THE UNITED STATES AND JAPAN IN GLOBAL CONTEXT: 2023

THE EDWIN O.
REISCHAUER CENTER
FOR EAST ASIAN STUDIES
WASHINGTON D.C.

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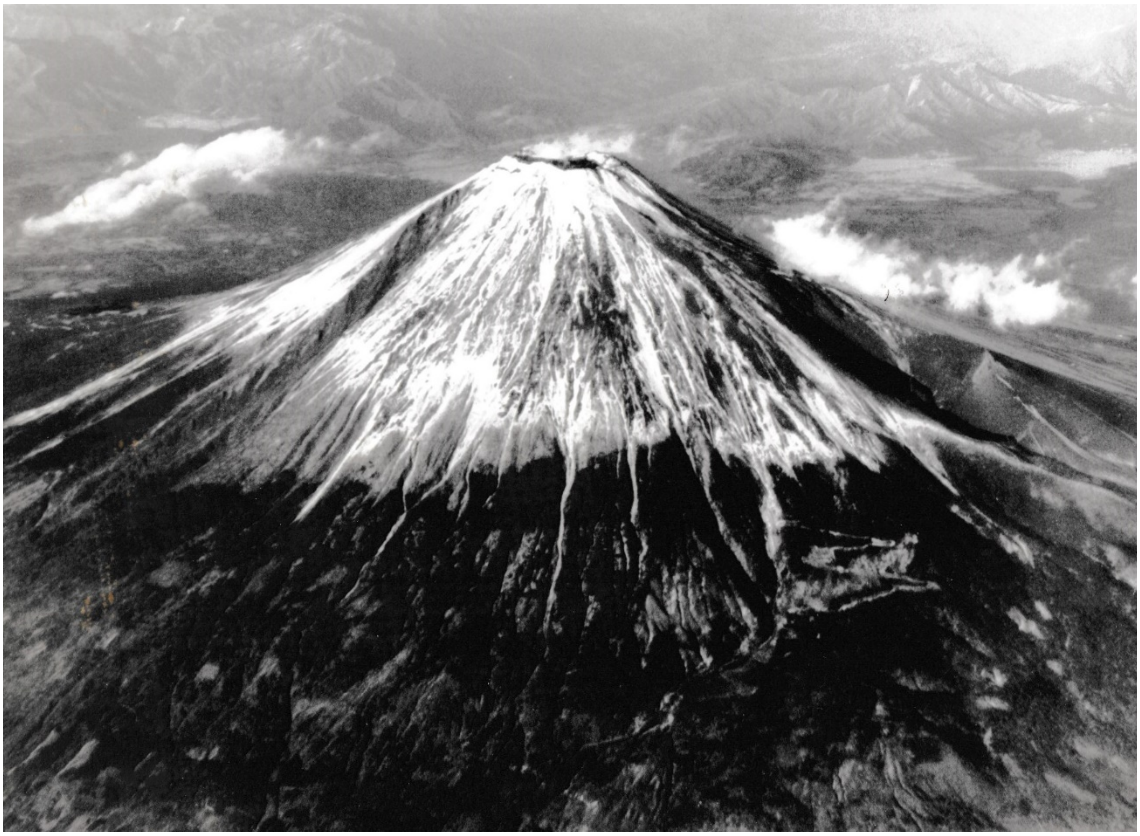
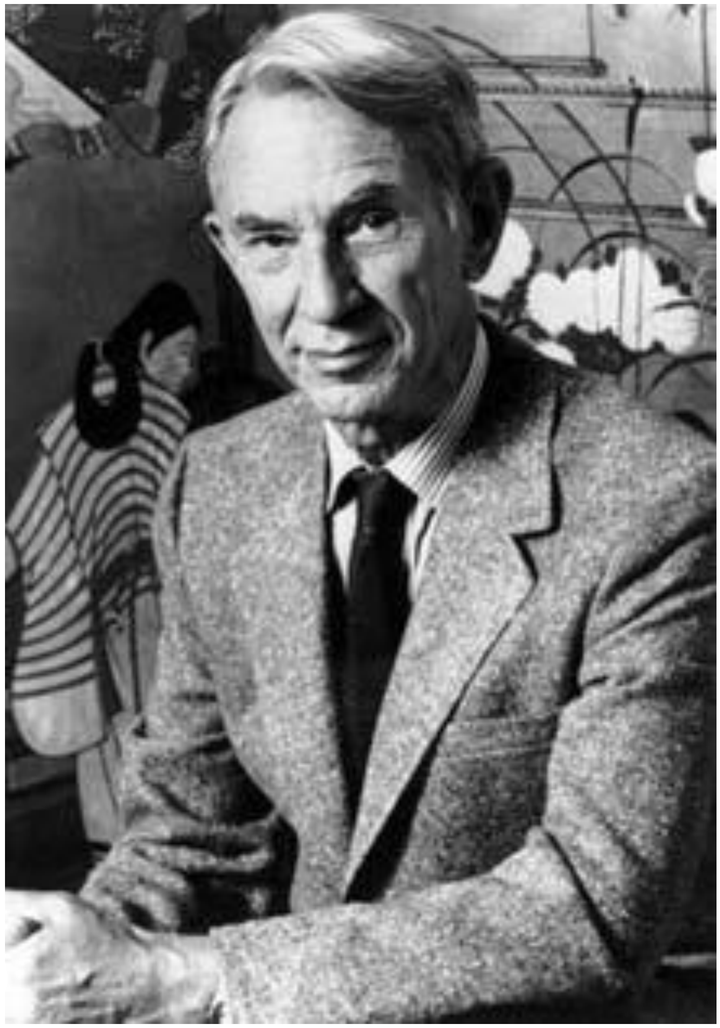


THE UNITED STATES AND JAPAN IN GLOBAL CONTEXT: 2023

THE PAUL H. NITZE SCHOOL OF ADVANCED INTERNATIONAL STUDIES
THE JOHNS HOPKINS UNIVERSITY
Washington, D.C.



Edwin O. Reischauer

October 15, 1910 – September 1, 1990

Established in 1984, with the explicit support of the Reischauer family, **the Edwin O. Reischauer Center for East Asian Studies** at the Paul H. Nitze School of Advanced International Studies (SAIS) actively supports the research and study of trans-Pacific and intra-Asian relations to advance mutual understanding between Northeast Asia and the United States. The first Japanese-born and Japanese-speaking US Ambassador to Japan (1961-66), Edwin O. Reischauer later served as the center's Honorary Chair from its founding until 1990. His wife Haru Matsukata Reischauer followed as Honorary Chair from 1991 to 1998. They both exemplified the deep commitment that the Reischauer Center aspires to perpetuate in its scholarly and cultural activities today.

Class photo: Devin Woods, Chelsea Wells, Justin Feng, Benjamin Pan, Zhuoran Li, Bryan Hong, Jianjie Li, Professor William Brooks, Okung Obang, Wanxin He, Viola Du, Kevin Xue, Yiwen Chang, Amanda Zakowich (Absent: Maomao Qu, Yuki Nakagawa, Ryan Tenty)

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The Year at the Reischauer Center

By Kent Calder

This past academic year was an extraordinary one for the Reischauer Center, both in terms of personnel and achievements. We assembled one of the most talented groups of faculty and students in our history, with many of them involved in this Yearbook. And we were able to organize a historic series of events, including the first visit of a Japanese Prime Minister to the SAIS campus in history, and the first Prime Ministerial address to the SAIS community in forty years.

The seeds were laid for the successes of this past year during the summer of 2022. The Center's second published volume under its own auspices, *The Covid-19 Crisis and Asia's Response*, edited by Kent Calder and Neave Denny, was readied for publication, formalized with a publication party in September 2022. This volume was the product of two years of effort amidst the pandemic, including six high-level webinars, and chapters by a group of 13 researchers, including 11 Reischauer Policy Research Fellows. In the course of this research project, the Reischauer Center collaborated with health-policy specialists from the Johns Hopkins University Bloomberg School of Public Health, the Asian Development Bank, and the T-20 Global Think Tank Consortium, as well as individual specialists from throughout the world.

During the summer of 2022, the Reischauer Center also recruited outstanding visiting faculty members, who helped to make the 2022-2023 year a distinctive success. Dr. Kotaro Shiojiri, a recent PhD from the University of Tokyo, Harvard Law School graduate, and former Chief of Staff to the Japanese Ambassador to the United States, was recruited as an Adjunct Lecturer at SAIS, and also a Visiting Fellow of the Center. Dr. Shiojiri taught a course this past year on G-7 summit diplomacy and while participating actively in extracurricular seminars throughout the year.

Dr. Jaehan Park, a recent SAIS PhD who spent the previous academic year at the University of Texas, as well as Texas A&M, also served as an Adjunct Lecturer, teaching courses on "Geography and International Affairs", as well as the "Evolution of the International System". He also participated actively in Reischauer Center seminars, and was instrumental in bringing in visiting speakers, such as Chris Miller, the author of *Chip Wars*, to campus. Dr. Park conducted research on his new book manuscript, dealing with the transformation of the functional meaning of geography due to technological change, from the summer of 2022, and throughout the academic year.

The Reischauer Center was also fortunate to have a solid corps of Visiting Scholars from Japan, including representatives from the Japanese Ministry of Finance, Ministry of Economics, Trade, and Industry, and Ministry of Defense. They were complemented by private-sector researchers in various corporate and individual capacities, from Tokyo Electric Power, Fuji Television, and Columbia University. In addition to their detailed individual presentations in the spring, these visitors also participated actively in small-group seminars, exchanging ideas with faculty and students.

A third core group within the Reischauer Center were our Reischauer Policy Research Fellows—a collection of younger researchers, who had recently completed either BA or MA degrees, in preparation for policy, corporate, or academic careers in and around Washington. This year we recruited three such fellows—one from the Asia-Pacific Policy Institute in Tokyo; a second from Oxford University; and a third from Waseda University in Japan. As in the past, these Reischauer Fellows often went on to promising careers in Washington, for organizations such as the NHK Broadcasting Network and Jiji Press Ltd.

SAIS graduate students, of course, made up an important part of the Reischauer Center research community, as usual. This year they were especially active in organizing and promoting the Center's events, while also managing our website, under the leadership of Japan Club President Devin Woods and Vice President Okung Obang. Devin also served as editor of this Yearbook, and played a key role in organizing Reischauer Center extracurricular events.

This core team, combining faculty, Visiting Scholars, Reischauer Policy Research Fellows, and SAIS graduate students, initiated an impressive set of programs across the 2022-2023 year. There were forty-five events in all. They ranged from international Zoom conferences and a Prime Ministerial address to informal student dialogues with major US government policymakers.

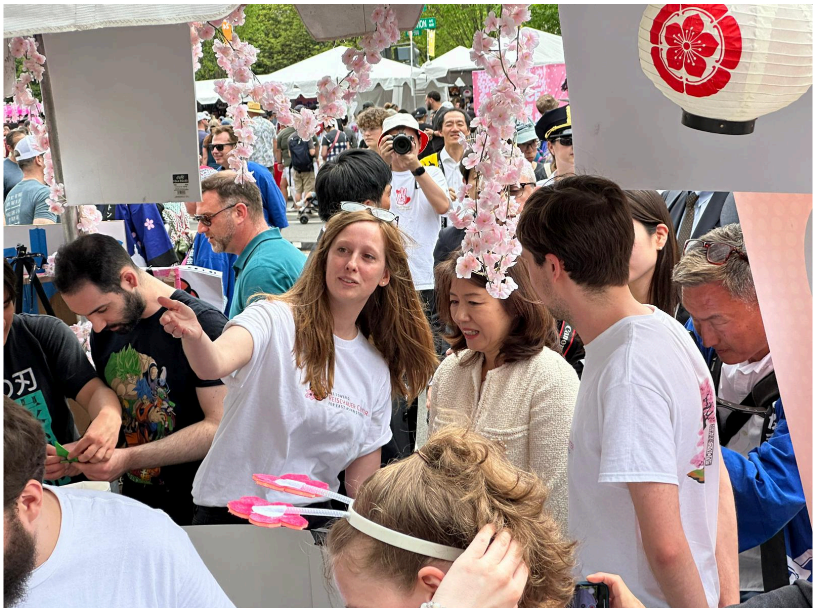
One early highlight was an address on entrepreneurship by Dr. Sachiko Kuno, co-founder of R-Tech Ueno, a major biotechnology start-up, who has also played major roles in academic administration on both sides of the Pacific. Her seminar was followed by the Reischauer Center's fall conference, dealing with "Geo-economic Impacts of the Ukraine War and Implications for the Hiroshima G-7 Summit", held jointly with the Graduate School of Public Policy at the University of Tokyo. Dr. Giovanna Maria Dora Dore then spoke about her forthcoming book on Hong Kong's political evolution.

The most historic event of this past year was unquestionably the major policy address by Prime Minister Kishida Fumio on January 13 in Kenney Auditorium—the first such on-campus appearance by a sitting Japanese Prime Minister in SAIS history. Foreign Minister Hayashi Yoshimasa, together with National Security Advisor Akiba and six senior Diet members, including former Foreign Minister Nakasone Hirobumi, were also in attendance, together with senior US officials and members of the diplomatic corps. Prime Minister Kishida came to SAIS directly from his White House meetings with President Joe Biden, and spoke extensively on Japan's deepening relations with both the US and the Global South. The Reischauer Center presented the Prime Minister with its Global Statesmanship Award, in recognition of his contribution to international relations as G-7 chairman amidst the Ukraine War.

Two weeks after Prime Minister Kishida's appearance, the Reischauer Center held its annual spring reception at Evermay, a historic Georgetown residence whose one-time owner supplied land for the building of the White House itself. Edgard Kagan, Special Assistant to the President and Senior Director for East Asia and Oceania on the National Security Council, offered remarks to an audience of close to 100 guests. Participants included ambassadors and senior government officials, as well as Reischauer Center faculty, students, and visiting fellows, pictured below.

On March 15, the Reischauer Center hosted Ambassador Kenneth Juster, recently US Ambassador to India, for the annual Reischauer Memorial Lecture. Ambassador Juster was the first actual student of Professor Edwin Reischauer, in whose honor our Center is named, to deliver the lecture, and was also a previous student of mine. Ken spoke on India's deepening, and strategically important, relations with Japan.

One spring-time event to which our Reischauer Center community has always looked forward is the Cherry Blossom Festival, or Sakura Matsuri, held every March and April, culminating in a street festival in mid-April. For the past several years, the Center has opened its own booth, offering calligraphy instruction and Japanese games, mingled with information about our research activities. This year we were honored to have Mrs. Kishida Yuko, wife of Prime Minister Kishida, as a special guest at our pavilion.



The highlight of the year at the Reischauer Center for SAIS students was no doubt the appearance of Dr. Kurt Campbell, White House Director of Indo-Pacific Affairs, on April 21. This event, an informal, off the record dialogue, was organized by the students themselves, at the initiative of Japan Club President Devin Woods. SAIS Dean James Steinberg also participated, with students following Campbell's remarks with questions.

As the academic year moved to a close, our six visiting scholars—Mizumi Dutcher, Fumitoshi Watahiki, Fumiko Sasaki, Yuya Uno, Takahiro Moriwaki, and Sara Sekimitsu—each offered presentations on topics of special interest to them. The Visiting Scholars had been preparing these presentations across the academic year, with Professor Bill Brooks presiding and supporting. On May 12, we held a final reception at the Rome Building, organized by Research and Administrative Coordinator Neave Denny, as we bade farewell to what has been the Reischauer Center's home for nearly forty years. This past academic year was, in short, a busy and momentous one for the Reischauer Center—no doubt one of the most memorable in our long history. Our Visiting Scholars, Reischauer Fellows, students, staff, and faculty all played crucial roles, building on the solid research presented in this Yearbook. Sincere thanks to one and all, and especially to Neave Denny, for her six years of service, which will be culminating soon.

Kent Calder
Director, Reischauer Center for East Asian Studies
August, 2023

Reischauer Center Seminar Series

THE EDWIN O. REISCHAUER CENTER FOR EAST ASIAN STUDIES

8/31/2022 **12:30 – 2:00** **BOB 500**	**ALL Reischauer Center Welcome Meeting!**	*Reischauer Center Visiting Scholars, Fellows, & Researchers*
09/08/2022 **5:30 – 6:30** **TBD**	**Reischauer Center** **COVID-19 Policy Task Force**	*Asia and Covid-19*
09/08/2022 **11:00 – 12:30** **Rome 535**	**Dr. William Brooks** Professor of Japan Studies Johns Hopkins SAIS	*Overcome Writer's Block! Introduction to Research Methods and Report Writing*

09/15/2022 **4:30 – 6:00** **Rome 806**	**Professor Kent Calder** Director Reischauer Center for East Asian Studies Johns Hopkins University SAIS	*Embassies in International Affairs*
09/22/2022 **4:30 – 6:00** **Rome 806**	**Dr. Jaehan Park** Postdoctoral Scholar Johns Hopkins University SAIS	*Rethinking Geopolitics: Geography as an Aid to Statecraft*
09/29/2022 **4:30 – 6:00** **Rome 806**	**Prof. Yujing Wang** Professor of Economics National Graduate Institute for Policy Studies (GRIPS) in Tokyo	*Decoding China's Export Miracle: A Global Value Chain Analysis*
09/30/2022 **11:00 – 4:00**	**Reischauer Center Visiting Scholars and Policy Research Fellows**	*Mt. Vernon Trip*
10/06/2022 **4:00 – 5:30** **Rome 806**	**Dr. Kotaro Shiojiri** Visiting Scholar and Adjunct Lecturer Reischauer Center Johns Hopkins University SAIS	G7 Leaders' Summits and Japan – Past, Present, and Future
10/13/2022 **4:00 – 5:30** **Rome 806**	**Mr. Rodger Baker** Director, Stratfor Center for Applied Geopolitics, Risk Assistance Network + Exchange (RANE)	*Revisiting Arctic Geopolitics: Climate, Competition, and Governance*
10/20/2022 **2:00 – 3:30** **Rome 200**	**Ms. Kaho Yamamoto** Second Secretary, Public Affairs Office Embassy of Japan	*Visit with the Japan Information and Cultural Center*

10/27/2022 **10:00 – 11:30** **Rome 806**	**Dr. Jacopo Pepe** Senior Researcher, Global Issues Division, SWP- German Institute for International and Security Affairs	*Eurasia's evolving Geoeconomics after the Ukraine War- Europe's Decoupling from Russia and the Reshuffling of Energy and Logistics Supply Chains*
10/27/2022 **4:30 – 6:00** **Rome 806**	**Ms. Erin Murphy** Deputy Director and Senior Fellow, Economics Program, Center for Strategic and International Studies	*Trouble in Myanmar: US Policy Choices and Challenges*
10/31/2022 **4:30-6:00** **Rome 806**	**Amb. David Shear** Former Ambassador to Vietnam Former Assistant Secretary of Defense for Asian and Pacific Security Affairs	*Machiavelli:* *On How to Be a Good Diplomat with Reference to Japan*
11/3/2022 **2:00 – 3:30** **Rome 200**	**Mr. Andy Masciola** **Ms. Peyton Blackstock** Science Division National Aeronautics and Space Administration (NASA)	*NASA Talk with Dr. Brooks' Class*
11/10/2022 **2:00 – 3:30** **Rome 200**	**Margot Carrington** Former Minister Counselor for Public Affairs U.S. Embassy Tokyo	*Successful U.S. Public Diplomacy: Lessons Learned from 25 Years in the Field*
11/16/2022 **10:00 – 11:30** **Rome 806**	**Dr. Sachiko Kuno** President & CEO of the S&R Foundation Co-founder of R-Tech Ueno, Ltd.	*Big Vision, Small Steps: Social Business, Entrepreneurship, and Future Direction*
11/30/2022 **8:00 – 10:00** **Rome 812 and Online (Hybrid)**	**Dr. Keisuke Iida, Dean,** Graduate School of Public Policy, University of Toyko **Dr. Kazuto Suzuki, Professor,** Graduate School of Public Policy, University of Toyko **Mr. Kunihiko Miyake,** Research Director, Canon Institute for Global Studies	*Fall Conference* *"Geo-economic Impacts of the Ukraine War and Its Implications for the Hiroshima G7 Summit"*

	Dr. Akio Takahara, Professor, Graduate School of Public Policy, University of Toyko **Dr. William Brooks,** Professor and Senior Advisor, Edwin O. Reischauer Center, Johns Hopkins SAIS **Amb. David Shear, Professor and** Senior Advisor, Edwin O. Reischauer Center, Johns Hopkins SAIS **Dr. Kent Calder, Professor and** Director, Edwin O. Reischauer Center, Johns Hopkins SAIS	
12/01/2022 **4:30 – 6:00** **Rome 806**	**Giovanna Maria Dora Dore** Senior Lecturer and Associate Director East Asia Studies Program Johns Hopkins University	*Protests in Hong Kong: An Analysis of Newspapers' Coverage Since the Handover*
01/13/2023 **3:00-6:00** **Kenney Herter Auditorium**	**HE Fumio Kishida** Prime Minister of Japan	*Address by Prime Minister Fumio Kishida*
02/02/2023 **4:30-5:30** **Rome 806**	**Reischauer Center Members**	*Spring 2023 Welcome Back*
02/08/2023 **6:00 – 8:30** **The Evermay**	**Reischauer Center Members**	*Reischauer Center Annual Reception*
02/09/2023 **4:30 – 6:00** **Rome 806**	**Dr. Toshi Yoshihara** Senior Fellow at the Center for Strategic and Budgetary Assessments	*Mao's Army Goes to Sea: The Island Campaigns and the Founding of China's Navy*

