-China Relations?: A Discussion of Deputy

that the U.S. Department of Defense and hardliners in the administration advocate the hedging strategy toward China that is founded in a zero-sum world view, while the U.S. State Department and agencies who advocates economic relations are promoting the policy of engagement with China that is founded in a positive sum world view. This dualistic understanding may not be entirely unfounded, given the basic tendencies of organizations that address military concerns as distinct from organizations that deal with diplomatic and economic relations. However, that understanding appears somewhat over simplistic as a depiction of bilateral relations characterized by deepening interdependence. The United States should be seen, instead, as gradually imposing conditions even amid its policy of engagement with China, while also seeking to induce cooperative behavior by means of hedging. The U.S. approach has been increasingly colored by this mutual intermixture of engagement and hedging, which are a fusion of positive sum and zero sum views.¹²

As a result, the notion of the responsible stakeholder was put forward as a new axis of China policy during the latter part of the George W. Bush administration.¹³ The 'responsible stakeholder' allowed basic recognition of the success of the engagement approach during the Clinton administration. While rejecting the containment policy that was the polar opposite of that approach, this theory basically aimed to induce China to become a player that would fulfill its international responsibilities as it

Secretary of State Zoellick's Speech," *NBR Analysis*, Vol. 16, No. 4 (December 2005); <http://www.nbr.org/publications/analysis/pdf/vol16no4.pdf#search=%22NBR%20Analysis%20Whither%20US%20China%20Relations%22> (accessed May 31, 2011).

¹² Evan S. Medeiros, "Strategic Hedging and the Future of Asia-Pacific Stability," *Washington Quarterly*, Vol. 29, No. 1 (Winter 2005); Thomas J. Christensen, *op.cit.*

¹³ Robert B. Zoellick, "Whither China: From Membership to Responsibility?" Remarks to the National Committee on US-China Relations (September 21, 2005); <http://www.ncuscr.org/articlesandspeeches/Zoellick.htm> (accessed on May 31, 2011); Ken Jinbo, "Sekinin aru Sutekuhorda Ron to Beichu Anzen Hosho Kankei" [The Theory of the Responsible Stakeholder and the U.S.-China Security Relationship], *Toa* [East Asia] (August 2006).

rose to military, diplomatic, and economic prominence.¹⁴ It also constituted a declaration of the U.S. position of basically welcoming the rise of China while that country built constructive relationships with the world. According to this line of reasoning, the U.S. government must shape the direction of China's rise in concrete ways in order to guide China to become a responsible stakeholder. This is the course by which the concept of the China policy, even while the hedging continued, changed from engagement to shaping.¹⁵

Shaping China or Shaped by China?

In a world where the distribution of power changes, however, it becomes markedly difficult for the U.S. to form a China policy just from a combination of antiquated engagement, shaping strategy, and hedging strategy. Furthermore, these are losing their effectiveness. This is because China, in a context of increasing national power, has a political influence

¹⁴ Hearing of Robert B. Zoellick, "US-China Relations," Committee on International Relations, US House of Representatives, May 10, 2006.

¹⁵ James Steinberg, who was appointed Deputy Secretary of State in the Obama administration, put forward the concept of strategic reassurance in September 2009. He defined strategic reassurance in these words: "Just as we and our allies must make clear that we are prepared to welcome China's arrival as a prosperous and successful power, China must reassure the rest of the world that its development and growing global role will not come at the expense of security and well-being of others." Steinberg refers to this as a "bargain," and calls for mutual reassurance whereby the U.S. decides not to treat China as a challenger because of its rise, as in the past, and China responds by making its rise peaceful. The question of whether strategic reassurance is an indicator of the framework of the new China policy in the U.S. remains open to discussion. The above concept of reassurance itself overlaps to a considerable extent with Zoellick's sense of the responsible stakeholder because Steinberg himself has emphasized the continuity of the U.S.-China relationship from the previous administration. James Steinberg, "China's Arrival: The Long March to Global Power," Keynote Address by U.S. Deputy Secretary of State James Steinberg, Center for a New American Century (September 24, 2009); <http://www.cnas.org/files/multimedia/documents/Deputy%20Secretary%20James%20Steinberg%27s%20September%202009%20Keynote%20Address%20Transcript.pdf> (accessed May 31, 2011).

