

Japan's China Strategy: The End of Liberal Deterrence?

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This paper analyses Japan's security strategy towards China through an examination of the following questions. What are the key features of Japan's strategy toward China? Has Japan abandoned engagement? Is Japan's new strategy adequate to achieve its objective of maintaining a rules-based order in the Indo-Pacific? By what means and at what cost might a rules-based order be maintained? And what role does deterrence play in the Free and Open Indo-Pacific strategy?

These questions are important in understanding Japan's strategy and its implications and effectiveness. Under Prime Minister Shinzo Abe, Japan has made several significant changes to its national security policy, moving away from its traditional pacifist posture. The new National Defense Program Guidelines (NDPG), announced in December 2018, are the latest of such efforts to upgrade Japan's defence capabilities. Examining Japan's strategy will help us understand Japan's intentions and capabilities.

The maintenance of a rules-based order has been promoted as an important strategic goal by Japan as well as by the United States and Australia. While there is little disagreement about the importance of a rules-based order, the actual content and the necessary means to achieve this goal are less clear. This paper seeks to offer a foundation for future debate.

This paper argues that while Japan's new strategy has increased its efforts in balancing China in several new areas, Japan has not abandoned the engagement part of its strategy towards China. The new NDPG will increase Japan's capabilities to counter potential threats from China. However, the strategy is insufficient to realise Japan's strategic objective of maintaining a rules-based order in the Indo-Pacific. To this end, it is important to build a multilateral institution and bind China within that institution. A clear consensus on the costs of violating rules is also necessary in order to prevent defections from institutional rules.

The remainder of this paper will first examine and compare Japan's past and current strategy towards China. Special attention is paid to the new NDPG to identify whether Japan has shifted its strategy away from engagement and toward balancing. Japan's strategy is then examined to evaluate if it is sufficient to realise its strategic goal. Finally, some recommendations are offered to improve the likelihood of the strategy in realising a rules-based order in the region.

Japan's China Strategy — Past

Japan's strategy towards China has often been described as one of hedging based on uncertainty about the future. This assumes that Japan is unsure about China's future behaviour and thus combines balancing and engaging measures to hedge its bets on

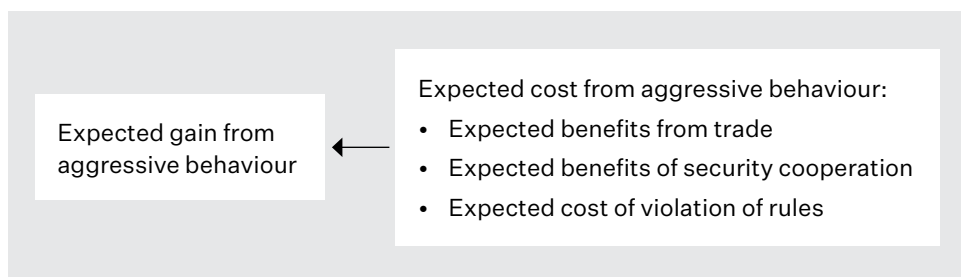
either outcome — a benign China or an aggressive China. This understanding of Japan's China strategy based on uncertainty is not entirely correct: the strategy consciously combines both deterrence and engagement.

Since the 1970s, Japan has sought to make China economically affluent and therefore politically stable, friendly and engaged with the outside world. Deterrence through the US-Japan alliance and economic engagement were the two main pillars of this strategy. This strategy, which I have termed 'liberal deterrence', combines elements of deterrence, economic interdependence and security interdependence.¹

The logic of liberal deterrence is to induce better behaviour by increasing the benefits of cooperation through economic and security engagement while at the same time increasing the cost of misbehaviour through deterrence. It assumes that states make rational calculations based on costs and benefits. Here, trade is an instrument of deterrence and not merely a means to gain economic benefits. The economic benefits between states create an opportunity cost that the aggressor will have to pay if it decides to initiate an attack or war. A potential aggressor is deterred when the cost of making an attack outweighs the benefits.