02/15/2023 **6:00 – 7:00** **Webinar**	**Mr. Chikara Kojima** Executive Vice President at Tokyo Electric Power Co Holdings and **TEPCO Energy Specialists**	*Japan's Cutting-Edge Energy Technology and Energy Security Challenges*
02/16/2023 **4:30-6:00** **Rome 806**	**Mr. Jim Schoff** Senior Director, US-Japan NEXT Alliance Initiative Sasakawa Peace Foundation USA	*Entering a New Era for US-Japan Defense Integration: Opportunities and Challenges*
02/21/2023 **9:00 -10:00** **Webinar**	**Dr. Robert Feldman** **Senior Advisor** **Morgan Stanley MUFG Securities**	*Kishida's New Capitalism: The Complementary Roles of Technology, Reskilling, and Mobility*
02/23/2023 **4:30-6:00** **BOB 500**	**Prof. Christopher Miller** Associate Professor of International History Tufts University	*Chip Wars: The Fight for the World's Most Critical Technology*
03/03/2023 **12:30 – 2:00** **Rome 806**	**Amb. Masafumi Iishi** Former Ambassador of Japan to Indonesia	*Southeast Asia: Strategic Perspectives and Japanese & US Approaches*
03/03/2023 **3:30 – 5:00** **Rome 640**	**Dr. Tom Drohan** Brig Gen, USAF (Ret) Director, International Center For Security and Leadership	*Competition and Warfare in the Information Environment: Examples from China, Russia, and Iran*
03/13/2023 **2:00 – 4:00** **Rome Auditorium**	**Dr. Jennifer Sklarew** **Professor of Energy and Sustainability** **George Mason University** **Dr. William Grimes** **Professor of International Relations and Political Science** **Boston University** **Dr. Kotaro Shiojiri** **Visiting Scholar and Lecturer**	*New Capitalism: Historical Roots and Current Realities*

	Reischauer Center for East Asian Studies **Dr. Kent Calder** **Director** **Reischauer Center for East Asian Studies**	
03/15/2023 **4:30 – 6:00** **Kenney-Herter**	**Ambassador Ken Juster** Former Ambassador to the Republic of India	*Reischauer Center Memorial Lecture*
03/18/2023- **03/26/2023**	**All Members**	*Spring Break* *Japan Yearbook Research Trip*
03/27/2023 **10:00-11:30** **Webinar**	**Dr. Paul Sheard** **Author of *The Power of Money***	*Making Sense of Japan's New Capitalism*
03/29/2023 **5:40 – 6:40** **Webinar**	**Mr. Satoshi Hirai** Engineer, Overseas Business Office **Mr. Takashi Yamamoto** Engineer, Transmission & Substations Construction Center	*Rooftop Solar Business of TEPCO* *Company Culture and Technology of TEPCO's Engineers Behind Our Stable Electricity Supply*
04/05/2023 **All Day**	**Reischauer Center Members**	*Baltimore JHU Homewood Campus Research Exchange* *"COVID-19 and Migration in East Asia: Research Findings and Methods"*
04/06/2023 **12:00 – 1:30** **BOB 500**	**Mizumi Dutcher**	*Reischauer Center Visiting Scholar Presentation*

04/13/2023 **12:00 – 1:30** **BOB 500**	**Fumitoshi Watahiki**	*Reischauer Center Visiting Scholar Presentation*
April 15th – April 16th	**Reischauer Center and Japan Club Members**	*Reischauer Center Booth at Sakura Matsuri, including visit from Kishida Yuko, first lady of Japan*
04/20/2023 **12:00-1:30**	**Yuya Uno**	*Reischauer Center Visiting Scholar Presentation*
4/21/2023 **8:30-10:00** **Rome Auditorium**	**Kurt Campbell Seminar**	*National Security Council Coordinator for the Indo-Pacific Kurt Campbell Discusses Current Affairs*
05/03/2023 **10:00-11:30**	**Kai-chun Wang**	*Policy Research Fellow Presentation*
05/04/2023 **12:00 – 1:30** **BOB 500**	**Sara Sekimitsu**	*Reischauer Center Visiting Scholar Presentation*
05/04/2022 **2:00-3:30** **Rome 418**	**Dr. Fumiko Sasaki** Visiting Scholar, Reischauer Center Johns Hopkins SAIS School of International and Public Affairs Columbia University	*China's Rising Space Power, CCP's Survival, and Indo-Pacific Geopolitics*
05/12/2023 **2:00 – 4:30**	**All Reischauer Center Members**	*End of Year Celebration: A Farewell to the Rome Building*
05/25/2022	**SAIS Graduates**	*SAIS Graduation*

Introduction

By William L. Brooks

The Reischauer Center of Johns Hopkins University's School of Advanced International Studies (SAIS) offers a unique course on U.S.-Japan relations in which the students, mainly M.A. candidates, write original research papers of publishable quality that reflect some of the main themes chosen as representative of bilateral ties between the United States and Japan in global context. The papers are edited and published in a SAIS yearbook, United States and Japan in Global Context.

This issue of the SAIS Yearbook was written at a time when the global order has been under attack and even appears to be coming apart at the seams. The prolonged war that still rages in Ukraine has shaken the international community, but fortunately, the U.S. and NATO's resolve remains strong to support that country's remarkable efforts to defend itself and recover territory ripped away by Russia. Japan's commitment to support Ukraine with sanctions, non-lethal aid, and eventual reconstruction aid remains solid and impressive. The G7 Summit, hosted by Japan this year in Hiroshima, reaffirmed the resolve of democratic nations to champion the Ukraine cause.

Unfortunately, some non-aligned countries have refused to condemn Russia's invasion and brutal war, and China has de facto sided with Putin. In broader terms, in the view of Washington and Tokyo, Beijing has emerged as the spoiler in all of this, using its military and economic powers, especially in the Indo-Pacific, to try to erode the liberal, rules-based system that the U.S. helped create after World War II. The Ukraine war has only underscored such a division between democratic and authoritarian nations, and reinforced the widespread international concern that U.S.-China relations will further degenerate and possibly even result in military conflict.

Granted that the U.S. and Japan would like to stabilize relations with China, as seen in recent high-level visits to Beijing, the current decade that sees such revived great-power competition could end in disaster unless major diplomatic efforts between the U.S. and China manage to reverse the dangerous trend. Japan has a diplomatic role to play as well, as argued in some of the essays in this Yearbook.

The papers in this issue of the Yearbook, which covers mid-2022 to mid-2023, examine in detail the impact of the Russian invasion of Ukraine on Japan, the U.S.-Japan alliance, and more broadly, Japan's defense policy, focusing especially on the possibility of a Taiwan contingency in the not so distant future.

Other papers in this issue cover such hot-button topics for Japan as Freedom of Navigation in international waters, the still unresolved historical memory issue with Asian neighbors, the current state of relations with Russia, cybersecurity policy, multilateral trade deals, monetary policy, energy security, agricultural reform, the gender-gap issue, corporate governance, and high-tech competition in the region.

Prime Minister Kishida Comes into His Prime

The cover of Time Magazine for the May 22, 2023, issue and cover story featured Prime Minister Kishida Fumio as a major leader in the global society.

Figure 1

Source: Time Magazine

The magazine stressed his foreign-policy achievements in office:

> Overseas, he has set about revolutionizing the East Asian nation's foreign relations: soothing historical grievances with South Korea, strengthening alliances with the U.S. and others, and boosting defense spending by over 50%. Buoyed by a White House eager for influential partners to check China's growing clout, Kishida has set about turning the world's No. 3 economy back into a global power with a military presence to match.

In contrast to Prime Minister Abe Shinzo, a strategic thinker with a clear agenda for Japan, Kishida is a "realist", who sees the world as it is and makes decisions that match that reality. Kishida unveiled what he called a shift to "realistic" diplomacy last June to help his country tackle the dangers it faces in a world shaken by Russia's invasion of Ukraine. "The Kishida Vision for Peace will strengthen Japan's diplomacy and security," he said during a keynote speech at the start of the Shangri-La Dialogue on June 10, 2022, Asia's premier security meeting, in Singapore.

In the speech, the Prime Minister outlined the following "five pillars" of his vision:

1. Maintaining and strengthening the rules-based free and open international order;
2. Enhancing security by reinforcing Japan's defense capabilities in tandem with strengthening the U.S-Japan Alliance and security cooperation with like-minded countries;
3. Promote realistic efforts to bring about a world without nuclear weapons;
4. Strengthening the functions of the United Nations, as well as carrying Security Council reform; and
5. Strengthening international cooperation in such new areas as economic security.

The authors of the papers in this Yearbook, as readers will see, have inadvertently woven some of these principles into their respective narratives.

Kishida is a seasoned politician and polished diplomat who before becoming prime minister in 2021 was Japan's longest-serving postwar foreign minister, holding the post from 2012 to 2017 under then-Prime Minister Abe. He visited 51 countries and regions and held 837 meetings with foreign dignitaries during that time. One remarkable achievement was the negotiated agreement in 2015 with his South Korean counterpart to resolve the vexing comfort-women issue that had been poisoning ties with the ROK. The two governments explicitly agreed that, by its terms, which included monetary compensation, the comfort women issue is "resolved finally and irreversibly." Unfortunately, the agreement did not go over well in South Korea.

As prime minister, Kishida has made a decisive shift in foreign policy a hallmark of his tenure — promoting what he refers to as "realism diplomacy for a new era" aimed at aggressively countering China and Russia in places as far-flung as Africa. The turn to "realism" — a foreign policy based on balances of power rather than a commitment to ideals — comes as Kishida's government plans to significantly increase defense spending. The Ministry of Defense budget will grow to 8.9 trillion yen by 2027, a 65% increase from 2022.

When items such as the Japan Coast Guard budget or money for infrastructure allocated to different ministries are newly included in the count, Japan's overall defense spending will top 11 trillion yen in 2027, accounting for around 2% of GDP. This constitutes a major departure from Japan's long-held goal of capping defense spending at under 1%. In early 2023, Japan announced the purchase of 400 Tomahawk cruise missiles from the U.S. to bolster deterrence against attacks.

Kishida traditionally was seen as a center-left politician who prioritized economic policy over defense, but one would not have been able to guess that by looking at his policy agenda since taking office. He has personally pushed for a doubling of the defense budget, published Japan's three new security documents, and advocated deepening cooperation with other nations' militaries. Instead of instituting measures for his much-vaunted "New Capitalism," he is now making headlines for his intention of introducing a counter-strike capability into Japan's defense arsenal.

It is important to remember that none of these policies are his — they are all inherited from previous LDP administrations, especially Abe's. In this sense, Kishida is little more than an implementer of the party's policy priorities. Still, as a middle-of-the-road team player who is not associated with the LDP's right-wing, Kishida has been able to get away with carrying out initiatives that came from someone else.

G7 Summit at Hiroshima

Since his inauguration as prime minister, Kishida has endured low approval ratings, cabinet scandals, and even an attempted bomb attack. But in recent interviews at home and abroad, he has exuded an air of confidence that eluded him during his first year in office. Riding high on the success of his Liberal Democratic Party in local elections in April 2023, Kishida's approval rating jumped almost 20 points to 52%. Unfortunately, a string of personal and domestic issues again dropped his ratings to 31 percent in a Jiji Press poll in July 2023.

Still, the May 19-21 G7 Summit, held in Kishida's home constituency, Hiroshima, was a brief chance for Kishida to shine. The summit opened on the morning of the 19th with a group tour of the leaders of the Peace Memorial Park and Museum guided by Kishida himself. Learning the real-life consequences of atomic bombing for themselves was undoubtedly the main attraction of this year's G7 gathering, since Hiroshima, according to Kishida, was chosen as the host city because "no other location would be as appropriate for demonstrating the nation's commitment to peace."

Then, in a surprise visit during the weekend, Ukrainian President Volodymyr Zelenskyy took center stage at the Hiroshima Summit, meeting with the leaders to court global support against Russia. Despite intense fighting back home, Zelenskyy made the roughly 9,000-kilometer trip partly to woo leaders from emerging economies also participating in the G7 summit. These countries include ones that have close economic ties with Russia and have taken a neutral stance on the invasion of Ukraine.

Zelenskyy first reached out to Japan in April about attending the summit in person, kicking off secret discussions in Tokyo on measures needed to protect a wartime leader while in Japan.

Kishida gave the final go-ahead in early May, but some in the Japanese government were wary of the idea. Kishida insisted on moving forward, however, saying he would "take on all of the risk."

Kishida's leadership could be seen in the Communique that the G7 leaders released on the weekend in which they expressed their strong resolve to maintain the rules-based, free, and open international order and to "support Ukraine for as long as it takes in the face of Russia's illegal war of aggression." The leaders also called on China to press Russia to immediately withdraw its troops from Ukraine. In addition, the G7 leaders stated their strong opposition to "any unilateral attempts to change the status quo by force or coercion," in view of Russia's invasion of Ukraine and China's aggressive maritime advancement.

The G7 leaders also vowed to take concrete steps to strengthen disarmament and nonproliferation efforts toward "the ultimate goal of a world without nuclear weapons" and stated that the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) is "the cornerstone of the global nuclear non-proliferation regime." Concerning China, the leaders reaffirmed the importance of peace and stability over the Taiwan Strait and stated that they remain "seriously concerned" about the situation in the East and South China Seas. However, the leaders stressed that "decoupling" with China is unrealistic and recognized the need for "de-risking."

Good Abroad, Poor at Home

While Kishida has piled up diplomatic achievements abroad, the same cannot be said about his performance at home. The comfort level he has on the world stage simply does not show when he is addressing the parliament or the Japanese public. A major reason for that is that the same support base that he enjoys from within the government does not exist on the political party side. He has taken hits for a senior aide having made bigoted remarks, and a former prime minister has attacked his decisions in the media. With his ratings now having dropped into the danger zone, kingpins in the ruling LDP may start to look for another candidate to replace him as party president.

The Alliance Is in the Best Shape Ever

Despite the Prime Minister's weak domestic base, Kishida can take credit for decisions that have elevated the U.S.-Japan Alliance to perhaps the highest level of mutual confidence ever. Washington has been highly complementary toward Tokyo's commitment to a dramatic defense buildup, predicated on the increasingly dangerous security environment in the region and the rest of the world. Japan's Defense White Paper for 2022 listed four challenges that the Alliance would address: 1. Russia's invasion of Ukraine; 2. Increasing strategic cooperation between China and Russia; 3. China's alarming military buildup; and 4. North Korea's continuing to develop and test missiles and nuclear weapons. So far, the commitment to meeting those challenges is on track.

The U.S.-Japan Security Consultative Committee (SCC), known as the Two-Plus-Two and consisting of the U.S. secretaries of State and Defense and Japan's ministers for Foreign Affairs and Defense, convened in Washington on January 11, 2023. The statement issued, which spelled out the current state of the Alliance, started with these words:

> Recognizing the convergence of their nations' new national security and defense strategies toward bolstering deterrence in an integrated manner, the Ministers provided a vision of a modernized Alliance postured to prevail in a new era of strategic competition.
> The Ministers firmly reiterated their commitment to champion a free and open Indo-Pacific region, heralding the U.S.-Japan Alliance as the cornerstone of regional peace, security, and prosperity. They resolved to advance bilateral modernization initiatives to build a more capable, integrated, and agile Alliance that bolsters deterrence and addresses evolving regional and global security challenges. The Ministers affirmed that the Alliance is stalwart in the face of these challenges and steadfast in support of shared values and norms that underpin the international rules-based order. They renewed their commitment to oppose any unilateral change to the status quo by force regardless of the location in the world.

Tokyo, in the eyes of Washington policymakers, is ready to marshal its military power to meet the challenges stemming from the increasingly severe security environment around Japan, as well as the rest of the world.

The Taiwan Problem: What Will Japan Do in a Contingency

There is serious concern in Washington and Tokyo circles that Beijing under Xi Jinping envisions an authoritarian-based world order that pushes America aside and places China at the center. The problem with that worldview is that such a grand design would be upended if President Xi decided to invade Taiwan, as many in Washington fear, and set off a war with the United States and possibly Japan. Several papers in this Yearbook explore that possibility.

For decades, Beijing has pursued a policy of "peaceful unification" with Taiwan and has built close economic, cultural, and social ties with that island. Despite the occasional crises and military activities across the Strait, China has held to that basic tenet, and the U.S. and Japan have maintained a one-China policy in return. At the same time, Beijing has sought to isolate Taiwan from the international community by courting nations that still have official ties with Taipei. At this time, only 13 countries still have such ties. In recent years, China's aggressive posture toward the island has only intensified, as seen for example in the overreaction to the visit of then-House of Representative Speaker Pelosi to Taiwan in 2022.

Under President Xi Jinping, that policy of peaceful unification may be changing, and the option of using force against Taiwan may no longer be off the table. China also may think that its strong military capabilities may be sufficient to carry out such an attack successfully. That possibility dominates the analyses in several of the papers in this Yearbook. For example, if China were to launch a military attack on Taiwan and the U.S. responds militarily, as President Biden has often stated, what would Japan do? Japan at a minimum would be expected to provide logistical support for the U.S. forces and allow the U.S. to stage operations against China from its bases in Japan.

The Council on Foreign Relations (CFR) concluded in a recent report that it would be "nearly impossible" for the U.S. forces to swiftly respond to a Taiwan contingency without Japan's cooperation. The report stressed that "Japan is by far the most critical variable for a defense of Taiwan" and that the United States "would find it nearly impossible to respond promptly and effectively to Chinese aggression against Taiwan" without being able to call on U.S. forces stationed at U.S. bases in Okinawa.

Beyond that, the scenario remains unclear. The official position, as articulated by Prime Minister Kishida, remains clear:

> "The peace and stability of the Taiwan Strait is critical not just for our country, but for the whole international community…Our position has always been that the issue of Taiwan should be resolved peacefully through dialogue, and I believe the Group of Seven [rich democracies] is united on this." (Nikkei Asia interview, May 23, 2023)

Still, the possibility of a Taiwan contingency remains high in the minds of policymakers and think-tank researchers in Washington and Tokyo. Former prime minister Aso Taro, now vice president of the ruling Liberal Democratic Party (LDP), has noted, "a Taiwan contingency is Japan's contingency as well." His remark did not go well in Beijing.
Given Japan's proximity to Taiwan – only 110 kilometers separates Yonaguni Island, the westernmost Japanese territory, and the Taiwanese mainland – leaders in Tokyo, already concerned about China's rapid military expansion, fear that U.S. forces stationed in Okinawa, as well as newly installed SDF outposts on the remote islands, would likely be targeted by China in the early stages of a Taiwan invasion.

Several think tanks have already carried out war game scenarios that posit such a contingency. The Sasakawa Peace Foundation, for example, did a tabletop exercise this year positing an amphibious invasion scenario that concluded that the People's Republic of China would fail to seize control of Taiwan. But what a blood bath that would be! The U.S. might lose up to 400 jets with casualties of over 10,000. Japan, which would use its right to collective self-defense, would join the conflagration and lose up to 144 fighter jets and suffer up to 2,500 casualties. China would lose 156 warships, including two carriers, 168 jets, and 40,000 casualties. Taiwan would suffer 13,000 casualties and lose 18 warships and 400 aircraft. What a high price for all to pay for such a reckless venture!

Yi-wen Chang's paper delves deeply into the one defense-policy conundrum that Japan faces in dealing with the Taiwan issue: How should it respond to a future cross-Strait contingency that will bring about a robust U.S. military response? Her case study focusing on the defense of Japan's remote islands south of Okinawa shows that Japan is willing to build a readiness to respond, while hoping that such enhanced capabilities will serve as a deterrence. Exactly how far Japan will go in responding to such a contingency remains unclear.

The paper of **Benjamin Pan** examines the complex relationship between mainland China and Taiwan, and then zeros in on the possibility of a contingency in the Strait and likely responses. He meticulously describes the strategies and readiness of the key players in such a scenario.

In contrast, **Maomao Qu** analyzes in her paper the Freedom of Navigation (FON) concept, which the U.S., Japan, China, and Taiwan each interpret differently, and how that issue affects the responses of key players in a possible cross-Strait contingency. She concludes her discussion with possible ways for the U.S. and China to avoid the proverbial Thucydides Trap – open conflict –

that includes, of all things, preventative diplomacy. Perhaps there is a role for Japan in that area if its leaders have the courage to get involved.

As for FON, Japan has placed limits on what it can do. It appears that for now, Japan carrying out Freedom of Navigation Operations (FONOPS) in international waters claimed by China is seen as a bridge too far. On Jan. 11, immediately before a meeting between President Biden and Prime Minister Kishida in Washington, the Security Consultative Committee (SCC) meeting of the two countries' foreign and defense ministers (two-plus-two) was held at the Department of State. The two sides easily confirmed various efforts toward "modernization," including deeper cooperation toward the introduction of Japan's counterattack capabilities. But Japan was reluctant to commit when Secretary of Defense Lloyd Austin said, "I want the Self-Defense Forces vessels to pass through the Taiwan Strait."