that no longer will readily allow responsibility to be forced on it (to be shaped), whether in Asia or in the world community. Furthermore, it is no longer possible for the U.S. itself to avoid envisioning the possibility of being restrained by China. In other words, the U.S. and peripheral countries have even come to the point that on occasion they reluctantly accept China's demands, that is, they are shaped. As the U.S.-China power relationship changes progressively in the direction of parity with the U.S. (continuing the downward movement seen in the four types) , the possibility that China's national power or influence could be shaped by one country or one-sidedly becomes increasingly remote for a small and medium-sized country that is deepening its mutual interdependence with China. In fact, that possibility is already remote even for Japan and the U.S. acting together.

Reinforcing alliances has been identified as one hedging strategy. This approach, however, can hardly be said to adequately address the issues of maintaining deterrent readiness with regard to China's growing military power, building shared crisis management preparations with China, and pursuing confidence-building. Hedging also commonly implies an importance placed on responding to a latent military threat. As is markedly apparent in relations with the Southeast Asian countries, therefore, this approach is not fully capable of strengthening the partnership for the purpose of advancing the international collaboration and functional cooperation that are sought in the context of China's expanding political influence (soft balancing and institutional balancing).

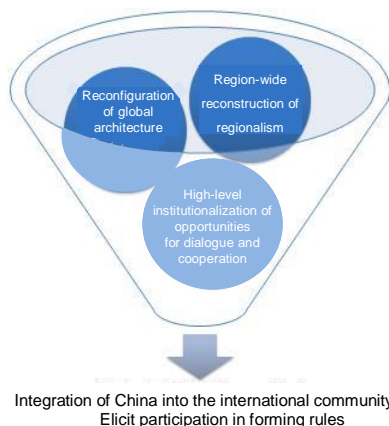
Multi-Layered Strategy of Integration, Balancing, and Deterrence

In order to engage in a more sharply focused discussion, from Japan's perspective, of the issues raised in the present and in the future by the rise of China, this study proposes a China strategy composed of integration, balancing, and deterrence in appropriate combination. Given the premise that power transition will occur, and in order to grapple actively with the new international environment to come, Japan must seek a balance such that China's growing political influence will not obstruct cooperation in

regional and global dimensions. To that end, partnerships with many countries are to be strengthened and, at the same time, integration is to be furthered by expanding the margin for collaboration with China. The growing military power of China is to be addressed by raising the level of deterrent readiness, to include heightened crisis management capability. That is the compound strategy that this recommendation document seeks to present.

There are three images of China to be found in the background. The first image is of China's economic growth, which no longer suggests the responsibility of a developing country but rather that of a great economic power. China seen in this way engages in responsible actions as a member of the international community, and it should work not only for itself, but contribute to the stability and development of the international community. An integrated strategy oriented to that kind of purpose should not only seek to expand bilateral and multilateral dialogues with China, but must also elicit cooperative actions in the Asia-Pacific regional order extending region-wide. Further, it is called on to realize the peace and stability of the international community within the G20, the IMF, the United Nations, and other such global architectural frameworks, and to harmonize with efforts to address issues on a global scale (Figure 2).

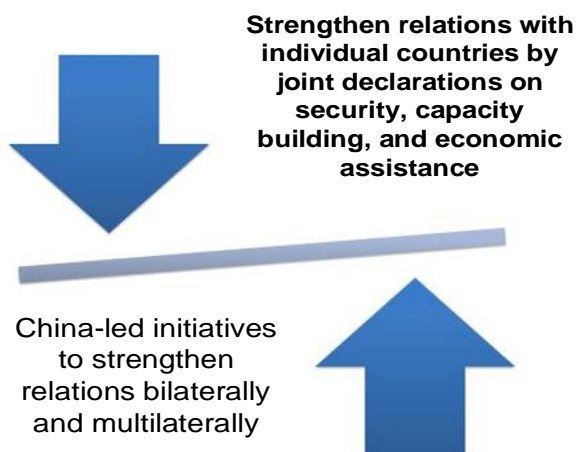
Figure 2: Integration of China in the world community