When the value of the right-hand side of the equation in Figure 1 is larger than the left, there is a higher chance that deterrence will work because the cost of an attack outweighs the benefits. The expected benefits from trade include not just the benefits from current trade flows but also the benefits expected from future trade.² The greater the trust in trade arrangements the greater the expectation will be. The same mechanism applies to security cooperation. Binding states in institutions adds another layer of costs by imposing negative sanctions to violations of rules and aggressive behaviour.

Figure 1: The Logic of Liberal Deterrence



Japan's strategic objective towards China has always been more than simply the deterrence of aggression. The hope was to induce better behaviour from China and to encourage China to pursue a role as a constructive stakeholder in the region. This liberal deterrence policy has been the strategy of choice for Japan for four decades. Japan has also sought to integrate China into international institutions such as the World Trade Organization (WTO). The logic was to bind China with international rules and norms.

1 On liberal deterrence see Chikako Kawakatsu Ueki, 'Liberal Deterrence of China: Challenges in Achieving Japan's China Policy', in Takashi Inoguchi, G. John Ikenberry and Yoichiro Sato (eds), *The US-Japan Security Alliance: Regional Multilateralism* (New York: Palgrave Macmillan, 2011), pp. 137-55.

2 On the influence of future expectations of trade, see Dale C. Copeland, 'Economic Interdependence and War: A Theory of Trade Expectation', *International Security*, vol. 20, no. 4 (Spring 1996).

The question now is whether Japan is still pursuing a liberal deterrence strategy. In Japan (as in the United States and elsewhere), there has been a growing concern about waning leverage in shaping China. China's increasing military capabilities makes it harder to impose greater costs on China. At the same time, some of the economic tools are also waning. Official development assistance (ODA) used to be an important tool for Japan. Japan's cumulative ODA to China amounted to over 3.3 trillion yen in loan aid and 157.2 billion yen in grant aid. Japan has since ceased to provide ODA to China except for a few projects. In 2018 Japan decided to terminate all ODA to China by 2021. The biggest reason is that China is now wealthier than Japan. China's bigger economy means that Japan is as dependent on China as China is dependent on Japan. At the same time, China's dependency on overseas trade has decreased. China's revenue from exports in 2007 made up about 35 per cent of its economy, but by 2017 this number declined to 18.5 per cent. This also means the outside world has less leverage over China.

The efficacy of this engagement strategy has now come under question among Japan's foreign and security policy community. Several things contributed to this. One was the 2010 fishing boat incident near the Senkaku Islands. From the Japanese perspective, China chose to escalate rather than de-escalate the incident by restricting the export of rare-earth metals to Japan. This was seen as an affront to the convention of separating politics from economics.³ China's reaction to Japan's nationalisation of three of the Senkaku Islands in 2012 was another indication of China choosing to escalate rather than de-escalate the situation. Despite the Japanese government's explanation that the objective of the nationalisation was to stop Tokyo's nationalist governor, Shintaro Ishihara, from buying the islands, China did not accept this. China began to send coast guard ships to the territorial waters around the islands. China's island reclamation and claims in the South China Sea and its complete rejection of the 2016 ruling by the Permanent Court of Arbitration has resulted in further scepticism.⁴

Japan's China Strategy — Today

Japan's current strategy towards China can be traced through several government documents and speeches. Despite many changes involving China and Japan, Japan's strategic objective towards China remains basically the same. This strategy is to support China's economy, to make China politically stable and friendly to Japan and other countries, and to embed China in the international system. The difference now is that there are lower expectations about Japan's ability to shape China. The emphasis is now more on shaping China's choices.

3 *Seikeibunri* (政経分離), separating politics and economics, has been the accepted practice between Japan and China. Even during the 2000s, when Prime Minister Junichiro Koizumi repeatedly visited the Yasukuni Shrine despite China's strong protests and diplomatic exchange between leaders was completely frozen, economic exchange continued unharmed.