In a paper that also spotlights China, **Viola Du** analyzes the Free and Open Indo-Pacific (FOIP) concept that was first introduced by Prime Minister Abe as a development and rules-based order initiative. It later morphed more into a security-oriented concept, in line with the thinking in Washington. Du carefully analyzes the various stages in Japan's FOIP initiative, but concludes that in contrast to Washington, Tokyo does not wish to use it to encircle or contain China or to be exclusive in nature.

In recent years, Japan's relations with China have been dominated by the territorial issue – competing claims to sovereignty over the Senkaku Islands off Okinawa and rising tensions in waters close by where Japanese and Chinese coast guard vessels constantly face off against each other.

Wanxin He, in her thoughtful paper, brings in the other major issue between Japan and China: divergent views of history and Japan's aversion to engaging in a diplomacy of apology for its wartime aggression toward that country. After carefully examining the background and contributing factors to the still unresolved historical-memory issue, she concludes that one of the reasons why reconciliation has remained elusive stems from the different narratives about the past that each country has adopted in the postwar period.

It Is ironic that during the golden decades of Japan-China relations after normalization in 1972, when Japan was providing enormous financial assistance for China's modernization, the territorial and historical memory issues only occasionally surfaced (textbooks in the early 1980s, Prime Minister Nakasone's visit to Yasukuni Shrine in 1985). The last decade or so has seen a rapid erosion of that bilateral goodwill as those issues remain raw and unattended.

Kishida's Visit to Ukraine in March

On March 21, 2023, Prime Minister Kishida made a surprise visit to Kyiv aimed at demonstrating Japan's intention to lead international efforts to support Ukraine ahead of the G7 Summit. Kishida is the first Japanese prime minister to visit a country or region engaged in active conflict since the end of WWII. As the G7 chair, the Prime Minister felt he needed to visit Ukraine to emphasize the importance of the rule of law to the international community. He also aimed at countering China's efforts to promote a "peace diplomacy," in which President Xi held talks with President Putin on March 20 and 21 and then phoned Ukraine's President Zelenskyy.

After a summit with President Zelenskyy, Kishida said during a joint press conference that he "wanted to directly meet with Zelenskyy before the G7 Summit in Hiroshima in May to convey [Japan's] unwavering solidarity" with Ukraine. President Zelenskyy welcomed the Japanese leader's visit by saying: "I am happy that the visit was realized while Japan is serving as the chair of G7 and a non-permanent member of the UN Security Council." The two leaders signed a joint statement aimed at strengthening bilateral relations. According to Kyodo, Kishida announced that the bilateral relationship will be elevated to a "special global partnership."

Japan-Russia Ties Sour in the Wake of the Ukraine Invasion

In sharp contrast, Japan's relations with Russia since the invasion of Ukraine have turned icy. Following Moscow's invasion on Feb. 24 last year, the Kishida government has imposed severe economic sanctions on Russia in lockstep with other Group of Seven industrialized nations and other like-minded countries. The Kremlin has responded by suspending negotiations with Japan on a post-World War II peace treaty and the status of four disputed islets off Hokkaido that the Soviet Union seized in the war's final stages.

Japanese media have extensively reported on the war in Ukraine, especially during the war's early phase, with scenes of destruction by Russian missiles, atrocities purportedly committed by Russian troops, and the miseries caused to innocent Ukrainian people. The percentage of Japanese who "do not feel friendly" toward Russia reached a record 94.7 percent, a recent Japanese government survey showed. The figure was up from 86.4 percent in the previous survey a year earlier, and the highest since the question was added in 1978, according to the Cabinet Office, which conducted the annual survey from Oct. 6 to Nov. 13 in 2022. In contrast, an all-time low of 5.0 percent of respondents said they "feel friendly" toward Russia, down from 13.1 percent.

The Kremlin's reactions to Japan's lining up with NATO on Ukraine included military posturing. In April 2023, Russia's Pacific naval fleet launched a large-scale exercise in Far East coastal areas, including part of Japan's claimed Northern Territories. The fleet has its command center in Vladivostok. The Russian commander said the main objective of the exercise was to increase the ability of the Russian Armed Forces to repel a sea attack by an aggressor and was aimed at preventing mock enemy forces from landing on Sakhalin and the southern Kuril Islands, which include three of the four islands claimed by Japan. Russia controls the four islands that Japan claims.

As of early 2023, 60 pct of Japanese-affiliated companies in Russia have fully or partially halted their operations, according to a Japan External Trade Organization survey conducted ahead of the first anniversary of the start of Russia's invasion of Ukraine. The proportion of such companies came to 60.6%, up by 11.1 percentage points from the previous JETRO survey in August 2022.

Trade between Japan and Russia shrank due to the introduction of economic sanctions following the country's invasion of Ukraine. Data that compiled the Ministry of Finance's trade statistics showed that total exports and imports between Japan and Russia amounted to 2.2 trillion yen for the 11 months from March 2022, immediately after Russia's invasion of Ukraine, to Jan. 2023. The amount fell 6% compared with a year ago. While exports fell 40%, imports increased 10% due to rising energy prices and the weak yen.

Russia-bound Japanese exports dropped 39% to 499.1 billion yen due to the government's trade embargoes and supply chain disruptions. By item, automobile shipments, which account for more than half of Japan's total exports to Russia, fell 15%. Since April 2022, Japan has banned the shipment of luxury vehicles that cost more than 6 million yen per unit and motor trucks. Shipments of automobile parts saw a steep decline of 87% as Japanese automakers suspended operations there. Semiconductor electronic parts and electronic appliances, such as telecommunication equipment, that are subject to the export ban, fell 68% as well.

Meanwhile, imports from Russia grew 12% to 1.7185 trillion yen. Liquified natural gas (LNG), which makes up for close to 40% of Japan's total imports from Russia, grew 66%, with coal at 47%. Imports of LNG in volume remained the same from a year ago, and the volume of coal fell nearly 50%. Nonetheless, imports of these commodities rose in value due to price surges and the weak yen. Imports of crude oil, however, fell 54%. Oil wholesalers have secured alternative sources apart from Russia.

How did such a dire situation develop? **Devin Woods** does a masterful job of answering that question, against the background of Japan's diplomatic efforts over the decades to convince Russia to concede on the territorial issue and conclude a peace treaty. Prime Minister Abe tried to woo Putin during his long term in office (2012-2020) in order to reach a breakthrough on the territorial issues, but to no avail. The conclusion that Woods reaches for the future of Japan-Russia relations is grim.

Kishida Amplifies the Defense Policy Agenda of the Late Abe Shinzo

Prime Minister Kishida's plans to double defense spending over the next five years leave no doubt about the country's determination to expand its military capabilities to deter China's expansionist ambitions. Japan's new strategic vision represents the culmination of a long-term shift that began under former Prime Minister Abe Shinzo, who was assassinated last July. During Abe's tenure, which lasted from his return to power in December 2012 until his resignation in September 2020, Japan revamped its military doctrine and significantly increased defense expenditure.

Abe also created a Cabinet-level National Security Council, established the National Security Secretariat to support it, streamlined military procurement by forming the Acquisition, Technology & Logistics Agency, and, last but not least, sought to amend Japan's pacifist constitution, though in vain.

Taken together, Abe's policies marked a historic shift in Japan's defense policy and regional standing. No longer would Japanese security be overly dependent on the United States. Before Abe, if an enemy had attacked a U.S. warship near Japan's territorial waters, the Japanese military would not have gotten involved. Abe rejected this approach, had the Constitution reinterpreted to allow Japan the right to limited collective self-defense, and now Japan can assume a central security role in the Indo-Pacific. If the U.S. and China were to go to war over Taiwan, Japan can now cooperate with the U.S. military. Japan's Self-Defense Forces can now protect U.S. ships and planes in the region under certain scenarios.

Dramatic Changes in Japan's Defense Policy

Reacting to the rapidly deteriorating security environment around Japan and beyond, Prime Minister Kishida has put into place a policy of drastically increasing defense spending and capabilities that would dramatically change Japan's heretofore passive security posture. Japan is now committed to possessing a missile counterstrike capability that would provide deterrence in relation to China.

Kishida added to Abe's defense policies. Japan will now increase military spending to 43 trillion yen ($330 billion) by 2027, and the Kishida government has revised Japan's national security strategy to allow for counterstrike capabilities. China is now targeted in the strategy, as well.

When the Abe administration issued Japan's first-ever national security strategy in 2013, China's incursions into Japanese waters and airspace near the Senkaku Islands were described as "an issue of concern to the international community, including Japan." The 2022 strategy, however, refers to China as "an unprecedented and the greatest strategic challenge" to Japan. As this change makes clear, Japan's military build-up aims, first and foremost, to deter Chinese expansionism.

One issue that Abe had warned about was the need to build up fuel and ammunition supplies. The new strategy addresses that problem. The government will work now to build up the strategic stockpiles and to secure storage facilities needed to sustain a long war. Unless Japan builds and maintains adequate strategic reserves, it will not be able to defend itself.

In the past, the Alliance used to have an unwritten rule that all new military assets should be under U.S. control. In recent years, however, Japan, the United Kingdom, and Italy have started to jointly develop a next-generation fighter jet. The U.S. Department of Defense supports the new partnership and the growing military cooperation between the U.S., Japan, European countries, Australia and India.

There are limits, however, on what Japan can do to reverse such longstanding principles as the ban on weapons exports. The Liberal Democratic Party (LDP) and its junior coalition partner Komeito have been engaged in talks to review the Three Principles on Transfer of Defense Equipment and Technology, which limit the export of defense equipment. The LDP wants to ease restrictions on exports of lethal weapons with an eye toward supporting Ukraine, but Komeito has been reluctant to do so, arguing that such would undermine Japan's position as a peaceful state. At this writing, the two parties remain far apart.

Dramatically Boosting Defense Spending, but How?

Plans to dramatically strengthen Japan's defense capabilities were endorsed by the Diet earlier this year, when it approved a law for securing financial resources for the government's plan due to the increasingly severe security environment around Japan. But as of this writing, it is unclear where the money will come from to pay for the new defenses. The public remains dead set against a related tax hike. The government seems to be kicking that can down the road. A tax hike, which the government now plans to implement "at an appropriate time after 2024," was not included in a recent appropriations bill due to opposition from within the LDP itself.

To deal with North Korea's nuclear and missile development, Russia's armed aggression in Ukraine, and China's maritime expansion, a decisive element would be the possession of a"counterattack capability," meaning the capacity to strike targets such as an enemy's missile bases in self-defense. Lying behind the need to boost such capability is that it would be impossible to respond to the threat of North Korean missiles with only the present ballistic missile defense system.

In his highly perceptive paper, **Ryan Tenty** examines the formidable challenges that the Kishida administration faces in implementing bold defense policy initiatives to counter the real security threats around Japan. Not the least of these challenges will be to convince Japanese taxpayers to pay for rising defense budgets. While opinion polls show a majority of Japanese favoring enhanced defense capabilities, most respondents do not want to see their tax rates increase as a result.

How Effective Is Japan's Cybersecurity System?

Japan's National Center of Incident Readiness and Strategy for Cybersecurity (NISC) oversees cybersecurity measures for governmental organizations. So far, it has been woefully unable to adequately respond to repeated attacks against the government's cloud services. Not only has it been unable to collect information from the manufacturer or the ministries and agencies attacked about the extent of the damage, but NISC also has yet to come up with effective measures to prevent recurrence. There are also structural problems such as the NISC's limited authority over government agencies.

The NISC is the government's control tower in charge of handling these kinds of situations. It was launched in 2015 by reorganizing the Cabinet Secretariat's National Information Security Center. The NISC oversees policymaking and monitors and responds to cyberattacks against governmental organizations. The problem is that, reportedly, NISC cannot gather enough information from government ministries and agencies or from companies. This is because the NISC has little power over governmental and private organizations even though it is the government's control tower for cybersecurity measures. It relies on voluntary contributions from organizations.

When the government's cloud services were recently hacked, the NISC requested the ministries and agencies suffering damage to provide information on a voluntary basis. But, according to NISC, they were uncooperative in sharing information that might harm the creditability of their organization.

In her highly perceptive paper on Japan's cybersecurity capabilities, **Chelsea Wells** explores both such inadequacies as well as the progress that Japan has made recently, giving credit where it is deserved. But the recent shutdown of Nagoya's port facility by hackers indicates that much remains to be done to keep Japanese public and private entities safe from harm.

Gender Gap Shrinking?

Another problem for Japan is the inadequate role of women in the labor force. In a meeting of the Council for Gender Equality in late April, Prime Minister Kishida sought to tackle the gender gap in the business world by setting a target for women by 2030 to make up at least 30 percent of executives at companies listed on the Tokyo Stock Exchange's Prime section.

Kishida said that the government will promote flexible work styles and make efforts to develop female digital experts, in a bid to reduce the number of women who stop working in regular positions after giving birth. Discussions at the council meeting were reflected in a priority policy for women's active participation in society and gender equality that the government adopted in June. As of the end of July 2022, the proportion of female executives topped 30 pct at only 2.2 pct of the 1,835 companies on the TSE top section, according to the Cabinet Office.

Kishida's policy efforts to reduce the gender gap reflect a long series of government measures that so far have not significantly affected the problem of women in the labor force. Japanese women occupy a mere 13% of managerial positions in the private and public sectors, according to government figures. This is the lowest level among the Group of Seven nations. The World Economic Forum's global gender gap index consistently faults Japan, placing it at a lowly 116th out of 146 countries in 2022. Patriarchal culture, with embedded gender stereotypes, has been long identified as a culprit with no apparent antidote. The problem is endemic to the political spectrum in Japan, as well. There are only two women in Prime Minister Kishida's 19-member Cabinet, and parliament's powerful 465-member lower chamber is 90% male.

Okung Obang assesses government and private sector efforts to address the gender-gap issue in her perceptive paper. One of the biggest obstacles is the mindset of a still male-dominated society. Unless there is a basic change in attitudes that permeates the public and private spectrum, laws and regulations that rely on cooperation will not significantly reduce the gender gap.

Assessing Structural Reforms: Farm Sector, Monetary Policy, Corporate Governance

Abenomics, the signature economic policy of Prime Minister Abe during his long term in office, consisted of three "arrows": financial measures, monetary policy, and structural reform. Two papers in this Yearbook examine monetary and structural reform, respectively. A third paper covers corporate governance, which is tangentially involved in the Abe reforms.

Why has Japan over the decades of intense trade negotiations, both bilateral and multilateral, resisted so strongly U.S. efforts to open up protected areas of the agricultural market to farm product imports? **Zhuoran Li**, in his exceptional study of the politics of protectionism of farmers in Japan, explores the root cause: the enormous political clout of JA, the agricultural association lobby that, despite efforts by Prime Minister Abe, remains a formidable entity blocking structural reform in the farm sector that would open protected parts to imports. He concludes that

JA has been weakened but remains nonetheless a main impediment to the process of agricultural liberalization.

In his highly persuasive paper, **Justin Feng** examines monetary policy, one of the key policy "arrows" of Prime Minister Abe's comprehensive policy package to revive Japan's economy after two decades of sluggish growth. He has evaluated in detail the Herculean efforts of Bank of Japan Governor Kuroda Haruhiko to use every tool in BOJ's box in order to achieve a 2 percent inflation rate target and overcome the country's persistent deflation. The results are a mixed bag, and Kuroda has now turned over the keys to the BOJ to a successor who continues to pursue that elusive target.

Corporate governance is another area of reform associated with the Abe administration. Japan is moving away from the postwar bank-dominated, heavy-industry-led, and interlocked model toward a new corporate model. The government introduced corporate governance reforms in 2014, followed by the establishment of a Corporate Governance Code in 2015 (with revisions in 2018 and 2021), and market restructuring of the Tokyo Stock Exchange. The main aim has been to improve companies' earning power, including improving their profitability and restoring economic growth. Japanese companies' ratios of Return on Equity (ROE) and Return on Assets (ROA) have remained lower than those of U.S. and European companies for at least two decades. To remedy this situation, Japan has developed an economic system in which sustainable growth of companies and improvement to their corporate value can distribute benefits to their stakeholders more widely, leading to economic growth through investment and expansion of consumption.

Using the case study of Mizuho, one of the world's five largest banks, **Yuki Nakagawa** examines its struggles to renovate its infrastructure and properly govern itself in order to keep pace with its international competitors. He concludes that by and large, Mizuho's failure to adeptly pursue an overseas strategy has left it behind the international curve. Although Nakagawa's case study only focuses on Mizuho, one wonders how many other Japanese companies are lagging similarly.

Japan Embraces Multilateralism with Mega-Trade Deals

Japan's solid commitment to multilateralism during the Abe administration began with a shift in trade policy away from bilateral agreements to embracing multilateral trade deals like the Trans-Pacific Partnership or TPP, which Japan resurrected as CPTPP when the U.S. under President Trump suddenly pulled out of the agreement. **Amanda Zakowich** in her masterful paper on the various trade partnerships that Japan has joined, including RCEP and IPEF, finds that there has been a dramatic shift in thinking among policymakers. Japan emerges thus as a leader in efforts to integrate the region economically based on mega-trade deals. It remains to be seen whether Japan can persuade the U.S. to ever rejoin TPP, and the U.S. substitute, IPEF, is not a trade liberalization scheme, and remains a work in progress at this point.

Energy Policy

Kevin Xue has extensively researched Japan's energy market, focusing on the potential of renewables in Japan's predicted energy mix as part of decarbonization efforts. Currently, only 8.5 percent of Japan's electric power is provided by renewable sources, but about half of that consists of hydropower, which is unlikely to grow. By 2030, renewables are supposed to make up 13-14 percent of the mix, and by 2050, they will rise to 36-38 percent. But are even such modest targets feasible? Xue's analysis shows the difficulty of such, for a variety of persuasive reasons. Japan's continued reliance on fossil fuels remains an inconvenient truth.

Reinforcing that argument is the paper by **Bryan Hong**, who provides a detailed analysis of Japan's reliance on natural gas – LNG – for much of its energy needs, Hong examines how the country is seeking to diversify suppliers, including importing more LNG from the United States and other stable sources. He points out, however, that for the time being, Japan must continue to import LNG from Russia, about 10 percent of demand, until at least other countries can make up the difference.

IT: Changing Japan's Business World

Jianjie Li in his state-of-the-art paper focuses on Japan's efforts to digitally transform not only its own society but also to apply the same IT-based technologies to the corporate world abroad, specifically Southeast Asia, his case study. Digital transformation is the incorporation of computer-based technologies, including artificial intelligence, into an organization's products, processes, and strategy. Japan has been slow to catch up to other advanced countries in this area, but it has now progressed to the level of exporting such technologies to other countries. Needless to say, Japanese companies have had the backing or support of government agencies like METI to pursue such a business strategy abroad.

From Pacifism to Preparedness: Overcoming Challenges to Japanese Defense Policy

By Ryan Tenty

Introduction

The 2022 Russian invasion of Ukraine marked an inflection point in Japan's defense policy and perceptions of national security. Despite nearly 5,000 miles of distance between Tokyo and Kyiv, the conflict has shocked Japan out of its decades-long hesitancy on matters of security and defense, as well as prompted policymakers in Tokyo to call for reasserting elements of Japanese military power unheard of since the end of World War II. Indeed, Japan's experience in this latter conflict—which brought unprecedented devastation and misery to millions of Japanese—has long served as the political and emotional basis for the Japanese government's cautious and restrained security posture. Such wariness has long been further bolstered by legal restrictions imposed on Japan during the period of U.S. occupation, including Article 9 of the Japanese Constitution which renounces Japan's ability to wage war. The signing of the Treaty of Mutual Cooperation and Security between the U.S. and Japan in 1960—which obligated Washington to come to Japan's aid in the event of an attack—only further stifled the need for Japanese leaders to prioritize defense, as Tokyo increasingly secured itself under the American military and nuclear umbrella. While U.S. policymakers have long nudged Japan to assume greater responsibility and burden-sharing for its own security, Japanese efforts to increase defense spending and military capabilities have long been hobbled by enduring political, social, and bureaucratic factors deeply entrenched within the Japanese system.

Tokyo's longstanding reticence seemingly switched overnight, however, in February 2022 when Russian forces crossed the borders of Ukraine, upending decades of international norms and declarations of an end to traditional state-on-state conflict. For Japan, the Russian attack on Ukraine was perceived as a violation of the core tenets of the international system that Tokyo had long helped to build and maintain, and crystallized for policymakers in Tokyo the increasingly threatening security environment Japan found itself in. In November 2022, Japanese Prime Minister Kishida Fumio announced that Japan would raise defense spending to two percent of

GDP by 2027, virtually doubling spending from the current one percent.[i] Such a move—which aligns with U.S. and NATO defense spending standards—would catapult Japan to the third-largest military budget in the world once successfully implemented. Furthermore, in December 2022 Japan released the National Security Strategy (NSS), the National Defense Strategy (NDS), and the Defense Buildup Program, outlining for the first time in ten years efforts that Tokyo would prioritize to improve its independent defense capabilities and increase deterrence.[ii] Most notably, Japan's new NSS announced the development of a new doctrinal capability known as "counterstrike," allowing Japan to strike enemy targets and missile sites in the context of self-defense.[iii] For Japan, such efforts mark a clear departure from Tokyo's traditional aversion to the build-up and projection of hard power, as well as reliance on the United States for attack capabilities.