Source: The Tokyo Foundation Asia Security Project

However, China does not necessarily display the actions of a responsible member of the international community either with respect to the formation of a region-wide order or with respect to cooperative action in the international community. It has engaged in selective cooperation with countries that satisfy its own preferences, and it has at times obstructed the formation of consensus. In the event that this diplomatic rival China and Japan do not agree on what order is desirable, then Japan will of course find it necessary to assure the benefit of the international community and to address the issues facing humankind in common by forming strategic partnerships with the U.S. and other countries and to secure a balance along the axis of functional cooperation. It should be noted now that what is intended here is not to achieve a balance in the sense of an equilibrium of forces, but rather (and entirely) in the sense that, if there were any elements that threatened the future of the international order in the formation of alliances under China's leadership, then balance would be sought through diplomatic competition with such elements. The strategic impetus of the U.S., Japan, and other countries with regard to China as a military threat is subsumed under deterrence (Figure 3).

Figure 3: Integration of China in the world community



Balancing has the three patterns of hard balancing, soft balancing, and institutional balancing.¹⁶ Hard balancing consists of the consolidation of force (external balancing) to resist a dominant country and the strengthening of one's own countervailing power (internal balancing). The traditional balance of power approach advocated by Realists in international politics corresponds to this hard balancing. Soft balancing signifies coordination among multiple countries using non-military means (economics, diplomacy, social influence) to limit the one-sided actions and influence of a dominant country. Institutional balancing is the activity of restraining a dominant country and reining in its activities in a multifaceted manner by engaging in the establishment, formation, or development of rules, international institutions, and forums of various kinds. Institutional balancing can be considered a derivative form of soft balancing, but the crucial difference is that the latter refers only to internalization of a dominant country within one's own institutions, while the former also includes placement of a dominant country outside the framework of an institution. Balancing as used here corresponds to soft balancing and institutional balancing. Countries that take part in these

¹⁶ For studies that have examined this kind of soft balancing and institutional balancing, see the following: Robert A. Pape, "Soft Balancing against the United States," *International Security*, Vol. 30, No. 1 (Summer 2005); T.V. Paul, "Soft Balancing in the Age of U.S. Primacy," *International Security*, Vol. 30, No. 1 (Summer 2005); Kai He, "Institutional Balancing and International Relations Theory: Economic Interdependence and Balance of Power Strategies in Southeast Asia," *European Journal of International Relations*, Vol. 14, No. 3. (September 2008); Kai He, *Institutional Balancing in the Asia Pacific: Economic Interdependence and China's Rise* (Abingdon: Routledge, 2009). One study that has examined how institutional balancing is positioned domestically in Japan is Yoshinobu Yamamoto, "Ajia Taiheiyo no Anzen Hosho Akitekucha: 2030 nen e no Shinario [Architecture of Asia-Pacific Security: A Scenario for the Year 2030], Susumu Yamakage, ed., *Ajia Taiheiyo ni okeru Kakushu Togo no Chokiteki na Tenbo to Nihon Gaiko* [Japanese Diplomacy and Long-Term Prospects for Different Types of Integration in the Asia-Pacific] (Heisei 22do Gaimusho Kokusai Mondai Chosa Kenkyu-Teigen Jigyo Hokokusho [Report of FY2010 Ministry of Foreign Affairs International Problem Study and Proposal Project]).

forms of balancing may, when a clear threat surfaces, engage in hard balancing, which is to say developing alliances in order to achieve a classical balance of power. That possibility cannot be excluded, but since the motives for forming alliances differ, it cannot necessarily be assumed that such alliances will develop automatically.

The Tokyo Foundation Asia Security Project published a report last year entitled "Asia-Pacific Regional Security Architecture." The report noted that security cooperation among U.S. alliance members in this region had advanced greatly in the preceding five years. In addition to that (the first tier), the report also noted that the advances taking place in bilateral and multilateral functional cooperation, and particularly capacity building activity and dialogue (the second tier), in the fields related to every new security issue that opens up. This is happening as though to make up for slow-paced development of the region-wide system (the third tier) that had been formed with ASEAN as its foundation.¹⁷