4 The Permanent Court of Arbitration issued its award on the South China Sea on 12 July 2016, in favour of the Philippines and rejected most of China's claims. The Tribunal concluded there was no legal basis for China's claim to resources within the "nine-dash line" and that China has violated the Philippines' sovereign rights by constructing artificial islands in the South China Sea. *The South China Sea Arbitration (Philippines v China) (Award)*, (Permanent Court of Arbitration, Case No. 2013-19, 12 July 2016), <pca-cpa.org/wp-content/uploads/sites/6/2016/07/PH-CN-20160712-Award.pdf> [Accessed 30 August 2019].

Japan's overall strategy aims to deter an attack on Japan, including its offshore islands. It also aims to deter major regional conflict primarily through the US-Japan alliance. Security cooperation with Australia, India and ASEAN member states is important to augment the US-Japan alliance. In the case of minor conflicts in the region, it is unclear whether Japan would get involved. The strategy is to deter minor conflicts by promoting capacity building among China's neighbours so that they may balance China on their own.

Balancing China

In December 2018, the Japanese government announced its NDPG for 2019 and beyond. The new NDPG made several additions to the existing security strategy and force structure. The document is much more explicit in describing the potential threats posed by China than previous editions. There were also some omissions.

The main feature of the new NDPG is to increase Japan's indigenous capabilities as well as US-Japan capabilities to balance China. It included for the first time acquisitions of capabilities that go beyond Japan's exclusively defence-oriented security doctrine that focuses on homeland defence.⁵ Long-range missiles, such as standoff missiles with a range of over 400 kilometres and hyper velocity gliding projectiles (HVGP 300-500 km) were added to Japan's inventory. Another addition is the acquisition of 147 F-35 fighter jets. This is an increase of 105 planes from the previous plan. This includes forty-two F-35B fighter jets of the short take-off/vertical landing variant. The F-35Bs will be flown out of the *Izumo*-class destroyers, which will be Japan's first aircraft carriers since World War Two.

Another area where the NDPG is increasing Japan's capabilities is in the 'new domains' of space, cyberspace and the electromagnetic spectrum. Japan seeks to achieve superiority in these domains, especially in the cyber domain, and to have both defensive and offensive capabilities to "disrupt, during attack against Japan, opponent's use of cyberspace for the attack".⁶ This is a significant change from Japan's previous strategies. Japan has been slow to react to threats in cyberspace even though the United States has been pushing Japan in that direction for some time.

Engaging China

The second pillar of Japanese strategy has been the engagement of China. Has Japan abandoned this component of liberal deterrence in its current policies? Japan's leverage to influence China's choices through engagement and positive incentives has waned in recent years. Nevertheless, Japan still maintains engagement towards China.

5 The exclusively defence-oriented security doctrine has its legal basis in the "pacifist" Constitution under which Japan foreswears the right of belligerency and the use of military force to settle international disputes. The Japanese government changed its interpretation of the Constitution in July 2014 to recognise Japan's right to use force not only individual self-defence but also for limited forms of collective self-defence. The old interpretation only allowed Japan to use force after it was attacked. The new interpretation allows Japan to use force in defence of its allies and partners in cases where Japan's survival is threatened even if an attack against Japan itself has not yet occurred.

6 Ministry of Defense, 'National Defense Program Guidelines for FY 2019 and beyond', 18 December 2018, <https://www.mod.go.jp/j/approach/agenda/guideline/2019/pdf/20181218_e.pdf> [Accessed 12 April 2019].