While such measures have indeed been spurred by the Russia-Ukraine War's "wake-up call" to Tokyo, Japanese defense policy reforms, in fact, trace their roots to a much longer period of regional and geopolitical turbulence within East Asia and the Indo-Pacific region more broadly. Most notably, the rise of China over the last decade has spurred an acute sense of vulnerability in Tokyo, as Beijing's military modernization efforts, defense capabilities build-up, and periodic escalation of territorial disputes—including over the Senkaku Islands—has forced Japanese policymakers to confront Japan's ever-widening military disadvantage vis-à-vis its western neighbor. Worse yet, Japan has watched with alarm as China has increasingly ramped up threats and coercion against Taiwan, a contingency that would pose an existential threat to Japan's territorial and economic security. Moreover, Japan's increasing anxiety over the threat of nuclear-armed North Korea—which continues to launch missiles over Japanese territory—as well as longstanding territorial disputes with Russia over the Northern Territories only further underscored the need for Tokyo to reimagine its national security and defense posture long prior to Moscow's invasion in 2022.

However, while Japanese policymakers have long sought to increase Japan's defense capabilities in response to growing regional threats, structural reforms to Japan's lagging military sector have until now frequently stalled or been weakened in the face of sustained political and bureaucratic pressure. Recognizing the need to confront Japan's rapidly deteriorating security environment, former Prime Minister Abe Shinzō long sought to revise Article 9 of the Japanese Constitution during his second period in office (2012-2020) in order to free Japan from its historical security restraints—a goal the late prime minister never fulfilled. While the Japanese Diet indeed passed notable defense-related legislation in the 2010s, including the 2015 Peace and Security Legislation allowing the Japanese Self-Defense Forces (SDF) to engage in collective self-defense with Japan's allies, Japanese defense policy and reform efforts have overall continued to suffer from delays in implementation, a lack of consistent resources, slow bureaucratic adaptation, and public opposition.

This paper, therefore, aims to examine some of these leading sociocultural, electoral, and bureaucratic obstacles hindering recent efforts to reform Japanese defense policy in greater detail. Moreover, the paper aims to parse out the implications of such obstacles for many of Tokyo's newly-announced defense and security initiatives, particularly efforts to increase defense spending. Finally, the paper aims to provide a series of policy recommendations for Japan to minimize or overcome such obstacles, thereby contributing to efforts to better protect and safeguard Japanese national security amid mounting threats from China, Russia, and North Korea.

Sociocultural Factors

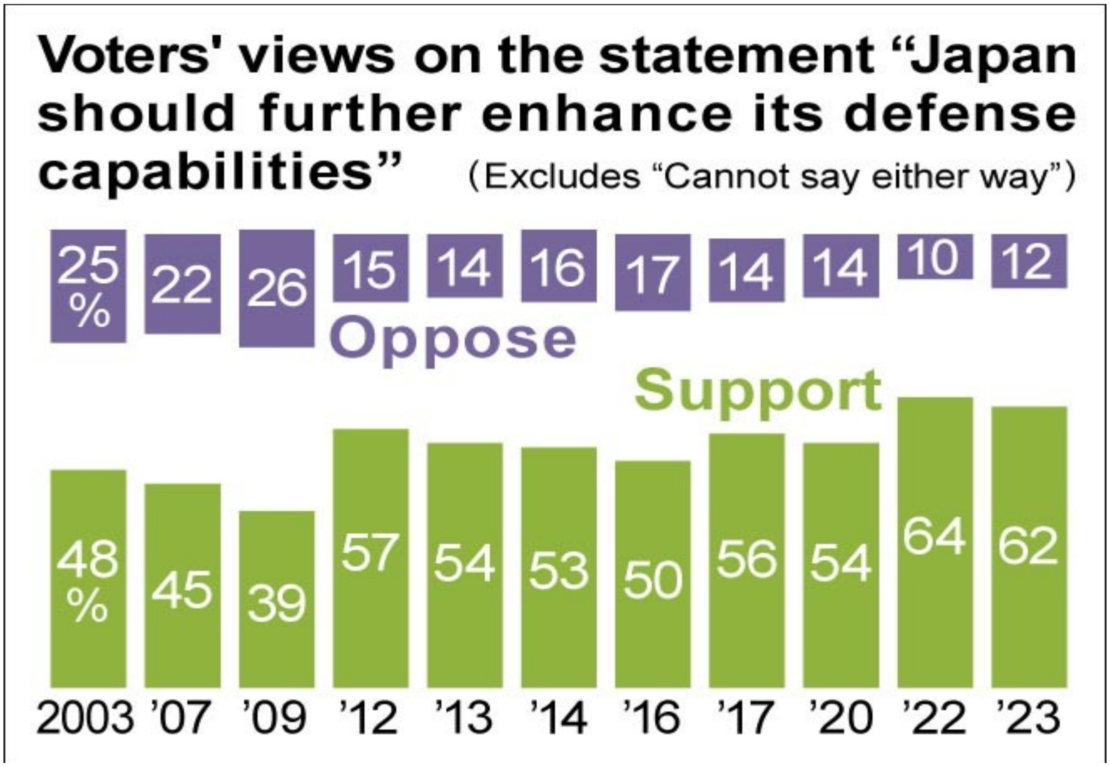
Like most countries around the world, Japan treats its national security and defense policy as an exclusive purview of the national government, with relatively little local or regional involvement. Nevertheless, public support and perceptions of defense policy, as well as attitudes towards military service and military culture more broadly, remain important elements in the government's ability to implement new or enhanced security sector reforms. Within this broad group of social and cultural factors, two critical challenges stand out: public opinion and the perceived social status of the Japanese Self-Defense Forces.

Public Opinion

Japanese public opinion arguably represents the most important social factor in efforts to reform Japanese defense and national security policy. Japan's devastating experience in World War II as a result of Japanese militarism has understandably made the Japanese public traditionally wary of efforts to increase the country's military posture and capabilities for decades. Such wariness has long been represented through the political stances of the opposition parties in the Diet, as well as served to reinforce the popularity of Tokyo's self-imposed one percent of GDP cap on defense spending among Japanese public opinion.

While Japan had witnessed a gradual evolution in public thinking regarding defense policy matters in recent years, Russia's invasion of Ukraine in February 2022 served as the main catalytic inflection point in drastically altering Japanese public opinion on national security issues. This has included swelling public support not only for Japanese aid to Ukraine and sanctions against Russia, but also sweeping changes in public perceptions on how to address Japan's worsening security environment in East Asia in light of continued Chinese and North Korean aggression. Public opinion polling now consistently shows that 65% to 70% of the Japanese public support efforts to increase Japanese defense spending, a record high since public opinion surveys on defense spending began.[iv] Moreover, polls show that since the Russian invasion, the Japanese public has demonstrated an overall greater willingness to support enhanced defense measures and the acquisition of previously-restricted military capabilities. For example, a December 2022 Asahi Shimbun poll found that 56% of Japanese respondents support the acquisition of a counterstrike capability, while an even more recent May 2023 poll showed over 60% of the public agreed that Japan should enhance its overall defense capabilities, reflecting the highest level of support for a stronger defense policy in decades.[v]

Figure 1. Japanese support for enhancing defense capabilities



(Source: Asahi Shimbun)

Although polling reveals consistent patterns of majority support for greater defense measures, public opinion becomes increasingly nuanced when respondents are asked about particular aspects of reforming Japanese defense policy—particularly over how to pay for such measures. For example, a December 2022 poll by Nikkei Shimbun found that while 55% of respondents support plans to strengthen defense capabilities, over 80% expressed dissatisfaction with Prime Minister Kishida's plan for a proposed tax increase to finance greater defense spending.[vi] Indeed, Japanese public aversion to any potential tax hikes or reduction in other spending to pay for defense represents one of the biggest obstacles to Japanese security reform efforts from a broader societal level.

Similarly, experts on Japanese defense policy have questioned whether the Japanese public would support greater military spending or involvement, should a potential foreign conflict erupt that may not threaten Japan's core national security interests. For example, Jimbo Ken from the International House of Japan notes that Japanese public support for intervening in a Taiwan contingency is intrinsically tied to the Taiwanese public's own willingness to resist a Chinese attack.[vii] More specifically, Jimbo states that Japanese public support would dissipate quickly if it were perceived that Taiwan was not willing to sacrifice as much as Japan in an armed conflict meant to keep the island out of Beijing's grasp. This aligns with broader trends seen in Japanese public perception and support for defense initiatives, which are inherently tied to foreign support and parallel implementation of such measures by other international actors, particularly the U.S. It is within this context of Japan "going it alone" on defense matters that consistently serves as a major red line in Japanese public support for defense and national security measures.

However, it is notable that despite elements of public opposition, the Japanese public has often been more supportive of—and at times, ahead of—the government in seeking to implement or enhance new defense policy measures. For example, Robert Dujarric from Temple University Japan notes that a large majority of the Japanese public support efforts to supply arms and weapons to Ukraine, a step policymakers in Tokyo have so far refrained from pursuing.[viii] As a result, such circumstances showcase the extent to which many of Japan's limited or stalled defense initiatives—especially ones relatively uncontroversial such as weapons transfers to Ukraine—are more often than not a result of political and bureaucratic resistance rather than sustained public opposition.

Social Status of the SDF

Societal attitudes and public perception towards the Japanese Self-Defense Forces have undergone considerable change within the last decade and a half. While the SDF—which serves as Japan's unified military force within the confines of Article 9—had previously been the object of indifference and neglect by the Japanese public, attitudes towards the forces have grown increasingly positive and respectful in recent years.ix A government public opinion poll in 2023 revealed that nearly 40% of respondents supported expanding the size of the SDF, a record high since the government started asking the question in 1991.[x] Nevertheless, experts on Japan have characterized the Japanese public's attitude toward the SDF as one of tepid support characterized by little understanding or appreciation for the SDF's mission and service culture.[xi] Among notable changes over the last 15 years, the SDF's response to the Fukushima nuclear disaster in 2011 significantly improved the force's image among the public. At the same time, however, experts argue that this response only furthered the already-existing public perception of the SDF as a domestic disaster relief and emergency management force, rather than a fighting force tasked with potentially lethal engagement against foreign threats. This broad societal misunderstanding of the role of the SDF in Japan's national security policy has made public acceptance of its select military and defense initiatives more difficult and burdensome.

Even more problematic for the SDF, however, has been the failure of the Japanese government to make it an attractive institution for young people and Japan's highly-skilled individuals to serve. In tandem with its relative lack of societal prestige, the SDF is not regarded as a rewarding long-term career path within Japanese society, nor one that confers a competitive degree of pay, benefits, or advancement opportunities for its servicemembers. This has translated into persistent recruiting problems for the three forces over the last ten years, with the SDF recruiting less than half of its target numbers for personnel in fiscal year 2022.[xii] Such problems extend to even the higher levels of the SDF officer corps. In 2022, more than 15% of graduating cadets from the National Defense Academy—Japan's premier military training institution designed to develop future military officers—decided not to join the SDF, reflecting the degree to which the forces have struggled to retain top talent.[xiii] As Japan's population continues to decline amid an accelerating demographic crisis, the SDF's recruitment problems will not only continue to worsen and plague its effectiveness, but will also further widen the societal chasm between the public and the military on ideas about what it means to serve and the SDF's role in Japanese society.

Political and Electoral Factors

The Japanese Diet has long faced various political and electoral challenges to its authority, attitude, and ability to conduct defense policymaking and oversight. Under the Diet's old electoral system prior to 1994, Japanese politicians were heavily disincentivized to engage in defense and security matters since such issues generated little public interest and were seen as a hindrance to one's political career. As a result, the Japanese Diet has historically lagged behind many other contemporary legislative bodies around the world in regulating the parameters of the country's military forces, with the daily administration of defense and security policy largely falling to the bureaucracy instead.[xiv] Even as new electoral reforms after 1994 increasingly incentivized policymakers to devote greater attention and scrutiny towards defense matters, the Diet has continued to lack the necessary resources and ability to engage in extensive defense policymaking more broadly. Moreover, the politicization of defense policy as a "culture war" issue, as well as sustained political factionalism within the Diet towards defense matters, has continued to hamper Tokyo's efforts to improve its military capabilities and defense posture to suit new security concerns and military challenges.

The Japanese Diet: Electoral Incentives and Institutional Resources

Under Japan's old electoral system prior to 1994, Diet members and politicians had historically been disincentivized to emphasize or engage in defense policy matters as a means of advancing their political careers. As Hikotani Takako argues in a 2018 International Affairs article, the old system's rules of medium-sized, multi-member constituencies where politicians had to win a certain share of the vote discouraged politicians from paying attention to 'non-divisible' policies with little or no connection to local interests.[xv] Rather, politicians were incentivized to focus on policies that could deliver concrete, identifiable benefits to local constituents as a means of differentiating themselves from candidates of the same party. Defense, as an inherent non-local and often non-divisible issue within Japanese politics, was simply not prioritized by Japanese politicians under this old electoral context.

Following the implementation of new electoral rules in 1994 that ushered in single-member districts, however, Diet members have increasingly become more interested and involved in defense policy matters. The changing of Japanese Diet constituencies to single-member districts and other seats based on proportional representation removed the electoral incentives for politicians and candidates to focus exclusively on 'divisible' issues in order to earn votes.[xvi] As a result, Japanese policymakers now pay more attention to defense and security matters than before, according to an analysis of current and past election platforms.[xvii] However, despite this increased attention from policymakers on defense and security issues, the Japanese Diet continues to lack the necessary ability and institutional resources to carve out a greater role for itself in national security policy. This has included a relative lack of defense committees tasked with oversight powers, budget resources for research and legislative staff, and access to information and external expertise to keep Diet members informed on current military readiness and personnel issues.

This legacy of constrained resources has carried over into the present day. For example, the Japanese Government did not establish a defense-specific committee in the lower house of the Diet until 1980, an aspect that significantly hampered the development of external expertise for oversight of the SDF.[xviii] Moreover, even following the establishment of such legislative committees devoted solely to defense issues, these bodies have consistently failed to match the bureaucratic and institutional power of other committees—particularly the budget committees—

within the Diet. As a result, bills and policy matters related to security and defense have been frequently sidelined or weakened by committees with little to no expertise in defense, as well as conflicting policy agendas largely antithetical to defense reform goals.[xix]

Together, this combination of historical electoral incentives, a legacy of insufficient legislative resources, and competing political priorities has made defense policy debates relatively less substantive within the Diet's deliberations compared to other policy matters. Rather, the Japanese Diet's role with regard to defense policy has frequently been relegated to philosophical debates regarding the constitutionality and legal parameters surrounding the SDF, with the consequence that much of the daily oversight and administration of the forces has largely fallen to the bureaucracy.[xx] This, in turn, has created serious obstacles to the further development and reform of Japan's security posture, aspects that will be expanded upon further in the bureaucratic section of this paper.

Politicization of Defense Policy as a "Culture War" Issue

Issues of Japanese defense reform and military modernization have also been frequently undermined by the politicization of defense policy more broadly, particularly between conservative and liberal elements of Japanese society. This has taken particular importance in the context of defense as a "culture war" issue, with Japanese conservatives increasingly fueling the association of defense reform with wider right-wing social policies and issues. For example, Robert Dujarric argues that many Japanese "hawks"—largely comprised of conservative and right-wing politicians and officials—are, in fact, not particularly keen on boosting Japanese defense spending or the SDF's capabilities in relative terms.[xxi] Instead, Dujarric argues these conservative elements of Japan's political class have largely "internalized" and support prevailing Japanese pacifist ideas widely accepted within Japanese society, such as efforts to limit defense engagement outside Japan's borders.

Instead, Japanese conservative interest in defense reform and potential re-militarization has primarily been driven by these measures' cultural and political symbolism, including ideological nostalgia for Japan's past. This includes more controversial or extreme elements within right-wing Japanese society that have mobilized around issues of defense policy reform as a means of glorifying Japan's imperial or wartime eras. As a result, such groups have wittingly or unwittingly contributed to the association of defense policy with broader right-wing historical revisionism and culture war arguments, while distracting from necessary or substantive debates over current military preparedness and posture.

Indeed, the politicization of defense policy became particularly acute during the administration of Abe Shinzō, especially during his attempts to revise Article 9 of the Constitution. While Abe argued such revisions were necessary in order to reassert elements of Japanese independence on matters of security and defense, significant sections of the public and political society perceived the Prime Minister's efforts as a means of reorienting a broader section of Japanese society in a more conservative and right-wing direction.[xxii] Such perceptions were only further fueled by controversial periods of his tenure—including, most notably, his 2013 visit to Yasukuni Shrine, where war criminals are enshrined. This single act amplified the association of his policy measures with broader right-wing historical grievances and politics that served to antagonize Japan's neighbors.

As a result, defense reform under Abe became intensely polarized between conservatives—who regarded such efforts as reestablishing connection with elements of Japan's past—and wider sections of the public and Diet who saw such attempts as part of a larger right-wing effort to remake Japanese society. While this political polarization has lessened under Abe's two successors, especially Prime Minister Kishida Fumio, the political association between enhanced defense policy measures and conservative politics continues to hamper attempts at building support for defense reform from a wide cross-section of Japanese society.

Political Factionalism and the Role of the Opposition Parties within the Diet

Alongside deepening political polarization between Japanese conservatives and other sections of society, efforts to reorient Japanese security policy have additionally been hindered by diverging factional interests within many of Japan's political parties themselves. This includes notable factional differences over defense policy within the ruling Liberal Democratic Party (LDP), as well as sustained resistance to greater military expansion from the opposition parties within the Diet. As the ruling party for most of Japan's postwar history—as well as the party generally most supportive of efforts to reassert Japanese military power—splits within the LDP have posed particular obstacles to efforts to reform Japan's security architecture. For example, perhaps the most influential voice in the Diet opposed to increasing Japanese defense spending comes not from the opposition parties, but rather from the LDP faction most closely tied to the Ministry of Finance (MOF) led by former prime minister Asō Tarō.

Paul Nadeau from Temple University Japan characterizes this faction as the biggest impediment to Japanese defense reform, particularly the initiative to raise defense spending to two percent of GDP.[xxiii] This opposition stems in part from this faction's strong fiscally conservative ideology, which favors low government spending and balanced government budgets that are particularly threatened by plans for increased defense spending. Nadeau argues that the divergence between this Asō Tarō-led faction and the rest of the LDP is so great that this cleavage represents the biggest political fault line within the Diet over efforts to raise Japanese defense spending, even more so than the conventional splits between "hawks" and "doves" that define our standard understandings of such debates. Nadeau's argument points to the extent to which intra-party divides play a profound influence on defense policymaking, as well as the interconnection between bureaucratic and political interests when formulating such policy.

In addition to select factions of the LDP, the extent of support from opposition parties within the Diet has also had detrimental implications for the development and implementation of defense policy reforms. The various parties who make up the LDP's opposition—who historically have largely come from the political left—have long resisted efforts to institutionalize greater Japanese defense engagement, SDF expansion, or new military capabilities that may fall outside the parameters of Article 9. While these parties' opposition to greater defense efforts is partially a product of their relatively liberal or left-wing ideology, they have also been incentivized to resist any attempts by the LDP to expand the scope of the SDF or Japanese defense capabilities for purely political gain.[xxiv] In practice, this has meant that the opposition parties have generally sought to benefit electorally by taking a position diametrically opposed to the LDP, even when many of their members should theoretically be open to negotiations with the LDP based on prior political views. This incentive for collective opposition significantly constrains the LDP's room for political maneuverability when discussing defense reform within the Diet, as well as further fuels perceptions of political polarization and one-sided support for such initiatives among the Japanese public.

Furthermore, Japan's opposition parties have consistently emphasized the prime point of contention and debate with the LDP to be centered around the constitutionality of defense measures rather than specific policy details.[xxv] This, in turn, contributes to the Diet's longstanding aversion to substantive policy discussion on issues of national security policy, and feeds the delegation of oversight and policymaking authorities to the more constraining bureaucracy. Overall, while the opposition parties have generally struggled to compete with the LDP in recent years and remain a minor force in the Diet, a potential sweeping opposition victory and return to power similar to 2009 would significantly call into question Tokyo's commitment to rebuilding its defensive capabilities, as well as maintaining momentum for greater U.S.-Japan defense integration writ large.