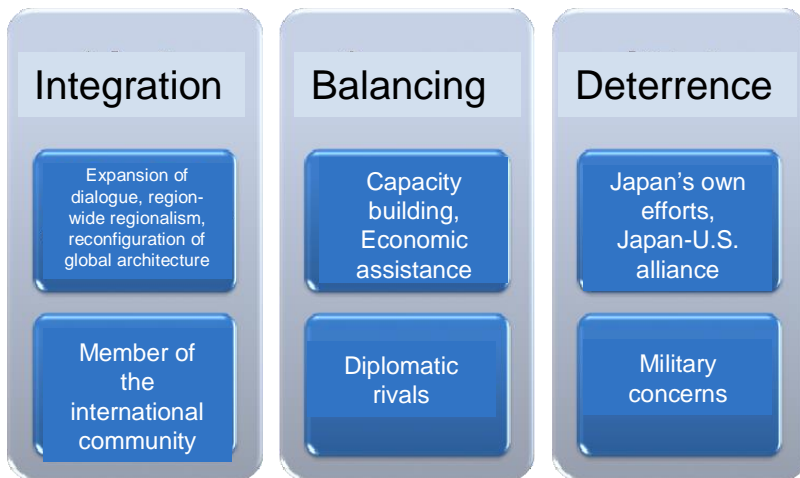
In the first tier, there is the new phase in the hub and spoke relationship that is considered an advance in security cooperation among members of the U.S. alliance. In the second tier, there is the formation of new partnerships and frameworks for the purpose of functional cooperation. These are indications that a transformation of the San Francisco System in the postwar Asian order is truly underway. At present, a new motive force is in the process of being acquired for the reconfiguration of functional cooperation and of region-wide institutions, and this state of affairs, in which cooperation going beyond the bounds of alliance networks has essentially increased in importance, could be termed a new characteristic of the Asia-Pacific region.

China is always setting out in its own way to strengthen security relationships centering on functional cooperation. This is taking place

¹⁷ Regarding the concept of regional security architecture, see this research team's 2010 report, "Ajia Taiheiyo no Chiiki Anzen Hosho Akitekucha: Chiiki Anzen Hosho no Jusoteki Kozo" [Asia-Pacific Regional Security Architecture: Three Tiered Structure of Regional Security] (Tokyo Foundation, 2010); <http://www.tkfd.or.jp/research/project/news.php?id=632> (accessed May 31, 2011)

through the Shanghai Cooperation Organization and primarily through bilateral relationships with Asian countries. There are aspects of the second tier that even make it resemble the principal battlefield where competing diplomatic efforts are being made regarding security.

Figure 4: Three Images of China and Strategy toward China



Source: The Tokyo Foundation Asia Security Project

Taking this current state of affairs into account, in order to depict China in the image of a diplomatic rival and to form an international cooperation that is effective for the purpose of promoting the benefit of the region as well as of the international community, it will be useful to take an approach assuring cooperation that operates flexibly in the first and second tiers while also sometimes developing cooperative relationships that do not include participation by China, thus conversely inducing China's participation. If the lever applied to the China intended by the latter approach successfully does what it is meant to do, then an integrated strategy with China may be expected to function. It is as though to say that elasticizing the security systems and arrangements that exist regionally to deal with actions by China is of the essence of the balancing strategy, and that it plays a role in supplementing the balancing strategy. Then the success or failure of the balancing strategy will depend on whether or not

Japan is able to adequately mobilize the resources (economic power, diplomatic power, social influence) needed for Japan to position balancing directed at China as an effective security policy.

It is an unmistakable fact that China's growing military power is producing the image of China as a military concern. The progressive buildup of naval forces, in particular, coupled with the fact that China's maritime activities are clearly growing aggressive, invites concern by the countries in the region. In the autumn of 2008, for the first time in Japan, four combatant ships of the People's Liberation Army Navy transited the Tsugaru Strait to proceed to the Pacific Ocean. Their course also took those craft through the waters between the main island of Okinawa and Miyako Island. Ships of the People's Liberation Army Navy have passed through these waters repeatedly since that time. In 2010, the arrest of a captain of an illegal fishing vessel near the Senkaku Islands came as a great shock to the people of Japan, and military concerns about this incident were apparent among specialists from an even earlier stage. There was intense concern about China's military rise in the U.S., as a result of which large volumes of excellent reports and testimony were made available from inside and outside the government. In 2009, People's Liberation Army Navy ships and fishing vessels approached the U.S. Navy sonar surveillance ship *Impeccable* and some of them interfered with its passage in an incident that heightened military concerns at sea. The increased level of operations by China in the South China Sea not only heighten territorial conflict but also are taken as challenges to the freedom of navigation. The question of how to resolve the problem is undergoing heated debate.