For example, in 2018 Japan and China concluded a currency swap agreement of US\$30 billion. This is ten times more than the previous agreement.⁷ The two countries also agreed to increase business cooperation in third countries. The two governments and business organisations signed fifty-two memoranda of cooperation at the First Japan-China Forum on Third Country Business Cooperation held in Beijing in 2018.⁸ On several occasions, Prime Minister Abe expressed his support for the Belt and Road Initiative on the condition that projects were open, transparent, economically viable and financially sound.⁹

On the security front, Japan also continues to engage China. A memorandum on the Maritime and Aerial Communication Mechanism was signed in May 2018 after more than ten years of negotiation and went into effect in June 2018. The mechanism is designed to avert accidental clashes in the air and sea. The two governments also signed the Maritime Search and Rescue Agreement.¹⁰ Nonetheless, Japan's emphasis on engaging China seems weaker compared to the deterrence part of the strategy.

Evaluation of Japan's China Strategy — What Is Missing? What Is Needed?

Is Japan's China strategy sufficient to achieve its intended objective? Japan's objective towards China is more than just to deter a military attack. Japan's overall strategic objective is to maintain a rules-based order and a free and open Indo-Pacific in which China will also abide by the rules. For this purpose, Japan's current strategy lacks several important elements.

First, Japan lacks a strategy for multilateral security institution building. The new NDPG states that Japan will “strategically promote multifaceted and multilayered security cooperation” with regional powers. However, there is almost no strategy for strengthening multilateral security frameworks. In addition, the NDPG only mentions the United Nations three times. The focus of the strategy is on bilateral cooperation. Integrating China into international institutions has been an important strategy for Japan, but such efforts are absent from the current strategy.

Second, Japan emphasises the importance of creating and maintaining a free and open Indo-Pacific where the rule of law and rules-based order is observed. If Japan is serious about achieving this goal, it needs to align its strategy with other countries in the region.

7 The currency swap agreement was signed in 2002, but it expired in September 2013 due to worsened relations over Senkaku Islands tensions.

8 Ministry of Economy, Trade and Industry, ‘52 MOCs Signed in Line with Convening of First Japan-China Forum on Third Country Business Cooperation’, 26 October 2018, <https://www.meti.go.jp/english/press/2018/1026_003.html> [Accessed 12 April 2019].

9 Shinzo Abe, ‘Asia's Dream: Linking the Pacific and Eurasia’, speech at the Banquet of the 23rd International Conference on The Future of Asia, 5 June 2017. Also, Abe's statement in the Budget Committee of the Upper House, National Diet, 25 March 2019.

10 Ministry of Foreign Affairs, ‘Nicchu Kaijyou Sousaku Kyuujyo Kyotei No Shomei [Japan-China Maritime Search and Rescue Agreement]’, 26 October 2018, <https://www.mofa.go.jp/mofaj/press/release/press4_006634.html> [Accessed 12 April 2019].

At minimum, Japan needs to have a clear and shared objective with countries such as Australia and the United States. It is also important to have a clear strategy about what costs should be imposed when the rules are violated. As shown in Figure 1, the costs on the right-hand side of the equation include the cost of violating the rules. Unless the cost of violating the rules is clear to China, and Japan and other countries are willing to enforce the cost, a strategy to maintain a rules-based order will not succeed.

For example, even on freedom of navigation — the most important and symbolic issue that has prompted the Free and Open Indo-Pacific strategy — the political and military cost Japan is willing to pay in order to enforce the rules is not clear. Nor is there a consensus among Japan, Australia and the United States. The United States has conducted freedom of navigation operations (FONOPs) starting in October 2015 and has challenged China's claim by passing within 12 nautical miles of the artificial islands. Japan and Australia, however, have yet to participate in FONOPs although they have actively participated in various joint military exercises. This results in unclear signalling towards China about the consequences of violating the rules. At the same time, it is equally important for China to appreciate the benefits of observing the rules. Japan and its partners need to think of ways to achieve such a state of affairs.

As China's power rises and it becomes less dependent on the outside world, a carefully crafted and coordinated strategy is needed to achieve Japan's strategic goals. Japan's strategy of liberal deterrence is not yet dead. However, if Japan wants to achieve its strategic objectives, it needs to put more effort into engaging China and embedding China in multilateral institutions.

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