Bureaucratic Factors

As mentioned in the previous sections, both the Japanese public and the Japanese Diet have long remained relatively averse and politically disinclined towards a substantial overhaul of Japan's defense policy. As a result, administrational authority over the national security sphere has increasingly come under the purview of Japan's powerful and multifarious civilian bureaucracy. The major governmental ministries that define Japan's bureaucratic landscape—including the Ministry of Defense (MOD), Ministry of Finance (MOF), the Ministry of Economy, Trade, and Industry (METI), the Ministry of Land, Infrastructure, Transport, and Tourism (MLIT)—not only set standards for the implementation and execution of policy decisions, but also have a substantial influence on the policymaking process itself. In contrast to other contemporary democratic societies, Japanese policymaking is largely characterized by a "bureaucratic primacy" model, where government officials introduce bills or policy proposals to lawmakers rather than the other way around.[xxvi] This gives bureaucratic officials significant authoritative legitimacy and status vis-à-vis the de jure policymaker, often leading to the creation of asymmetric power dynamics and relationships between bureaucratic officials and the politicians they are meant to serve.

In addition to this authoritative status, many of the most powerful bureaucratic ministries and agencies also maintain longstanding personal connections with politicians and policymakers in the Diet, including through revolving door relationships that frequently blur the line between the bureaucracy and politics. Whereas politicians appointed to serve in top ministry positions gain considerable political influence through the oversight of major bureaucratic portfolios and resources, they are, in turn, often expected to maintain a certain degree of political loyalty to their "sponsoring" agency after they leave, as well as represent their interests in future policy discussions. While this cycle of close bureaucratic-political ties indeed facilitates relative efficiency and expediency within Japan's policymaking process, it has posed arguably the biggest and most intractable obstacle to expanding Japan's defense capabilities and implementation of reform efforts.

This is almost entirely the result of conflicting bureaucratic priorities vis-à-vis new defense initiatives, as well as a clear and substantial hierarchy among Japan's myriad bureaucratic entities that consistently relegates defense to a lesser priority. Moreover, because of these substantial power differences, entities tasked with carrying out Japanese defense policy frequently see their institutional decision-making encroached upon by non-defense bureaucratic agencies, many of whom have little knowledge or expertise on broader defense policy and national security matters. For example, while Japan's National Security Council (NSC)—which acts as the principal national security forum to advise the Prime Minister for coordination on defense and security issues—is largely staffed by officials from the MOD and Ministry of Foreign Affairs (MOFA), its executive members also include senior officials of the MOF, METI, MLIT, and other non-defense bureaucratic agencies. As a result, conflicting priorities from these agencies have periodically stalled defense initiatives, as well as potentially introduced redundancy in approval processes that afford more decision-making power to the non-defense agencies when formulating security policy.[xxvii] Among these non-defense ministries, two particularly influential actors stand out: MOF and METI.

MOF and METI: Key Obstacles to Japanese Defense Reform Efforts

Among all of Japan's bureaucratic institutions, experts on Japanese defense policy point to the Ministry of Finance (MOF) as one of the biggest—if not the biggest—bureaucratic impediments to Japanese defense reform efforts.[xxviii] In particular, the MOF remains a key obstacle to the Kishida government's goal of raising defense spending to two percent of annual GDP, largely as a result of the ministry's opposition to larger budget deficits and unfunded spending increases. Moreover, the MOF retains considerable bureaucratic clout within Japan's policymaking community, with deep ties to politicians and officials who often maintain a revolving door between the MOF and the Diet. As mentioned previously, this is demonstrated most clearly in the MOF-aligned faction of the LDP led by Asō Tarō. This faction, the third largest within the LDP, is primarily comprised of hardcore deficit hawks and classical liberal internationalists concerned with low government spending, interconnected trade, and free markets—all areas perceived as threatened or undermined by greater Japanese defense spending and competition with China especially.

In addition to the MOF, LDP politicians closely associated with the Ministry of Economy, Trade, and Industry (METI) have also displayed unusually strong public criticism of Kishida's defense spending initiatives in recent months. In December 2022, Hagiuda Koichi—head of the Policy Research Council and a former METI Minister—argued against the establishment of a defense tax to finance increased defense spending, a position at odds with the MOF but squarely aligned with METI's pro-business taxation priorities.[xxix] Similarly, Kishida's own Minister of Economic Security, Takaichi Sanae—who despite not being part of METI nevertheless works on overlapping issues with the agency—criticized Kishida's taxation proposals through a series of tweets, a rare sign of discontent within the Prime Minister's own Cabinet.[xxx] Unlike the MOF, politicians closely tied to METI largely focus on defense reforms' impact on industry rather than the country's financial or budgetary position. Nevertheless, the fact that policymakers closely tied with both ministries have opposed efforts to increase Japanese defense spending showcases the extent to which bureaucratic interests are capable of wielding substantial political clout to thwart recently-introduced defense reform measures.

The influence of these ministries is further amplified by the substantial power imbalance between Japan's various bureaucratic entities. For example, Paul Nadeau argues that the relative power distribution among Japan's ministries and bureaucratic agencies is not distributed equally, with the MOF, METI, and MLIT maintaining substantial political clout among Japanese policymakers whereas the Ministry of Defense (MOD) occupies a second-tier position.[xxxi] As a result, the MOD has struggled to institutionalize its own bureaucratic interests within the Diet that can effectively resist encroachment from the more well-established, non-defense ministries on matters of national security and military policy. Most interesting within this hierarchy, however, is the case of the Ministry of Foreign Affairs (MOFA), which straddles the line between defense and national security policy on one hand, and diplomacy and soft power projection on the other. Despite the latter responsibilities' seeming direct conflict with hard power defense initiatives, Nadeau argues that ultimately the MOFA may not be as big of an impediment to defense reforms as some of the other Japanese ministries. This is partially because MOFA is on the receiving end of routine pressure by the U.S., UK, and Tokyo's other international allies to increase Japan's defense capabilities, and thus must subsequently transmit such pressures to the rest of the Japanese government.

Changing Role of the Cabinet Legislation Bureau (CLB)

In addition to the role of the Cabinet ministries, Japanese defense policymaking has also been profoundly affected by the Cabinet Legislation Bureau (CLB) and its changing role vis-à-vis Japanese security policy. The CLB serves as the Cabinet's legislative counsel and assists the Prime Minister and Cabinet members with examining bills, drafting legislation for the Diet, and interpreting laws.[xxxii] In accordance with these institutional responsibilities, the CLB has historically acted as a legal determinant of the constitutionality of various defense measures, particularly any measures believed to be violating the parameters as outlined in Article 9. As a result, the CLB has traditionally acted as a restraining influence on Japanese defense reform efforts, and often earned the ire of both the LDP and even the opposition parties over its restrictive interpretations of Japanese legal policy on matters of defense.

However, the role of the Bureau changed dramatically during Prime Minister Abe's second time in office. In 2013, Abe replaced the director of the CLB with a political supporter, Komatsu Ichirō, who was publicly known as an advocate of constitutional reinterpretation to allow for greater defense measures.[xxxiii] Komatsu was soon succeeded by Yokohata Yusuke, who became an ardent defender of Abe's defense reform policies in Diet deliberations and debates. Thus, under both Komatsu and Yokohata's tenures, the CLB reoriented itself from a restrictive agency tasked with overseeing constitutional questions to one of the biggest bureaucratic cheerleaders for defense reform policies. Nevertheless, Abe's appointment of direct political supporters to head the CLB contributed to a degree of "politicization" of that institution, as well as set a precedent that could be used by a future non-LDP government to utilize the CLB in a similar, politically-motivated fashion. As a result, the future of the CLB's bureaucratic positions with regard to defense policy is relatively uncertain and could easily witness an explicit, politically-driven reversal should the opposition parties come to power in the years ahead.[xxxiv]

Risk-Averse Bureaucratic Culture

Finally, Japanese defense policy and reform efforts have long been hindered by Japan's exceedingly conservative and risk-averse bureaucratic culture, which has increasingly stalled or weakened initiatives that receive even widespread public and political support. While most bureaucracies suffer from some form of bureaucratic inertia and slow adaptability, Robert Dujarric argues that Japan's bureaucracy suffers from these problems to an even higher degree due to Japanese bureaucrats' particular emphasis on potential problems rather than potential gains, a sign of a deeply-embedded risk aversion ingrained within the system.[xxxv] As a result, this leads to a culture where Japanese officials are incentivized to maintain the status quo rather than advance new initiatives or policies that may risk failure or job displacement. Dujarric characterizes this cultural mindset as good for the Japanese bureaucracy in the short term when dealing with immediate tasks, but especially damaging to reform efforts and defense planning over the long term, particularly as rivals such as China and North Korea continue to advance in their military and weapons capabilities.[xxxvi] Despite such problems, there is little indication that Japan's stifling bureaucratic culture will change in the foreseeable future absent a significant push for reform from outside the bureaucratic system.

Implications

The examination of various sociocultural, political, and bureaucratic factors impacting Japanese defense policy yields a number of significant conclusions and areas of potential interest. First, the role of the bureaucracy in hindering Japanese defense reform is significantly more important to understanding instances of Japanese defense policy failure in comparison to sociocultural or political factors. This is inherently tied to Japan's broader political system writ large, which revolves around a "bureaucratic primacy" model that incentivizes the active participation and intervention of the bureaucracy in all policy matters. Indeed, in many circumstances involving national security, the bureaucracy has found itself in such a role not by choice, but rather through the deliberate surrendering of oversight interest and administrative authority by the public and the Diet altogether. In these instances, the bureaucracy has naturally filled the gap despite a range of competing interests and a risk-averse culture that is diametrically antithetical to efforts to initiate defense reform and innovation.

Nevertheless, it is important to stress that the bureaucracy can also weigh in heavily to influence the direction of controversial defense policy issues, such as the case of increased defense spending or arms shipments to Ukraine. In these instances, we see that despite widespread public support for such measures and a concerted effort on the part of policymakers to enact reforms, bureaucratic interests and the political incentives of those aligned with the ministries continue to thwart or stall such measures over the long term. Thus, this paper argues that bureaucratic resistance is the single most determining factor in the success or failure of a given defense or national security policy initiative, particularly when such resistance arises from entities at the top of the bureaucratic power hierarchy. In these cases, the ministries' substantial influence over members of the Diet and the policymaking process more broadly suggests that the chances of successfully enacting and maintaining such reforms are small or minimal at best. Considering that efforts to increase defense spending fall within this characterization, we might expect to see such measures increasingly delayed or obstructed past Kishida's original goal of 2027—an outcome that would surely induce disappointment for policymakers in Tokyo, as well as those in the U.S. and the international community.

A second key implication from this research is the important political positioning the Kishida government occupies in terms of enacting defense policy reforms in Japan. Despite being regarded as a "dove" within the LDP upon his rise to the Prime Minister's office, Kishida's political position within the party and Japanese society more broadly provides him a greater degree of credibility and maneuverability to implement Japan's long-stalled defense reforms than even Abe was able to achieve during his tenure as prime minister. Indeed, it is precisely because Kishida comes from a more consensus-oriented, liberal faction of the LDP that he is better positioned to enact some of the defense policy agenda items that have confounded some of his more conservative predecessors. First, Kishida is a realist who does not suffer from the same right-wing political baggage and polarization that Abe incurred when dealing with matters of defense policy. Under Abe, this baggage and polarization increasingly turned the public, the bureaucracy, and the more liberal factions of the LDP against his defense reform efforts, particularly when they were perceived as broader conservative attempts to restructure or rewrite Japanese society and history. Equally important, the Abe government's linkage of Japanese defense reforms with right-wing rhetoric and historical grievances incurred notable opposition from China and South Korea, leading to further domestic public and bureaucratic backlash when regional tensions impacted trade, investments, and other politically salient areas of Japan's bilateral relations. In contrast to Abe, Kishida's lack of connection to conservative and right-wing revisionism has provided him greater political space to implement his reform agenda from both the Japanese public and Japan's historically-minded East Asian neighbors. His efforts are seen as a realistic response to growing threats around Japan and not as ideologically driven.

Second, Kishida's ascent to prime minister as a consensus candidate among the many LDP factions—as well as a member of a more liberal-oriented faction himself—gives him a degree of support and credibility from the very same factions that long resisted Abe's defense reform efforts. In particular, Kishida may be able to leverage existing relationships with the liberal-leaning factions of the Diet and bureaucracy to negotiate any potential defense policy proposals his government may offer. At the same time, Kishida's more liberal background gives him less political space to cooperate with China for fear of being cast as "too soft" on Beijing domestically. While such actions may harm relations with Beijing, they will also consistently provide Kishida the necessary political cover to call for greater military spending and capabilities as a means of countering Chinese regional aggression. Collectively, these points suggest that Kishida—should he have the political will to do so—has both a greater domestic opening and a more favorable international environment for reorienting Japanese defense policy than many of his predecessors.

Policy Recommendations

This paper has shown that Japan faces a variety of social, political, and bureaucratic constraints on its ability to reform its decades-long restrained security posture. While many of these obstacles remain structural in nature, there are two key areas where Japanese policymakers could demonstrate immediate impact and improvement in their ability to minimize impediments hindering Japanese defense policy reform.

First, the Prime Minister and Cabinet's Office should empower the Ministry of Defense (MOD) within the National Security Council (NSC) while reducing the influence of the non-defense bureaucratic ministries. This should include elevating the Minister of Defense to a Deputy Director General position below that of the National Security Advisor, but above the ministers from the other bureaucratic agencies. This would allow the MOD to formally assert authoritative behavior over NSC matters without being informally overridden by the more influential bureaucratic entities with little expertise in broad national security matters. Additionally, the National Security Advisor should facilitate the formation of new working groups similar to the current "4-Minister Meeting" comprised of the Prime Minister, Chief Cabinet Secretary, and Ministers of Foreign Affairs and Defense. Expanding these types of meetings to include the other bureaucratic ministries could serve to effectively incorporate their valuable inputs without having certain institutional incentives compromise the defense- and security-oriented goals of the NSC.

Second, the Japanese Diet should strengthen its ability to more thoroughly engage in defense policy, planning, and oversight. This should include the stand-up of additional defense and national-security-related committees meant to address specific security or regional concerns, as well as a greater dedication of budgetary resources for research materials and staff. Strengthening the Diet's role within the defense policymaking process will have two complimentary effects: First, it will ease political pressure off the prime minister and the cabinet—where most new defense policy measures are now introduced—to assume all policy and public backlash risks from new initiatives. By sharing some of this risk burden, the Diet could help improve the prime minister and cabinet's ability to move more quickly in implementing reforms without being singularly blamed for missteps or miscalculations. Second, it would remove certain decision-making and administrative authority regarding defense matters out of the hands of the overly-constraining bureaucracy, instead placing them where they are responsive to the will of policymakers and the general public they represent.

Conclusion

Ultimately, Japan's efforts to reorient its post-World War II security posture will take years—if not decades—to achieve. Nevertheless, policymakers and public officials in Tokyo have the capacity to implement select reforms and measures today that can drastically improve the future social, political, and bureaucratic landscape for long-term change and military renewal. While this will undoubtedly involve confronting entrenched political and bureaucratic interests, as well as longstanding social understandings of national security, Japanese policymakers have indeed already taken meaningful steps in the right direction. It is now time for the Kishida government to take advantage of its favorable domestic political positioning and the international political environment to truly reassert Japan's ability to enact long-term defense reforms meant to address the security challenges of both today and tomorrow.

Endnotes

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Can Japan's Defense Policy Respond to a Taiwan Contingency?

By Yi-wen Chang

Introduction

In the past decade, the most significant trend in the international community has been the rise of China and great power competition between the United States and China. Since President Xi Jinping took power, China's policies and activities have become more assertive, and China has demonstrated a desire to revise the rules-based international order to one more suited to its national interests. [i] From Japan's perspective, China's activities around the Senkaku/Diaoyu Islands triggered its concerns about China's maritime assertiveness and accelerated Japan's pace to strengthen its defense of those islands and surrounding waters. Since the end of World War II, Japan has long been constrained in expanding its defense capabilities due to its Peace Constitution. However, as the security environment has changed, Japan has gradually adjusted its defense posture to counter increasing threats from North Korea and now China.

In this paper, I will analyze the changes in Japan's defense policies during this decade, arguing that Japan is taking a more active role in its own self-defense, as well as regional security. In this aspect, Japan took four approaches to take a more primary role in defending itself and contributing to regional security, including the reinterpretation of the Constitution, reinforcing defense capabilities, expansion of the transfer of defense equipment and technology, and more proactive capacity-building.

In addition to Japan's defense policy, it is essential to see how Japan may use its capabilities to respond to a crisis. I will take Japan's southwestern islands as a case study. Because of their strategic location, the remote islands in the southwest region might be involved in a potential conflict between China and Taiwan. I will therefore analyze developments in the region that reflect Japan's attitude toward a possible threat from China. The next section will examine Japan's possible reactions to a Taiwan contingency.

The second section will review Japan's defense policies. The third will analyze Japan's defense buildup in the remote islands in its southwestern region. The fourth section discusses Japan's attitude and possible role in a Taiwan contingency. In the final section, I offer some policy assessments.

Japan's Defense Policy

Defense Objectives

Japan's National Defense Strategy, issued in 2022, lists three defense objectives. The first is to "shape a security environment that does not tolerate unilateral changes to the status quo by force." Second, Japan will use force to deter unilateral changes to the status quo involving Japan's peace and security. Finally, if deterrence fails, Japan will "disrupt and defeat the invasion" by rapid response while taking the "primary responsibility" to deal with the invasion.[ii]

Overall, Japan's strategic goal is to maintain the status quo. In peacetime, Japan contributes to shaping the international security environment that favors the status quo and enhances its deterrence to potential aggressors and revisionist powers. If deterrence fails, Japan will take a leading role in defeating the invasion. Japan has been taking various approaches to its defense objectives. For deterrence and a favorable security environment, Japan has invested in capacity building and transferring defense equipment and technology. Japan also reinterpreted its Constitution to enable the Self-Defense Forces (SDF) to exercise limited collective self-defense when Japan is threatened. It also increased its defense budget to boost its capabilities.

Reinterpretation of the Constitution: Three Emergency Situations

In the postwar era, Japan's Constitution restricted the use of armed force to self-defense alone. Article 9 states that Japan "renounces war as a sovereign right of the nation and the threat or use of force as a means of settling international disputes." Hence, before the reinterpretation of the Constitution in 2014, the Japanese government would allow the use of force only when Japan "had an armed attack."[iii] As the security environment became more unstable, however, the Abe administration reinterpreted Article 9 to allow Japan the right to collective self-defense under careful conditions. Japan in short could now come to the aid of its ally the United States if that country's forces were attacked in the region around Japan.

The 2015 security legislation lists three different potential crises that Japan might face. First, the "important influence situation" means "situations that will have an important influence on Japan's peace and security, including situations that, if left without a response, could lead to a direct armed attack on Japan." In this situation, Japan will be allowed to provide "noncombat, rear area support." Second, Japan can do even more in a "survival-threatening situation" or "armed attack situation." Japan defines a survival-threatening situation as "when an armed attack [occurs] against a foreign country that is in a close relationship with Japan" and therefore "threatens Japan's survival and poses a clear danger." Third, the "armed attack situation" is defined as "situations in which an armed attack against Japan from outside occurs or in which it is considered that there is an imminent and clear danger of an armed attack."[iv]

In the "survival-threatening" and "armed attack" situations, Japan can provide a wider range of support and conduct "combat operations" with approval from the Diet. There are two additional situations in which the SDF may use force, namely, when "no other appropriate means are available to repel the attack and ensure Japan's survival." In such a situation, the "use of force should be limited to the minimum extent necessary."[v]

Even though Japan has not revised Article 9 of the Constitution, the reinterpretation gives Japanese leaders more leeway to respond to events that threaten Japan's national security. Japan can also play a more important and active role in regional security. As Japan can now exercise limited collective self-defense and use force even when it is not under armed attack, Japan still must enhance its deterrence capabilities so that "unilateral changes to the status quo by force" will not happen.

Reinforcing Defense Capabilities

The Japanese government issued three defense documents in 2022 to update its defense policy: the National Security Strategy, the National Defense Strategy, and the Defense Buildup

Program. Based on these documents, Japan will fundamentally reinforce its capabilities to respond to the changing international security environment that now centers on great power competition. Japan will double its national defense budget to 2% of its GDP by 2027.[vi] The Defense Buildup Program lists the equipment and capabilities that Japan will invest in. These investments will allow Japan to enhance its deterrence and warfighting capabilities to reach its defense objectives. Below are several concrete areas that Japan seeks to improve.