China's military power has demonstrated major advances in nuclear capability, missile capability, and air power. The military budget has continued its double-digit growth, though some years are exceptions, and in addition to increasing the military capabilities of the People's Liberation Army, this could also intensify its assertive posture. That concern is expected to continue growing in the time ahead. Japan has responded to such concerns in the new National Defense Program

Guidelines, formulated in December 2010, that invoke measures for the adoption of a dynamic defense capability. As this indicates, Japan must deal with the situation through its own efforts while also seeking to contend with the issue by cooperation and burden sharing with the U.S., its only ally. The creation of management mechanisms in the event of crisis will also be necessary in order to reinforce deterrent readiness. In that sense, security cooperation relationships with countries in the Asia-Pacific region that are allies of the U.S., such as, for instance, the strengthening of Japan-Australia cooperation, cannot be expected to contribute directly to deterrent readiness. This is where soft balancing and institutional balancing reach their limits, and it is the reason that Japan's own efforts toward deterrence as well as strengthening of the Japan-U.S. alliance are so important (Figure 10).

4. Four Types of Order and Japan's Strategic Choice

Maintaining the Hierarchical Liberal Order and Preparing for the Asymmetrical Balance of Power

In the model of four types of order discussed above, which type of order would be desirable for Japan? Further, how should the desirable state of the U.S.-China relationship be envisioned? The team takes the view that the most desirable order for Japan would be none other than maintenance of ascendancy with regard to China by the U.S., Japan's only ally, together with the hierarchical liberal order (a) in which the U.S.-China relationship experiences deeper cooperation. Within this order, it would be possible for Japan to maintain the Japan-U.S. alliance under U.S. ascendancy, as it has been to date, and also to foster mutually beneficial bilateral relations with China in which economic and societal relationships are promoted. Consequently, it is crucial that the basic stance of Japan's China strategy be to exert efforts to maintain (a) while also preventing departure from (a).

Considering how China's diplomacy and the activities of the People's Liberation Army over the past several years have caused friction with the U.S., however, there is no assurance of constant cooperation in

the U.S.-China relationship. Almost 40 years after Richard Nixon and Mao Zedong initiated the U.S.-China reconciliation process that relationship has continued to demonstrate the difficulty of engaging in cooperation while simultaneously managing the relationship. Even at present, when parity with the U.S. has not been reached, Japan, the U.S., and many other countries are heightening their wariness regarding the rise of China. The asymmetrical power parity system (b) emerges to view from time to time, even at a stage where the two countries are not struggling over power, and in it the element of conflict in the U.S.-China relationship is more conspicuous than the element of cooperation.

In other words, the policy that is desirable for Japan at this stage would be working to maintain (a) while preparing for a swing to the right toward (b), and when a transition to (b) becomes apparent, to take measures for a restoration of (a). When the concepts of integration, balance, and deterrence are used in forming an image of Japan's strategy, that image should then contain the elements below. Since the specific recommendations will be discussed in their contexts starting from the next section, what follows here will not go beyond pointing the direction.

- Maintain (a), which means taking steps to continue U.S. ascendancy in the Asia-Pacific region while maintaining a cooperative U.S.-China relationship, by encouraging active participation by both countries in region-wide systems and institutions that include China and taking measures to strengthen rules, systems, institutions, and norms. (Integration)
- Convert (b) into the more desirable (a) by taking steps to prevent obstruction of cooperation in the world community in the event that China acts on its own to form partnerships or frameworks that are in line with its own benefit and preferences, as well as to convey that it would be to China's own benefit for it to make use of comprehensive systems and institutions that it participates in of its own accord. This would be done by forming ad hoc coalitions that China does not take part in and by making preparations for system and institution building. (Balance)

- The U.S.-China conflict in (b) carries a high cost and there is risk that clashes could take place in unforeseen circumstances. In order to avoid this eventuality, efforts should be made to strengthen the network of alliances with the U.S. and to reinforce the deterrent readiness realized by the Japan-U.S. alliance as well as through the efforts of Japan itself. This will be realized by constructing dynamic deterrence and crisis management mechanisms. (Deterrence)