Counterstrike Capability

Within the three policy documents, Japan's gaining of a "counterstrike" capability is a primary focus. As the missile capabilities of North Korea and China increased significantly, Japanese policymakers deemed that missile attacks were now a "palpable threat" to Japan. They judged that Japan must develop its own "counterstrike capability" to strike back at the enemy's missile bases should Japan be hit by missiles launched from such bases. They stressed that having a counterstrike capability complies with its Constitutional restriction of "minimum necessary measure for self-defense'" Japan will use that capability in line with its exclusively defense-oriented policy that has existed since the post-World War II American occupation of Japan.[vii]

The counterstrike capability reflects Japan's determination to defend itself and enhance its deterrence rather than solely relying on its alliance with the United States. Compared with warning enemies that an attack on Japan will usher in a response from the United States, having a counterstrike capability can be a more robust deterrence for the opponent because the consequence of attacking Japan will be clearer.[viii] In practice, Japan will use "stand-off missiles" counterstrikes, which enable Japan to hit targets from a longer distance. But in line with the principle of using the minimum necessary measures for its self-defense, Japan will not preemptively attack with the missiles. Rather, it will launch them only when the "Three New Conditions for Use of Force" are fulfilled.[ix]

Air Defense

To reinforce Japan's air defense, Japan will invest in radar systems and missiles, building a "multi-layered air defense system." In terms of missiles, Japan will upgrade and produce Type 03 medium-range surface-to-air missiles and SM-6 long-range ship-to-air missiles. For Ballistic Missile Defense (BMD) operations, Japan will procure more Aegis system-equipped vessels (ASEVs) and interceptor missiles, such as SM-3 Block IIA and PAC-3 MSE. In response to the threat of Hypersonic Glide Vehicles (HGV), Japan will invest in warning and control radars (FPS) and a new radar system LTAMDS.[x]

Munition Stockpiles

Japan also will need to stockpile stand-off missiles to ensure effective counterstrike capabilities. Hence, Japan will continue to develop, upgrade, and produce missiles such as Type-12, Hyper Velocity Gliding Projectiles, and Tomahawks.[xi] Furthermore, to store ammunition, Japan will need to build more facilities for the stockpiles, which will be crucial for SDF to sustainably fight if it is involved in a conflict in an anti-access and denial (A2/AD) environment, which may block ammunition support from other countries. Moreover, Japan will improve its storage facilities, including strengthening protective measures and consolidation efforts, as well as joint use of facilities by the three defense forces and U.S. forces. In terms of fuel and other necessary supplies, newly-built fuel tanks and rented tanks will enlarge storage capacity.

"Dispersed deployment," which involves storing ammunition and fuel in various places such as remote islands, will be important in reducing the demand for transportation during wartime.[xii]

Intelligence-Related Capabilities

As the SDF gains and reinforces counterstrike capabilities with stand-off missiles having longer-range strike capabilities, Japan will also need accurate ISR capabilities to effectively operate counterstrike and stand-off defense capabilities.[xiii] Defense Intelligence Headquarters (DIH), the agency responsible for intelligence, will enhance its ability to collect various types of intelligence through different means. For example, it will establish a satellite constellation to improve its ability to detect and track targets. Each service of the SDF will also bolster ISR capabilities in various ways, including establishing new units and strengthening surveillance and early warning functions. Enhancing ISR capabilities will be essential for peacetime surveillance and counterstrike capabilities during a crisis.[xiv]

Cross-Domain and Asymmetric Warfare

Japan needs to ensure it has asymmetric advantages in cross-domain warfare if deterrence fails, which is also helpful to counter grey zone operations. Japan's defense policy already highlights the importance of the space, cyber, and electromagnetic spectrum domains. Japan will invest in space assets for surveillance, communication, and other functions in the space domain. Japan will strengthen cooperation with the private sector and certain countries to gain advantages in the cyber domain. Japan will even consider active cyber defense as a measure to eliminate upcoming threats. Furthermore, Japan will intensify the management of the electromagnetic spectrum management function, ensuring that the SDF can conduct its operations with sufficient communication capabilities, while undermining opponents' ability to operate successfully on the battlefield. Moreover, regarding asymmetric warfare, the SDF will procure more unmanned equipment to conduct operations while minimizing possible casualties. The MOD and SDF will increase investment in R&D of unmanned technology.[xv]

Defense Industrial Base

Japan's MOD and SDF will enhance their domestic defense production capacity to make sure they can produce enough equipment and munitions. In the past, customers of the domestic defense industry were almost always limited to the SDF, so the benefits were also limited. Furthermore, companies were facing more risks, such as cyber-attacks, in producing defense equipment. As a result, the defense industry is not attractive and the capacity for defense production is relatively low. However, as the demand for defense equipment increases and the security environment becomes less stable, Japan will need to expand its defense production, starting with strengthening the supply chain and industry security. For example, the government must help companies improve their cybersecurity.[xvi] Japan also must ensure it has sufficient production and maintenance capabilities to meet the demands of the SDF and the U.S. forces in Japan.[xvii] Second, the Japanese government is opening doors for transferring defense technology and equipment to foreign countries by lifting transfer restrictions and promoting capacity-building, which I discuss below. It also must help expand the potential market and benefits for defense equipment producers.

Transfer of Defense Equipment and Technology

Japan has possessed a limited ability to export defense-related equipment and technology in past decades. From 1976 to 2014, the government followed the “Three Principles on Arms Exports and Their Related Policy Guidelines.” These guidelines explicitly banned the exporting of arms to communist countries. And even when export destinations were not communist countries, the government still needed to carefully review and approve such shipments. As a result, in practice, the Japanese could not export arms to most countries.xviii In 2014, based on the National Security Strategy issued the year before, the government reviewed its arms export policy and launched a new policy.

In April 2014, the Japanese replaced the old policy with a new one: “Three Principles on Transfer of Defense Equipment and Technology.” The new principles set up rules for transferring defense equipment and technology overseas. The first principle lists prohibited transfers that may violate Japan’s obligations under international treaties, agreements, and UN Security Council resolutions. And if a recipient of the transfer is a “country party to a conflict,” the transfer will be prohibited.[xix]

The second principle raises the conditions under which Japan can transfer defense equipment and technology. A transfer may be allowed if it can contribute to the promotion of peace, international cooperation, and Japan’s security. In practice, the transfer may be permitted for (a) “implementing international joint development and production projects,” (b) “enhancing security and defense cooperation with allies and partners,” and (c) “supporting the activities of the Self-Defense Forces.” In short, only Japan’s allies, partners, and countries participating in joint projects with Japan are likely to qualify for Japanese transfers of defense equipment and technology. Finally, under the third condition, Japan will make sure there is “appropriate control” of transferred equipment or technology, in which the recipient countries need to gain approval for extra-purpose use or transfer to a third party. Compared to the 1976 version, the new principles enable Japan to transfer defense equipment and technology to more countries.[xx]

Still, considering the current security environment, including the war in Ukraine, the existing policy may need to be revised again. As a result, the government is now considering lifting additional restrictions. In March 2023, the ruling Liberal Democratic Party called for expanding eligible recipient countries of defense equipment and technology to include countries facing invasions. The need to support Ukraine and the fear of a potential crisis in the Taiwan Strait has triggered this policy discussion.[xxi]

To play a more influential role in the global community, Japan may need to lift some restrictions to proactively support Ukraine in its conflict with Russia. Moreover, as lawmaker Sato Masahisa has argued, Japan may need to ask for help in case of a Taiwan contingency or attack on Japan, so it should help others when they need it. As a result of the current situation in Ukraine and the potential crisis in the future, Japan is considering revising its policy, enabling it to provide arms to countries facing invasions that violate international law.[xxii] However, it may take time to finalize a new policy.

More Proactive Capacity-Building

Japan has been helping countries, mainly in Southeast Asia, to enhance their defense capabilities through capacity-building projects since the 1990s. The Philippines is one of Japan's most important partners in Southeast Asia and has received capacity-building support from Japan. After establishing a "Strengthened Strategic Partnership," Japan and the Philippines signed an agreement to transfer coast-guard related defense equipment. Since then, Japan has transferred five TC-90 aircraft, ten multi-role response vessels (MRRVs), and long-range air surveillance radar systems. Japan transferred equipment to help the Philippines deal with territorial incursions by China in the South China Sea, where the equipment can be used for patrol and surveillance operations. In this regard, Japan can contribute to the stability of regional security by helping the Philippines counter China and enhance its deterrence capabilities.[xxiii]

The case of the Philippines demonstrates the strategic meaning of capacity-building in Japan's policy. On the one hand, it can be a statecraft tool to strengthen diplomatic and security ties with partners and like-minded countries, which can help Japan to pursue a more desirable international security environment. On the other hand, it will benefit Japan's domestic defense industry. Hence, according to Defense Buildup Program, Japan will enhance its capacity-building program and expand it to other countries in the region. The program states: "Japan will provide equipment and supplies as well as assistance for the development of infrastructures to like-minded countries" under the new cooperation framework.[xxiv]

In April 2023, the new framework emerged as "Official Security Assistance (OSA)." Separated from regular official development assistance (ODA) that focuses on economic and social infrastructure projects, OSA will provide equipment and infrastructure assistance to like-minded countries to reinforce their deterrence capabilities.[xxv] OSA will still follow the Three Principles on Transfer of Defense Equipment and Technology regardless of the type of equipment provided to foreign countries through OSA.[xxvi] In practice, the equipment will not be lethal arms that recipients can use in combat.[xxvii] Also, sharing the same principles with the Transfer of Defense Equipment and Technology, OSA programs require appropriate information disclosure and proper management, which include a prohibition on "extra-purpose use and transfer to third parties."[xxviii] The implementation guidelines show that even though Japan seeks to support its partners and like-minded countries, it still attempts to avoid escalation and direct involvement in conflict through strict management and review.

Japan's Southwest Islands

Strategic Meaning of the Southwest Islands

Japan's Southwest Islands have a geo-strategically important location. First, one of China's strategic interests is to gain access to the West Pacific, breaking through the first island chain. To achieve this goal, passage through Japan's outer islands would be invaluable.[xxix] Second, the remote islands in the southwestern region of Japan are geographically close to Taiwan, so they are likely to be dragged into a Taiwan contingency if one occurs. As there are U.S. bases and SDF facilities in Okinawa, including the remote islands, China might attack those bases when invading Taiwan. Because the U.S. military is likely to provide support to Taiwan from those bases, attacking the bases will undermine the capabilities of U.S. forces and make it harder for the United States to intervene in a Taiwan Strait crisis. Should China attack the military bases and facilities to gain a military advantage, it would likely result in Japan's participation in the conflict since its territory would also be attacked.

Force Units and Deployments

Based on the above concerns, Japan has been strengthening its defense posture on the islands over the past decade. The Defense of Japan 2022 publication lists the SDF units already deployed in the remote islands of Okinawa since 2016. Many of the new facilities are missile units. For example, Amami Oshima Island and Ishigaki Island have and will have new "surface-to-ship guided missile" and "surface-to-air guided missile" units. The SDF also deployed a new "surface-to-ship" guided missile equipped with Type 12 missiles on Miyako Island in 2020.[xxx] More missile units and troops are being deployed and stationed in the region. In March 2023, the Ground Self Defense Force (GSDF) placed troops and missiles on Ishigaki island.[xxxi] Later, a Japanese official announced a new deployment of a PAC-3 missile system of air defense on Yonaguni island and Ishigaki island due to the threat from North Korea.[xxxii] The deployment of missiles can reinforce Japan's A2/AD capabilities against invading forces by targeting approaching ships and enemies' bases,[xxxiii] which will be critical for the remote islands to mitigate the vulnerability that comes from their location.

In addition to missile units, air defense, and warning capabilities are also important for the islands. Being located on the front line of Japan's early warning system, the Southwest Islands will play a crucial role in the SDF's Persistent ISR capabilities. Because of this demand, SDF has procured E-2D airborne early warning and upgraded Airborne Warning and Control Wing. In 2022, JASDF opened a new Air Warning Squadron on Yonaguni Island. An Aircraft Control and Warning Unit was established in 2019 in Naha, on the main island of Okinawa.[xxxiv]

The government is increasing stockpiles for two reasons. On the one hand, it can enhance the sustainability and resilience of the SDF during wartime when it might not be easy to gain additional munition from outside the islands. On the other hand, storage can reduce the demand for transportation in a contingency. Hence, SDF will establish a new depot in the Southwestern region.[xxxv] As most of the SDF's ammunition is now stored in Hokkaido, the SDF has to accelerate its pace of moving and storing more ammunition in the Southwestern region.[xxxvi]

Rapid Deployment and Mobility

To respond to an invasion of any remote island, Japan will need the maneuver and transportation capabilities to rapidly deploy its forces. Hence, it will enhance the utilization of civil aircraft and vessels. Moreover, Japan will enlarge the capacity of airports and harbors in the Southwestern region.[xxxvii] Even though there are already some units, reinforcement of ground forces may be necessary for a contingency, and more transportation capacity will be needed.[xxxviii] MSDF's transportation vessels and ASDF's aircraft will contribute to the rapid deployment and transportation operations. The SDF will establish a new maritime transport unit as a joint unit to enhance transportation functions.[xxxix]

More specifically, Osumi class LST (Landing Ship, Tank), V-22 Ospreys, C-2 transport aircraft, as well as KC-46A refueling and transport aircraft can contribute to rapid deployment to the Southwestern Islands.[xl] Considering the limited size of the port and airfield in the Southwestern Islands, the SDF will develop landing support systems to facilitate the delivery of supplies.[xli]

Cooperation with the Local Community and Other Agencies

In the Southwest Islands, cooperation with the local community and other local agencies is important. First of all, to smoothly evacuate citizens and deploy forces in a contingency, the SDF needs to cooperate with other entities, such as the Japanese Coast Guard and private sector organizations to utilize airports, ports, and other infrastructure.xlii Japan has to conduct evacuation exercises and protect important infrastructure, and the MOD and the SDF need to collaborate and coordinate with the police and the Coast Guard in peacetime. Some exercises have been completed, such as the evacuation simulation held on the Sakishima Islands in March 2023.[xliii]

The government also must work with the private sector to fortify infrastructure including airports and ports and ensure access to civil aircraft and ships for transportation in a contingency. Second, the deployment of assets in the Southwest Islands also requires communication with the local community. The MOD promises that the government will improve the living environment near military bases and contribute to local economic activities. The MOD and the SDF must continue to strengthen public relations and communication with the local government and community to gain their understanding.[xliv]

A Taiwan Contingency

Political Considerations and Legislation

Japan's reaction to a Taiwan contingency should build on its legal structure and military capabilities. Such a response will depend on the authority permitted by law as well as political decisions. According to the current legislation, recognizing the extent of the situation will determine the SDF's operations. If the administration assesses that an ongoing Taiwan contingency is an "important influence situation," Japan can only provide noncombat support for the alliance or even for Taiwan. However, if the situation is assessed as a "survival-threatening" or "armed attack situation," Japan can exercise its right to collective self-defense and conduct combat operations.

Such recognition, however, would likely be a political decision, and it is hard to predict such a decision. In recent years, Japanese politicians have increasingly demonstrated their concerns about China's intentions and expressed support for Taiwan in a more explicit way. For example, in July 2021, then-Deputy Prime Minister Aso Taro, stated: "If a major problem took place in Taiwan, it would not be too much to say that it could relate to a survival-threatening situation."[xlv] Moreover, former Prime Minister Abe stated in December 2021 that "A Taiwan emergency is a Japanese emergency, and therefore an emergency for the Japan-U.S. alliance".[xlvi]

Still, it remains uncertain how the Japanese government would categorize an invasion of Taiwan. On the one hand, Japan has never officially stated it would intervene in a conflict in the Taiwan Strait.[xlvii] On the other hand, various factors may influence official recognition, such as public opinion and responses by the United States, as well as the extent of China's actions against Taiwan and Japan. What follows is my analysis of the likely reactions from the Japanese government and the SDF under different emergency situations, taking current SDF capabilities into account.

Important Influence Situation

The 2015 Guidelines for Japan-U.S. Defense Cooperation indicate some operations that Japan may initiate when a country other than Japan is attacked. First, the SDF will cooperate with US military forces in maritime operations. As a maritime nation, Japan tends to prioritize Sea Lines of Communication (SLOCs), which are a lifeline for Japan because they enable Japan to connect with the world for crucial supplies. In this regard, the SDF conducts missions to maintain the safety of SLOCs. For example, the SDF may work with U.S. forces to escort friendly ships and intercept hostile ones. The SDF may take an auxiliary role, providing logistic support and protecting facilities, such as resupply, maintenance, transportation, and medical services. Also, Japan may help with search and rescue actions for combatants and implement evacuation operations for noncombat individuals.[xlviii]

It is highly likely that the SDF will continue its cooperation with the U.S. Hence, Japan and the United States may continue to share information on ISR, in which radar sites in the Southwestern Islands can contribute to information-gathering. Also, Japan and the United States will continue to cooperate and enhance their air and missile defense to strengthen deterrence.[xlix] Japan's current efforts to deploy more missiles and air defense units on the Southwest Islands reflect this demand. The reinforcement of missile and air defense units can serve as a deterrence. Considering the location of the islands, the deterrence brought by the air and missile defense in the region could impose a higher cost on China if it decides to invade Japan or Taiwan.

Survival-Threatening Situation and Armed Attack Situation

In addition to the missions mentioned in the "Important Influence Situation," Japan and the SDF will be allowed to conduct more operations if a potential contingency is categorized as survival-threatening or involves an armed attack. In these two situations, Japan will be able to exercise collective self-defense and use force. In other words, unlike under the Important Influence Situation, Japan may conduct some combat operations around Taiwan if a contingency satisfies these two situations.

First, the SDF may work with U.S. forces to carry out Ballistic Missile Defense (BMD). In peacetime, BMD, as part of air and missile defense, can be a form of deterrence, while in wartime, if the three conditions on the use of force apply, Japan can also intercept missiles heading for Japan or the U.S.l The SDF continues to deploy PAC-3 missiles, which can connect with Aegis system-equipped vessels (ASEVs) to intercept ballistic missiles in such Southwest Islands including Yonaguni and Ishigaki. With those deployments, Japan seems increasingly ready to activate BMD in a conflict with China.

Second, Japan can contribute to Anti-Access/Area Denial (A2/AD) against China in the vicinity of Taiwan. As the SDF is deploying more anti-ship and air defense missiles in the Southwest Islands, the SDF can use these missiles and its other assets, such as aircraft, to achieve air and maritime superiority. With air and maritime superiority, the SDF can deny access to China's forces in the vicinity of Taiwan. Hence, it can provide a safer environment for the U.S. military and the SDF to conduct combat operations or provide logistical support.[li] Japan's A2/AD capabilities could help protect assets, as mentioned by The Guidelines for Japan-U.S. Defense Cooperation. In the case of the Southwest Islands, as the protection provided by deployed missiles can cover all islands in the region,[lii] the SDF will probably be able to prevent a successful invasion and intercept the enemy's missiles, thereby protecting military facilities and assets in the region. Hence, the SDF and U.S. forces can preserve more assets as they fight.

Third, anti-submarine and anti-mine warfare could be a potential contribution of Japan to the crisis. Anti-Submarine Warfare (ASW) might be a kind of operation that the SDF could conduct around Taiwan. The SDF has outstanding anti-submarine capabilities and already contributed to ASW against the Soviet Union during the Cold War. Japan's ASW capabilities could therefore help the Japan-U.S. alliance achieve underwater superiority, which would be essential to ensure surface ships' safe and successful operations.[liii]

Moreover, mine-sweeping may be another potential contribution from the SDF. If China invades Taiwan, China is likely to lay naval mines around Taiwan or near the entrances of the Taiwan Strait, to block Taiwan from receiving supplies and support coming from overseas. If that happens, the mines may drift to other waterways and pose a risk to Japanese ships, harbors, and coasts, triggering a "survival-threatening situation." Therefore, the SDF or Japanese Coast Guard may need to conduct mine-sweeping operations to ensure safe SLOCs and navigation. As Japan has strong experience in Mine Countermeasures Warfare (MCMW), Japan may need to undertake such activities around Taiwan, both on its own and with the U.S. forces.[liv]

Conclusion

Policies Assessment

Overall, Japan's current defense policies seem to be on the right track to allow it to meet its defense objectives. First, Japan is enhancing deterrence to discourage any change of the status quo and even an invasion of Japan's territory. More proactive capacity-building programs and the transfer of defense equipment and technology could help shape the international security environment. Assisting other countries to build up their capabilities and cooperate with Japan will help deter any attempts to change the status quo. Besides international defense cooperation, Japan's defense buildup, especially having a counterstrike capability, can also enhance deterrence against an attack on Japan by another country.

Second, Japan is empowering itself by lifting some legal restrictions preventing it from engaging in combat. Japan is reinforcing its warfighting capabilities and improving sustainability in case there is a war. The first step is broadening understanding of Article 9, which now has been reinterpreted to allow Japan to exercise limited collective self-defense even when Japan is not under direct attack. Better air defense, missile defense, and superiority in all areas, including air, land, surface, and underwater, enhance Japan's ability to fight in a contested environment despite China's A2/AD capabilities. Stockpiling civil and military supplies and an improved defense production base can also improve sustainability if there is a war. With such measures, Japan will be more capable of repelling an invasion or other disruptions of the status quo.

In sum, Japan's current policies help increase deterrence in order to maintain the status quo. On the other hand, the new policies also strengthen Japan's warfighting capabilities which can help defeat aggressors. Japan's defense policies are thus achieving their primary goals. However, the implementation and effectiveness of the policies will require time.

Policy Challenge: Support from Domestic Civil Society

Japan's defense policies require more cooperation with and understanding from civil society. Take the Southwest Islands as an example. Before and during a potential contingency, the transportation demand would need reinforcement from civil ships and aircraft. Orderly evacuation will require cooperation and understanding from the local governments and residents. Hence, the Japanese government must proactively build public support.