Promoting Concert of Powers, Avoiding Cold War-type Bipolar System

If the future shift of the U.S.-China relationship toward equilibrium is to be considered unavoidable, however, then the alternatives available to Japan at that stage must be explored. Taking the move toward equilibrium as unavoidable, then the circumstances that would be desirable for Japan at that point would not be the cold war-type bipolar system (d) that would drag Japan into the conflict between superpowers, but would rather be the system of cooperation among major powers (c). Although the U.S. and China would be in opposition and it would be possible to uphold the Japan-U.S. alliance relationship under the (d) order, U.S. ascendancy is not taken as a given. Japan's China strategy under the (d) order would be, plainly, to find a way out of the (d) circumstances. No doubt the top of the alternatives, however, as a member of the U.S. camp, would be to increase the robustness of the alliance in order to reduce the security risk. If the transition to (c) can be pursued, then even if U.S. ascendancy is not necessarily assured under the (c) order, the fact that both the U.S. and China are in cooperative modes means that tension will be less likely to occur in the Japan-China relationship, as well. Care must be taken, however, because agreements and understandings on security matters between the U.S. and China may easily lead to circumstances that are not necessarily in line with Japan's interests. Strategy at this stage would probably resemble something like the following.

- In order to maintain (c) or to induce a shift from (d), encourage the

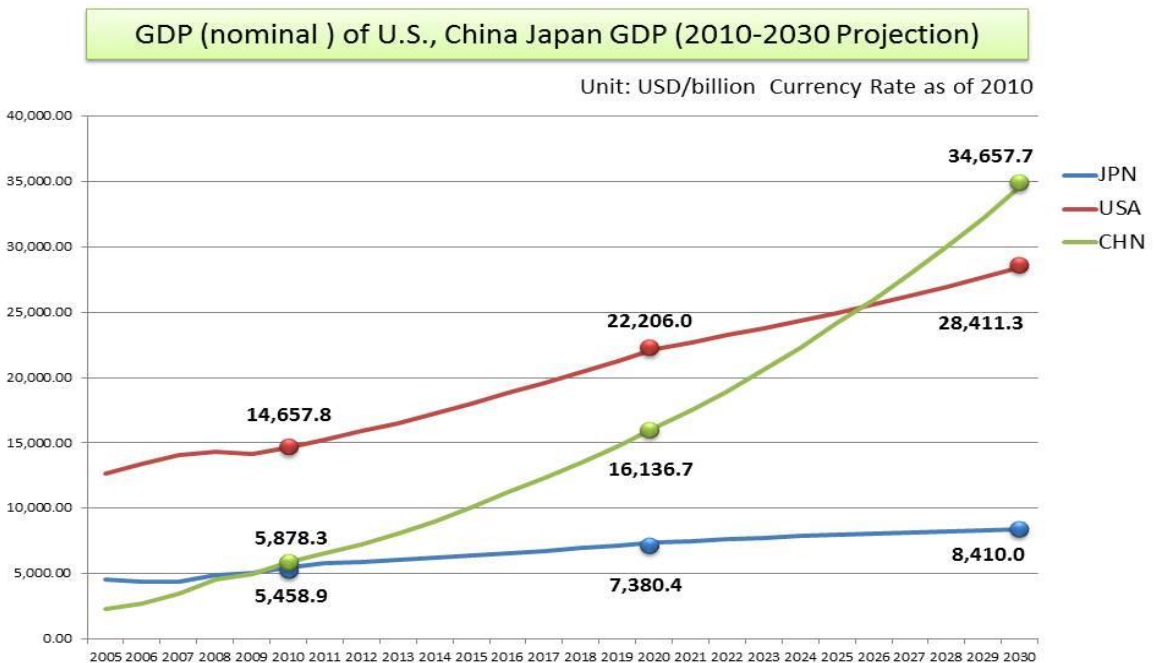
active participation of both countries in region-wide systems and institutions that include China while also working to reinforce rules, institutions, and norms. Japan strengthens its strategic cooperation with China, focusing on the development of an international environment that does not degenerate into (d) conditions. Meanwhile, Japan is also called upon to reinforce the strategic reassurance that strengthens the Japan-China relationship while resolving discrepancies between their interests. (Integration)

- In order to bring about a shift from (d) to the more desirable (c), as well as to prepare the foundation for development of security cooperation that matches with the other party's approach, form ad hoc coalitions that China does not participate in and work on preparations for the building of systems and institutions. (Balance)
- The U.S.-China conflict in (d) and clashes that take place in unforeseen circumstances between Japan and China are very costly for Japan. Explore the uses of the network of alliances with the U.S. while working to heighten the efforts made by Japan itself, through dynamic deterrence and the construction of crisis management mechanisms, as well as to reinforce the deterrent readiness provided by the Japan-U.S. security regime. If it becomes clear that circumstances make it difficult to build a relationship of strategic cooperation with China, then no doubt there will be a need to consider expansion of the defense budget with a view to alliance burden sharing. The contribution to security expected of Japan at this stage is likely to increase more from regional perspectives than in global dimensions. (Deterrence)

The above discussion of four types of security order and Japan's strategic choices is exceedingly general as a view of strategy, but it serves as an extremely important framework when determining the conceptual framework of Japan's security strategy with regard to China. This is because the U.S.-China relationship repeatedly oscillates across the lateral amplitude between cooperation and conflict in a downward spiral structure

where the power shift downward from U.S. ascendancy to U.S.-China parity takes place, and in that circumstance, formulating a dynamic strategy as a transition strategy calls for a logic that encompasses the possible fluctuations that order undergoes in moving from (a) to (d).

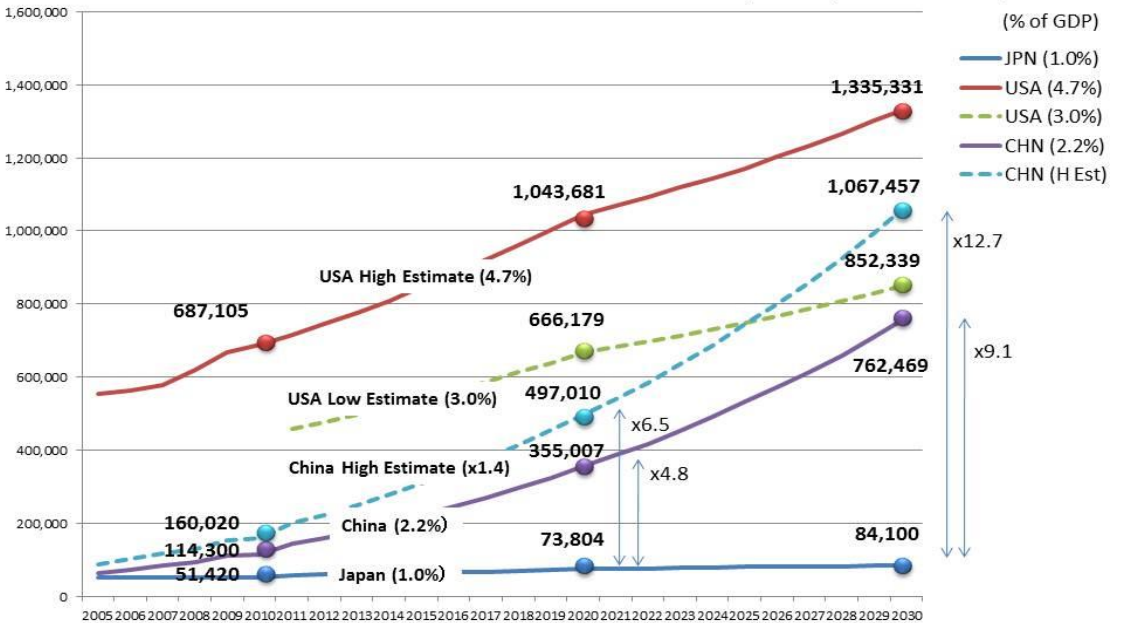
APPENDIX



Source: IMF World Economic Outlook Databases 2011 (Modified)
Goldman Sachs (2007)

Military Expenditure of U.S., China and Japan (2010-2030 Projection)

Unit: Million USD (Currency Rate as of 2009)



Source: SIPRI Military Expenditure Database 2010 (Modified)