The biggest challenge might be the goal of increasing the defense budget to 2% of GDP. A poll shows more than 60% of Japanese respondents support strengthening the national defense.[lv] The poll shows that the Japanese public increasingly recognizes the unstable security environment, making it possible in theory for the government to fulfill Japan's defense requirements. However, another poll demonstrated that 80% of Japanese disagreed with the plan to increase taxes to pay for the defense budget, and 88% argued that the Kishida administration's explanation of reinforcing defense was insufficient.[lvi] In this regard, the Japanese government may have to put more effort into gaining support and understanding from the public.

Policy Recommendation: Coordination and Exchange with Taiwan

As tensions in the region and great power competition between the United States and China have intensified, the risk of conflict in the Taiwan Strait is also rising. Based on the above analysis, because of the locations of Japan's Southwest Islands and the presence of U.S. bases in the region, China may attack U.S. bases in Japan, leading the situation to become an "armed attack situation." The conflict may significantly threaten Japanese civilians in vulnerable territory, especially the Southwest Islands, which could result in a "survival-threatening situation." Hence, a conflict near Taiwan would probably come to involve Japan, and the SDF may need to fight for Japan's safety and welfare. In this worst-case scenario, it might become necessary for both Japan and Taiwan to coordinate activities. Otherwise, it would be difficult for Japan to take necessary measures in time, due to a lack of understanding of the situation around Taiwan. It is conceivable that Japan and Taiwan might accidentally attack each other.

Nevertheless, the lack of official relations and direct military interaction between Japan and Taiwan require both countries to find other innovative ways to coordinate. An evacuation plan to remove Japanese citizens from Taiwan during a contingency is one option for Japan and Taiwan to start exchanges and communicate on security issues. A Diet delegation visiting Taiwan in August 2022 reportedly had a discussion with the Taiwanese government on the evacuation issue.[lvii] Under the name of civilian evacuation, the discussion could cover humanitarian affairs rather than military interaction, which may require official ties. Therefore, it could be a practical approach for Japan and Taiwan governments to interact and create communication channels despite the lack of official relations.[lviii] Japan might also enhance its coordination with Taiwan via the U.S.-Japan Alliance. For example, the information gained from Taiwan's radar sites could be helpful for Japan, but there is no sharing mechanism.[lix] The United States, as an intermediate of intelligence and data exchange between Japan and Taiwan, could help establish a closer and more proactive information exchange mechanism. More exchange of ISR data could benefit both countries to counter threats, particularly in the areas of air and missile defense.[lx]

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Implications of the "Fourth Taiwan Strait Crisis" for U.S.-Japan Relations

By Benjamin Pan

Introduction

Since the inauguration of President Tsai Ing-wen in 2016, tensions within the Taiwan Strait have reached a level not seen for over three decades as a result of Beijing's political and military pressure on Taipei. As a result, although economic ties between the two have remained steady, official dialogues have ceased, and even cultural exchanges have suffered. Furthermore, China seems to be taking lessons from the aggressive actions carried out by Russia towards Ukraine, which experts believe would whet Beijing's appetite to reunify Taiwan by force. Much to the concern of the international community, the then-Speaker of the U.S. House of Representatives, Nancy Pelosi, journeyed to Taiwan on August 2, 2022, and, given Beijing's reaction, seemingly undermined the prospects of stability in the Taiwan Strait. In response, Beijing canceled several official military dialogues with the United States.[i] The People's Liberation Army (PLA) also launched joint military exercises with the China Coast Guard to simulate a Taiwan blockade. These actions received condemnation from the United States and its allies, which blamed China for unilaterally upsetting the status quo in the Strait. As a result, Taiwan has again been pushed to the top of national agendas, and officials in Washington are even worrying that war between China and the U.S. is conceivable in the near future.

The United States and Japan have been deeply concerned regarding the cross-strait issue since 2021, for both have vital interests directly threatened by a possible Taiwan contingency. Accordingly, senior officials in both countries, starting with President Joe Biden and Prime Minister Kishida Fumio, have been stressing the importance of Taiwan in official statements, with President Biden even expressing his resolution to defend the island in facing an aggressive China. Moreover, the United States and Japan committed the two nations to improving their military cooperation and coordination, including introducing a missile strike capability for Japan and boosting the flexibility of U.S. Marine units in Japan.[ii] With the deteriorating situation in East Asia over the past five years, the world appears to sit on the edge of conflict over Taiwan. And here comes the ultimate question: Is it inevitable that China and the United States, together with Japan, will fall into the proverbial Thucydides Trap, as predicted by some experts?

To answer this question, this paper will first discuss the strategic importance of Taiwan. What factors have made the island a priority issue in the policy agendas of the U.S. and Japanese governments? Second, this paper will outline the political shifts in the U.S. and Japan since 2021 regarding the cross-strait issue. It will also compare the cross-strait crisis in 2022 to the third such crisis in 1996. The third part of this paper will identify some of the limitations of U.S.-Japan relations in dealing with the Taiwan issue. Finally, the fourth part will provide policy recommendations to overcome these limitations and offer suggestions for what can be done by the Japanese, the U.S., and the Taiwanese governments to avoid the Thucydides Trap.

Why Does Taiwan Matter to the United States and Japan?

Strategic and Security Aspects

Located at the center of the first island chain and just 700 miles from Japan's home islands, the vital geopolitical position of Taiwan between Northeast and Southeast Asia has fulfilled numerous strategic goals for both offensive and defensive regional powers.[iii] One critical factor is Taiwan's control over the Bashi Channel. As Oue, et al, emphasized in their research, the existence of Taiwan has served as a "choke point" for China's fleets and submarines from easily entering the Pacific Ocean.[iv] No deep-water ports along China's East China Sea coastline currently support its naval stations. As a result, until they can submerge and dive deep when they reach the region of the Ryukyu Archipelago, their submarines must operate on the surface.[v] However, the situation would dramatically change if China had control over Taiwan. The PLA Navy will be able to exit freely from Taiwan's deep-water ports into the Pacific. This could present a severe security breach for Tokyo and Washington, as the Chinese military would now pose a higher threat to the South China Sea and even the United States West Coast. Furthermore, Oue speculates that Jade Mountain, the highest mountain in Taiwan, might provide the prime location for a strategic radar installation that could provide an early warning should China initiate an attack within the Pacific. If China had such control, the U.S.' strategic plans based on the first island chain, the first chain of major archipelagos out from the East Asian continental mainland coast, would likely fail.[vi]

Moreover, Taiwan represents an essential part of the "freedom of navigation" principle initiated by Japan and the United States. As 90 percent of the global economy depends on free and fair access to the maritime domain, critical sea lanes, including the Taiwan Strait, have received unprecedented attention from regional nations. For Japan, freedom of navigation is also considered a national security issue, as over 70% of its energy and raw material imports depend on shipping lanes near Taiwan.[vii] For the United States, the principle is essential for its navy to operate worldwide without any obstacles. However, as Asia's most significant coastal state, China constantly exercises its domestic jurisdiction beyond international law, requesting foreign warships to obtain permission to undertake innocent passage through its territorial waters.[viii] In light of this situation, the principle of freedom of navigation would be seriously undermined if China had unilateral control over the Taiwan Strait, directly linked to Japan's survival.

Finally, the U.S.-Japan alliance would be tested over a Taiwan contingency. If China eventually decides to invade Taiwan, the security of Japan will undoubtedly be undermined due to its proximity to the island and the presence of U.S. military bases. The Chinese will likely feel it necessary to attack U.S. bases on Japanese territory, operate warships and aircraft in Japan's EEZ, and send forces into the strategic straits that define the Ryukyu Island Chain. Furthermore, with President Biden emphasizing in recent statements that the U.S. will defend Taiwan if China stages an "unprecedented attack" on the island, Japan will likely be dragged into a conflict between China and the United States.[ix] In such a situation, Tokyo will have to make complex judgments about coordinating U.S. and Japanese forces in response. This would serve as a pressure test for the credibility of the U.S.-Japan alliance.[x] Hence, as stated by retired Japan Self-Defense Forces (JSDF) General Oue Sadamasa, Tokyo and Washington need to recognize that Taiwan's instability is synonymous with potential instability of the U.S.-Japan alliance.[xi]

Economic Aspects

For both the United States and Japan, the vibrant economy of Taiwan plays a significant role in their national interests. Moreover, Taiwan's economic transformation after World War II, often referred to as the "Taiwan Miracle," has provided a model for developing countries worldwide. Until 2022, Taiwan was classified by the World Bank as a high-income country that holds a key position in the world economy.[xii] In statistical terms, the estimated GDP of Taiwan was $828.66 billion in 2022, placing 21st out of the 192 countries covered, and is anticipated to reach $1 trillion by 2027.[xiii] Furthermore, with $548 billion in foreign exchange reserves, Taiwan is an essential trading partner for many countries.

Taiwan is economically significant to American trade in the region and provides an alternative to China.[xiv] The island was ranked as the U.S.' eighth largest trading partner, with total trade in goods exceeding $114 billion in 2021.[xv] Moreover, U.S. foreign direct investment (FDI) stock in Taiwan exceeded $30 billion in 2020, prompting the United States Trade Representative (USTR) to announce a new round of formal trade negotiations with Taipei.[xvi] As bilateral trade relations grow, Taiwan offers more stable economic ties with Washington than China does. And as trade relations between Washington and Beijing continue to deteriorate, Taipei has become a better partner, having a similar culture to China and few trade barriers. As for Japan, bilateral business ties with Taiwan have maintained robust cooperation thanks to the Taiwan-Japan investment agreement ratified in 2021. Furthermore, the complementary industrial structures resulting from Japan's colonization of Taiwan in the late 19th century-early 20th century created an economic interdependence between Taiwan and Japan that exists even today. And now, according to the Trade Statistics of Japan, Taiwan is ranked as Japan's fourth largest export market, representing 5.6% of Japan's total exports in August 2022.[xvii] Based on this number, the nominal GDP of Japan would receive a direct 0.9% fall should there be a Chinese invasion of Taiwan.[xviii] To further emphasize the importance of Taiwan's economy to Japan, Finance Minister Suzuki Shinichi in a Cabinet meeting on August 5, 2022, asked the administration to pay close attention to the Taiwan issue, for tensions in the Strait would negatively influence the foreign exchange market and Japan's economy.[xix]

Most importantly, Taiwan is the birthplace of the world's largest semiconductor company: Taiwan Semiconductor Manufacturing Co Ltd (TSMC). TSMC has become a critical node along the semiconductor supply chain dating back to the 1980s, with a global market influence that cannot be overstated. With TSMC producing over 80% of advanced semiconductors in the world, the high-technological industries in Japan and the United States are correlated with the stability of Taiwan.[xx] The economic devastation following a Chinese invasion of Taiwan would be impossible to quantify. Furthermore, the recent announcements by TSMC to establish new semiconductor plants in Japan and the United States will become invalid if Taiwan cannot maintain independence from China. As demonstrated by economic security talks between Japan and Taiwan in 2021, Japan believes the semiconductors produced by TSMC are essential for the economic security of its domestic industry.

Ideological Aspects

To Western democracies, Taiwan is a unique model since its democratic transition appears to prove that a country can do so without undergoing a bloody revolution.[xxi] To further strengthen this point of view, the U.S. State Department issued "Guidelines on Relations with Taiwan in 2021," in which the U.S. government positioned Taiwan as “a vibrant democracy and important security and economic partner [and] also a force for good in the international community.”[xxii] It seems certain that a Taiwan contingency will become a touchstone for the United States. Pledged to protect democracy in international society, the U.S. has the capacity and willingness to honor its commitments …. in the case of a Taiwan contingency. [xxiii] Some European allies even now have begun to lose faith in the United States by faulting its support for Ukraine as "too little, too late.". [xxiv] Should the U.S. seek to regain the trust of such doubting nations, fulfilling its commitment to Taiwan and its vibrant democracy seems essential.

Japan has also recognized Taiwan's importance as a democratic country. According to the 2023 Diplomatic Blue Book, Taiwan shares the fundamental principles of freedom and rule-based governance with Japan and is considered an important friend. According to Oue, the fact that Taiwan can preserve its democratic political system despite facing the threat of China is an essential model for the international community.[xxv] However, given the constitutional restrictions on the use of force, Japan’s ability to deploy troops abroad is limited. This has made soft power essential for Japan’s international relations. Democracy as an ideology has long been the Western community's most potent soft power tool. Japan shares the same democratic principles with Taiwan and believes that its existence can serve as a strong demonstration of Western soft power. Moreover, with Japan gradually taken on a leading role within the international liberal order, as demonstrated by its efforts in promoting the “Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)” and the “Free and Open Indo-Pacific” concept, Japan is now eagerly improving relations with democratic nations across the Indo-Pacific region.[xxvi] Based on its close unofficial ties with Japan and the U.S., Taiwan for Japan is a leading candidate for entry into the CPTPP, though membership remains politically difficult. Still, preserving democracy in Taiwan is of vital interest to Japan.

Political Shifts After the Fourth Taiwan Strait Crisis

Responses of Japan and the United States to the 1996 Third Taiwan Strait Crisis

In response to President Lee Teng-hui’s visit to the United States in 1995 and Taiwan’s first presidential election in 1996, China launched missiles and conducted military exercises near the island.[xxvii] The incident raised anxieties in Japan and the United States, which undertook different actions to express their concerns. Japan did not openly criticize China then, given Tokyo’s then close ties with Beijing.[xxviii] Japan implemented a so-called “hedging policy” to deal with the cross-strait issue, urging a peaceful solution.[xxix] It neither intended to move closer to the United States in dealing with this issue, nor did it consider increasing the JSDF’s defense capabilities. Prime Minister Hashimoto Ryutaro merely asked China to exercise “self-restraint” and hope the situation would not move in “an unfortunate direction.”[xxx] In short, the Japanese government took a non-interventionist approach toward the Third Taiwan Strait Crisis. On the other hand, the United States responded more decisively in contrast to Japan, denouncing China as being “reckless” and “provocative,” and dispatching two aircraft carriers near Taiwan for a monitor mission.[xxxi] However, Washington was motivated more by maintaining its reputation than by seeing the incident as a security crisis.[xxxii] The United States believed it had to react to demonstrate its commitment to the democratic world and regional countries.[xxxiii] It appears that the United States decided to respond to the situation only because of external pressures.

In August 2022, twenty-six years after the Third Taiwan Strait Crisis, China again initiated military operations and fired ballistic missiles around the island to protest the visit of House Speaker Pelosi. However, instead of merely taking pro forma actions, both the U.S. and Japan have now recognized China's incremental military power and its worsening authoritarian image among most major democracies as a "threat" to peace in Asia. Japan deemed the People's Liberation Army's (PLA's) actions a peril to national security, and Kurt Campbell, the White House coordinator for Indo-Pacific policy, saw China's actions as "part of an intensified pressure campaign against Taiwan, which has not ended." Concerns over the stability of the Taiwan Strait have prevailed in Washington and Tokyo.[xxxiv] As a result, one can see three distinct political shifts having been made since 2021, in Japan and the United States, compared to their reactions to the Third Taiwan Strait Crisis in 1996.

Three Political Shifts after the Fourth Taiwan Strait Crisis

First, Washington and Tokyo have increasingly focused on Taiwan in official statements and documents. For example, in April 2021, Prime Minister Suga Yoshihide and President Joe Biden in a White House meeting "underscored the importance of peace and stability across the Taiwan Strait and encouraged the peaceful resolution of cross-Strait issues" ─the first such reference in a summit-level statement since 1969.[xxxv] This extraordinary statement sparked discussions in both countries, with senior officials expressing concern about cross-strait stability.[xxxvi] On August 2, 2021, Japan's Deputy Defense Minister provocatively advocated protecting Taiwan as a "democratic country."[xxxvii] After what was arguably the Fourth Taiwan Strait Crisis in 2022, such concerns became a fear that China would unify Taiwan by force, perhaps at some time during the next five years. At that point, Taiwan began to be included in government publications, linking the island's stability to the national interests of Japan and the United States. In its 2022 Diplomatic Bluebook, Tokyo highlighted the PLA's incremental aggressiveness and emphasized Taiwan as a "crucial partner and an important friend."[xxxviii] Furthermore, the East Asian Strategic Review 2022, published by Japan National Institute for Defense Studies (NIDS)[xxxix] highlighted a sense of crisis over the rapidly deteriorating security situation in the Taiwan Strait. In Washington, Congress passed the Taiwan Policy Act of 2022, which:

> "Reaffirms the Taiwan Relations Act and the Six Assurances. Establishes objectives to support the security of Taiwan and its democratic, economic, and military institutions, promote stability in cross-Strait relations, **support Taiwan's inclusion in the Indo-Pacific Economic Framework, and deter the PRC's aggression towards Taiwan.**"[xl]

It is clear that the United States and Japan now recognize Taiwan's importance in their shared Free and Open Indo-Pacific vision and seem prepared to undertake more concrete actions than in 1996.

Second, military cooperation between Japan and the United States has increased, and, to some degree, extended to Taiwan. For example, after the Security Consultative Committee (2+2) took place on January 11, 2023, Prime Minister Kishida Fumio and President Biden pledged to strengthen Japan's defense capabilities.[xli] In their joint statement, Japan reaffirmed it would take the lead in boosting its own defense and increasing its contributions in Asia to maintaining peace and stability.[xlii] On the other hand, Washington reiterated its commitment to defend Japan under Article V of the Japan-U.S. Security Treaty, which includes the Senkaku Islands (Diaoyu for

China) that China also claims. The U.S. also expressed its volition to strengthen its Indo-Pacific force posture, including Japan, by deploying more versatile, resilient, and mobile capabilities in advance.[xliii] Finally, with an eye on China's military provocations against Taiwan, the two leaders concluded at the summit that their basic principle toward Taiwan remains unchanged and that they support a peaceful resolution of cross-Strait issues.[xliv]

In a dramatic move, Japan has now pledged to double its defense spending over the next five years. Already, the budget request for fiscal 2023 of the Ministry of Defense, released on August 31, 2022, exceeded the so-called "1% ceiling" of GDP for the second time since the end of World War II.[xlv] The Minister of Defense listed Taiwan and the rising military power of China as one of the three reasons for hiking the defense budget.[xlvi] In December 2022, Prime Minister Kishida announced that Japan would increase defense spending to 40-43 trillion yen (approximately $295 billion-$318 billion USD) over five years starting from 2023.[xlvii] Most significantly, the Japanese government announced in 2022 that it would dispatch "active-duty military staff" from the Ministry of Defense to the Japan-Taiwan Exchange Association's Taipei Office, the unofficial embassy of Japan there.[xlviii] Through this action, Tokyo is trying to boost its intelligence gathering concerning the escalating tensions in the Taiwan Strait.[xlix] In contrast to 1996, the U.S. and Japan are seriously moving to counter China's assertiveness in the future.

Finally, the clarity of the rhetoric by Tokyo and Washington entered a new phase after the Fourth Taiwan Strait Crisis.[l] After China's military maneuvers around Taiwan in response to Nancy Pelosi's visit to Taiwan, the Kishida administration made two strong statements to the Chinese government. First, Japan "condemned" China for firing missiles into Japanese-exclusive economic zones and raising regional tensions.[li] Second, along with the G7 members, Japan "criticized" China for leveraging Pelosi's visit as an excuse for aggressive military activities in the Taiwan Strait.[lii] The two strong statements signaled Japan's furor against China for threatening peace in Asia. The United States also adjusted its attitude to become more explicit on the Taiwan issue. Though the White House has walked the remarks back, President Biden stated four times in 2022 that the United States would defend Taiwan, should China conduct non-peaceful operations to take over the island.[liii] Finally, Prime Minister Kishida and Vice President Kamala Harris issued a joint statement condemning China's actions in the Taiwan Strait during their meeting on September 26, 2022.[liv] Compared to the non-interventionist approach by Japan in 1996, there is a vast difference in how Japan reacted to the two similar crises.

Do These Shifts Imply Official Policy Changes in Japan and the United States?

As examined above, significant differences exist in how the United States and Japan reacted to the Third and Fourth Taiwan Strait Crises. After witnessing these political shifts in the U.S.-Japan alliance, pundits around the world began to predict that the U.S. and Japan might formalize their respective relationships with Taiwan. As Japan began to enhance its military capabilities, such pundits expected the United States and Japan would abandon their decades-old policies of strategic ambiguity and begin to clarify their stances toward a cross-strait conflict.

But these shifts do not imply fundamental policy changes in Tokyo and Washington. Although the recent rhetoric indicated deep concerns about the deteriorating security environment, Japan's deliberately ambiguous official stance toward a possible Taiwan Strait contingency has remained the same.[lv] In other words, any action Japan would take in a potential crisis will have to depend on the judgments from the Prime Minister's Office.[lvi] Furthermore, Japan has yet to identify whether it would support U.S. forces in responding to a cross-strait contingency.[lvii]

The U.S. official policy has similar implications. Although Biden continued to express his resolution to defend Taiwan, the Taiwan Policy Act 2022 tells a different story. The Act does not provide the U.S. military with a legal basis to intervene on Taiwan's behalf.[lviii] Furthermore, according to a CSIS report published in early 2023, the United States would have to pay a high price to defend Taiwan.[lix] A basic change in policy would require extensive discussion within Congress and a consensus to be formed between the Democratic and Republican Parties. Most importantly, as pointed out by former Taiwanese diplomat Dale Jieh Wen-Chieh, it is unlikely that the United States will be willing to sacrifice its soldiers and expensive equipment to defend Taiwan.[lx] As a result, how the United States would react to a China invasion remains uncertain. In sum, despite the unprecedented political shifts undertaken by the U.S. and Japan, and President Biden's ad hoc remarks, the traditional stance of strategic ambiguity seems to persist as the official policy in Tokyo and Washington. In addition, Japan appears reluctant to view China as a "rival" and fully align with the United States as a strategic competitor with China. This gap is mainly due to several limitations in the U.S.-Japan alliance, which will be explained in the next section.

Limitations Within the U.S.-Japan Relationship

Article 9 and the Explanation of the New Defense Document

After World War II, Japan adopted a pacifist Constitution, in which the government under Article 9 formally renounced war as a sovereign right and the settlement of disputes through military force.[lxi] Japan has since demonstrated its resolve not to commit the same mistake it made in the early half of the 20th Century. Hence, although Japan allows itself to maintain the minimum level of military force to defend itself, these troops are not to be used for purposes other than self-defense. Under this limitation, every foreign policy discussion in Japan pertaining to military matters must be considered in relation to Article 9. Japan, therefore, is in no legal position to make any promise to the U.S. regarding military cooperation in the event of a Taiwan contingency.

With the deteriorating security environment surrounding Japan, some in the ruling LDP are calling for a revision of Article 9 to allow Japan to prepare for possible future crises. The late Abe Shinzo advocated amending Article 9. Although he could not achieve this mission during his tenure as prime minister, he provided the JSDF with more flexibility by reinterpreting the Constitution to allow Japan the right to limited collective self-defense. Under Kishida, the government issued three defense documents – The National Security Strategy (NSS), the National Defense Strategy, and the Defense Buildup Program – in December 2022. Currently, the new NSS gives the Japan Self-Defense Forces (JSDF) the right to use their defensive capabilities under three conditions: (1) When an armed attack against Japan has occurred or when an armed attack against a foreign country that is in a close relationship with Japan occurs and as a result threatens Japan's survival, (2) When there are no appropriate means available to repel the attack and ensure Japan's survival and protect its people, and (3) Use of force to the minimum extent necessary.[lxii]

Despite these changes, Japan is still constrained in cooperating with the U.S. in the case of a Taiwan contingency. First, the language of the new NSS does not directly state that "Japan will assist in defending Taiwan if there is a contingency." In fact, Japan's reason for publishing such a new strategy and initiating a defense budget increase was a sense of crisis about the deteriorating security environment in the region, including the existential threat from a nuclear-armed North Korea.[lxiii] Furthermore, as indicated in the first condition of the new NSS, whether the JSDF can exercise its defensive capabilities still mainly depends on whether the administration views the situation as "a threat to Japan's survival and poses a clear danger to fundamentally overturn people's right to life, liberty, and the pursuit of happiness."[lxiv] Second, according to Professor Fukuda Modaka of Hosei University, although the new NSS considers possessing a counterstrike capability constitutional, the Japanese government has yet to acquire such weaponry. Moreover, the new strategy clearly states that such a capability is restricted under the US-Japan Security Treaty regime and should never be used for a preemptive attack.[lxv] Finally, the U.S.-Japan alliance has yet to establish a plan on how it will react to a Taiwan contingency, since Japan has just started discussing how to harness the new defense strategy without violating Article 9. With these three concerns in mind, the limitation of Article 9 is still a critical factor in Japan's defense strategy, generally influencing its ability to cooperate with the U.S. on Taiwan.

Japan's Will to Be Involved In a Taiwan Contingency

Despite the close ties between Taiwan and Japan, buttressed by trade, institutional connections, and tourism, the Japanese public wants its country to avoid being involved in a Taiwan contingency. More broadly, the public does not want Japan to be entrapped in a military confrontation between the U.S. and China. According to surveys published by the Japan Press Research Institution in 2022, approximately 74.2 percent of respondents believe the JSDF should not fight together with U.S. forces in a Taiwan contingency. Furthermore, 51.1 percent of respondents believe that Japan should not provide logistic support to the U.S. forces during a Taiwan Strait crisis. [lxvi] This reluctance is mainly because the Japanese people do not want to see their families lose their lives to defend other countries. Hence, it appears to be difficult for the Japanese government to secure a domestic consensus regarding the Taiwan issue.lxvii According to Professor Michishita Narushige of the National Graduate Institute for Policy Studies (GRIPS), the ultimate mission of the JSDF is to defend "Japan's territory," not to be involved in a U.S. war. The SDF Law clearly states that the JSDF is to "'defend' our nation from direct and indirect aggression in order to protect its peace and independence and preserve its security."[lxviii] It is therefore difficult to justify, either to domestic or international society, any decision by the Japanese government to actively support the U.S. military in a contingency when there is no actual attack on Japan's territory.

Additionally, there is strong opposition in the Diet, especially from left-of-center parties, to Kishida's planned dramatic increase in the defense budget. Even the ruling LDP has yet to agree on how to resolve this issue. Those who believe Japan should expand the defense budget struggle over how to implement the plan. Some agree in principle but argue over the means to pay for the sudden hike in defense spending. Others disagree with the proposal because they believe it will crowd out other policy initiatives and economic programs.[lxix] The current plan proposed by the Kishida administration for such defense funding is to introduce expenditure reforms, sell national assets, and raise corporate, income, and tobacco taxes. However, this decision has been criticized by those who believe that increasing the corporate tax will force companies to reconsider wage increases, as urged by the Kishida administration, which is inconsistent with "Kishidanomics." There have also been concerns that raising the income tax to fund the defense budget would harm the living standard of low-income earners.[lxx]

Although increasing the defense budget has been accepted by the public in principle, there is no such support for the current funding plan, nor is there agreement about whether the government should use the budget for responding to a Taiwan Strait crisis.

The One-China Statement and the Sino-Japan Relationship

Despite the deepening support for and practical cooperation with Taiwan, Japan's official position has remained under the "One China" framework for over 50 years.[lxxi] The 2023 Diplomatic Blue Book indicates that Japan believes the Sino-Japan relationship is "one of the most important bilateral relationships."[lxxii] Tokyo since 1972 has recognized the government in Beijing as the sole legal government of China. But Japan has never recognized Beijing's claim of sovereignty over Taiwan. Tokyo states only that it "fully understands and respects" that stance. In contrast to the U.S., which regularly accuses China of aggressive actions toward Taiwan, Tokyo also has been reluctant to openly criticize Beijing's coercive acts toward Taipei.

Japan's defense strategy also views China differently from the United States. Unlike the U.S., Japan has no military cooperation with Taiwan. The 2023 Blue Book for the first time refers to China's aggressive movements in the region as "a strategic challenge," but the country still considers China as a "concern" instead of a "threat."[lxxiii] On the other hand, the Biden administration has clearly stated that the rise of China is a "pacing challenge" and a "significant long-term security threat" to international peace.[lxxiv] Due to such different approaches, the U.S.-Japan alliance has similar asymmetry when trying to coordinate a joint response to the Taiwan issue.

Aside from the One-China framework, the complicated Sino-Japan relationship limits Tokyo's approach to Taiwan. First, as former U.S. ambassador George W. Ball once indicated, closeness is critical to foreign policy.[lxxv] Unlike the United States, which is on the other side of the Pacific Ocean, Japan has acknowledged its close geographical relationship with China. Hence, while Washington could compete with Beijing without much concern, the two countries' geographical proximity forces Japan to consider China when formulating Taiwan policy. Second, with Japan's annual foreign direct investment (FDI) in China regularly exceeding $10 billion, China has become an essential player in Japan's supply chain structure. China has also become Japan's largest trading partner. Such close economic ties are hard for Tokyo to ignore.[lxxvi] Following the Senkaku uproar in 2012, when Beijing's reaction to Tokyo's purchase of three of the disputed Senkaku Islands included stopping exports of rare earths to Japan, Tokyo became conscious of Beijing's intention to use economic interdependence as a weapon to punish Japanese businesses during periods of geopolitical conflict.[lxxvii] Although the Japanese government had implemented several methods to hedge its economic interdependence with China, only 44 percent of Japanese national security experts would consider cutting off supply chains in China.[lxxviii] Decoupling is not an option. It appears that the economic benefits of a stable Sino-Japan relationship are so vital that Japan has deemed them an element of its national security.

Finally, there is the historical factor. Given the colonial history between Japan and Taiwan, some Chinese officials still believe that Japan intends at some point to take control of the island. Whenever Tokyo seems to be forming a closer relationship with Taiwan, Beijing thus tends to react aggressively and condemns Japan for violating the One-China framework. For instance, when Japan stated its concerns about Beijing's reaction to House Speaker Pelosi's Taiwan visit, China protested, describing them as "a threat to regional peace and security."[lxxix] Beijing has been trying to intimidate Japan from even commenting on Taiwan.

What Can the U.S., Japan, and Taiwan Do to Prevent a Contingency?

With the limitations mentioned above, it seems challenging for the U.S. and Japan to have concrete and proactive military cooperation on the Taiwan issue in the near future. Still, this does not imply that Tokyo and Washington, or even Taipei, should be idle on the cross-strait issue. As mentioned in the first section, Taiwan is a vital partner for the United States and Japan, and the U.S.-Japan alliance has a close interest in maintaining stability in the Taiwan Strait. Thus, there are ways that the United States, Japan, and Taiwan could work together to prevent a contingency from happening. In the following section, this paper will provide three measures for the parties to consider in order to avoid a catastrophe in East Asia.

Strengthening Deterrence Capabilities

With the cross-strait issue growing tense in recent years, think tanks and scholars have weighed in with suggestions to stave off disaster. Such reports often point to increased deterrence capabilities of the U.S., Japan, and Taiwan as essential to counter aggressive intentions by China.[lxxx] Deterrence is the practice of discouraging or restraining someone—usually a nation-state—from engaging in undesirable behavior, such as an armed attack. It refers to an attempt to halt or prevent an action, as opposed to the closely related but distinct notion of "compulsion," which refers to an effort to force an actor to do something.[lxxxi] Generally, to make a deterrence policy successful, there are three conditions to be fulfilled: (1) assessing the level of the aggressor's motivation, (2) clarity about the object and actions the defender will take, and (3) the aggressor must be convinced that the deterring state(s) has capabilities and wills to carry out threats.[lxxxii] To fulfill these three conditions, there are several measures and concepts that the United States, Japan, and Taiwan might examine together or individually.

Continue the Practice of Strategic Ambiguity and Dual Deterrence

The United States' strategic ambiguity is understood as deliberately creating uncertainty in Beijing and Taipei, not about whether the United States would intervene in a war should either side upset the present status quo by initiating a cross-strait conflict, but about how the United States would act during such a situation.[lxxxiii] This has created a type of "dual deterrence," in which China and Taiwan are deterred from any policy that would affect the stability of the Taiwan Strait. Similarly, Japan has aligned with the United States' position, which has been in place since it established diplomatic relations with China in 1972. With such a strategy, the U.S. and Japan make it clear that they will only become involved in a Taiwan contingency if there is conflict across the Taiwan Strait. However, the U.S.-Japan alliance consciously leaves ambiguous what it would actually do during a contingency. This ambiguity sows seeds of uncertainty in Beijing's decision-making process and thus deters China from taking aggressive actions. According to a former senior official at the U.S. State Department, the ambiguity gives China the belief that it will be able to reunify Taiwan "someday" in the future, thus reducing Beijing's motivation to use force.

The strategic ambiguity policy has proved its effectiveness for over seventy years by preventing a war from happening. It is therefore important that the policymakers involved in the

U.S-Japan alliance consider how to preserve and extend this strategy into the future when a peaceful solution to the Taiwan Issue may be possible.

Increase Capabilities to Carry out Deterrence Policy

Convincing the aggressor that the deterring states have counterstrike capabilities is the most important of the three conditions. To achieve this objective, Japan and Taiwan should increase their respective defense capabilities. Japan has already begun to enhance such deterrence capability within the U.S.-Japan alliance.[lxxxiv] Tokyo's dramatic increase in its defense budget was one such decision as it signals the Japanese government's concern about the deteriorating security environment in East Asia.

In January 2023, Japan and the U.S. announced that they would expand military cooperation to include increasing Japan's missile strike capabilities and making the U.S. Marines in Japan more adaptable to potential conflict. Under the new deployment arrangement in Japan, Marines serving in Okinawa as part of the 12th Marine Regiment will become a mobile unit, known as the 12th Marine Littoral Regiment. This will allow the Marines to easily spread out to places along the coast if necessary, according to U.S. officials.[lxxxv]

Although the two allies do not indicate what this military cooperation is aiming for, the move has alarmed China, which now fears that the alliance is working closely to prepare for contingencies that would include one across the Taiwan Strait.

One issue that Japan needs to deal with is how to reconcile its new defense documents with the restrictions implied under Article 9. As mentioned above, despite the current National Security Strategy (NSS) opening new opportunities for Japan to respond to a regional contingency, Tokyo has yet to lay out a practical plan on how to do so. If Tokyo could resolve this issue, it would be able to contribute more to the alliance in the event of further aggressive actions from China. Taiwan in turn should implement a "porcupine strategy." This type of asymmetric strategy aims to make the enemy's attack more difficult and costly.[lxxxvi] To achieve this objective, Taiwan must modify its traditional defense policies, such as focusing on developing high-technology military equipment instead of purchasing equipment inadequate for island-based warfare. Taipei must also be determined to reform its defense systems. This is not only about increasing deterrence capability; it means reforming outmoded military thinking. Taiwan must demonstrate its resolve to seek support from the U.S. and Japan. If Taiwan remains indifferent to its fate, domestic opinion in Japan and the United States would likely question the necessity of assisting it. In short, demonstrating fortitude is also crucial for Taiwan's deterrence strategy.

Facilitate Multilateral Cooperation in East Asia

Improving collaboration between the involved parties and welcoming more stakeholders into the game are good strategies to increase deterrence capabilities, as they fulfill the third condition of successful deterrence. On the one hand, the Taiwan Relations Act provides the United States with a better legal basis and more flexibility than Japan in dealing with Taiwan issues. On the other hand, being an actor in East Asia and adjacent to China, some policymakers in Japan may believe that they better understand Taiwan's circumstances and challenges than the United States. Therefore, the United States and Japan should supplement each other in facilitating security cooperation with Taiwan. As a nation that is gradually taking on a more proactive role in Asia, Japan might seek to convince such regional players as Australia and the Republic of Korea to respond in a unified manner to Beijing's aggression. Finally, Taiwan should address growing domestic skepticism regarding U.S. intentions. According to Professor Ogasawara at the Tokyo University of Foreign Studies, this skepticism refers to the argument that Taiwan is only a "pawn" of the United States and will be abandoned by it in the end.[lxxxvii] That assertion may not be true, but if Taiwan should believe it, perhaps it should seek to resolve the issue so trust between the two countries will not erode.

Improve Official and Unofficial Communication—Track One and Two Diplomacy

Aside from increasing deterrence capabilities, promoting official and unofficial communication is also crucial for the involved parties. First, communication should be enhanced between Japan and Taiwan in order to fill the gap in their understanding of what should be done in the event of a Taiwan contingency. According to a survey conducted by the Taiwan Public Opinion Foundation, approximately 60 percent of the population believes that Japan will provide Taiwan with the necessary assistance if there is a contingency.[lxxxviii] However, as mentioned above, over 50 percent of Japanese believe their country should not provide any assistance in the event of a Taiwan contingency. Clearly, there is a massive gap in understanding between the two states, which could result in disastrous consequences. Japan and Taiwan should thus clarify their stances in order to better prepare for any future crises.

Maintaining official communication is vital for regional stability. However, due to the political discord between Taiwan and China since 2016, the official dialogue once realized by President Ma Ying-jeou has ceased. To prevent a worst-case scenario, the United States and Japan should continue to use diplomacy as the first recourse for maintaining stable relations with China. Diplomacy premised on sustaining peaceful relationships between nations[lxxxix] can help calm tensions in the Taiwan Strait and possibly avert a crisis. The United States and Japan can facilitate the passage of information to both parties across the strait. For instance, Japan and China recently set up a military hotline to prevent accidental clashes in the air and on the sea.[xc] Although the original purpose was to avoid unintended incidents between Japan and China, Japan could utilize this official communication channel or set up a similar one to pass essential information to China and Taiwan to avert an incident leading to a cross-strait contingency. Other than such military-to-military communication, diplomacy should also be used as a soft power tool between the United States, Japan, and China. Diplomacy remains crucial to the peace and stability of East Asia.

Finally, unofficial relations, also known as the "Track Two Diplomacy," should be employed as a vehicle for easing tensions or even preventing a contingency in the Taiwan Strait. Despite not being recognized as a country, Taiwan can still pursue unofficial relations with the United States, Japan, and China. Track Two Diplomacy is often defined as unofficial and informal discussions between countries to devise plans, shape public perception, and coordinate resources toward finding a solution to their dispute.[xci] However, it should not be considered only as a substitute for official relations, or Track One Diplomacy. Instead, Track Two Diplomacy provides a bridge for Track One Diplomacy when that means fails to function. Currently, several unofficial communication channels between the United States, Japan, and Taiwan exist through such non-governmental organizations as think tanks, foundations, and academic groups. Since the Democratic Progress Party (DPP) took office in 2016, however, such unofficial ties between China and Taiwan were suspended due to political factors. With official and unofficial relationships failing to function across the strait, a minor dispute could escalate into a severe conflict. Hence, Taiwan should seize every opportunity to restart Track Two Diplomacy with China to avoid disaster.

Track One and a Half Diplomacy—the Global Cooperation &Training Framework (GCTF)

The Global Cooperation & Training Framework (GCTF), established on June 2015, serves to promote international cooperation and enhance mutual understanding between Taiwan and certain countries by providing a platform for sharing best practices, knowledge, and resources. Additionally, this framework aims to strengthen the capacity of partner countries to tackle common challenges such as economic development, energy security, and public health through training, dialogue, and collaboration.[xcii] The framework represents a model of Track One and a Half Diplomacy, defined as efforts towards diplomacy that are aided by non-official organizations but involve direct participation from officials of the parties in conflict.[xciii] This type of diplomacy can be advantageous when official negotiations have stalled, and there is a need for creative and innovative solutions to complex issues. Due to Taiwan's unique position in international society, it has long been forbidden to form official connections with other countries. However, through Track One and a Half Diplomacy, the U.S.-Japan-Taiwan trilateral relationship could be further strengthened, and Taiwan could develop ties with more countries. Led by Taiwan's Ministry of Foreign Affairs (MOFA), the GCTF currently works with the American Institution in Taiwan (AIT), the Japan-Taiwan Exchange Association (JTEA), the Australian Office in Taipei (A.O.), and 122 other countries to tackle various global issues.

The GCTF helps prevent conflict through three pillars. First, the framework allows more countries to have close connections and mutual benefits with Taiwan. Since conflict in the Taiwan Strait also influences the interests of GCTF partner countries, such countries would likely assist in reducing regional tensions as they prefer stability in cross-strait relations. Second, the GCTF framework demonstrates Taiwan's ability and will to help the international society. With Taiwan continuing to provide contributions and expertise, it not only increases Taiwan's capabilities but also integrates the island into the global village. In that context, countries who receive help from Taiwan will likely raise their voices in support of the island if a contingency seems imminent. Finally, the framework manifests that countries without official relations can still develop practical cooperation. Despite their political differences, stability is preferred by both sides of the Taiwan Strait. Hence, China and Taiwan should consider a platform such as GCTF to facilitate cooperation and communication. Through interdependence, the costs for both sides to change the status quo will become higher and thus reduce their desire to escalate the situation. In a nutshell, the GCTF provides Taiwan with better deterrence capabilities by connecting it to more countries and presenting a new opportunity for Beijing and Taipei to reduce tensions through more substantial interdependence.

Conclusion

Despite Taiwan's importance and the recent shifts in political attitudes by the U.S. and Japan, it is unclear whether a future Taiwan contingency would drag the U.S. and Japan into a Thucydides Trap of conflict with China. The limitations of the U.S.-Japan alliance, as examined above, continue to prevent the two countries from changing their fundamental policy of strategic ambiguity. The question is what China's intentions are. Does Beijing think that China possesses the military capabilities to confront the U.S.-Japan alliance? While President Xi has been focusing on domestic issues in recent years, he may believe that he has consolidated his power over the country and may be willing to take risks. He may believe that undertaking irrational movements like advancing toward Taiwan would not upset his authoritarian rule over China, nor upend the economic progress the country has enjoyed. While the U.S. and Japan may prefer peace and stability in the Taiwan Strait, China may not be so committed to such a goal.

Peace and stability are more than platitudes: they do not come spontaneously. If the involved parties continue to provoke each other, a Taiwan contingency could be the unhappy result, as experts have predicted.[xciv] This paper thus provides some suggestions for the involved parties to consider, with a focus on reducing tensions in the Taiwan Strait. Increasing deterrence capabilities is among the most critical measures to make Beijing think twice about taking risks. That includes more than just increasing defense capabilities. Recently, Japan has adopted a new official development assistance (ODA) program to strengthen the military capabilities of like-minded countries by providing "official security assistance"― a move that changed Japan from a passive provider to an active supporter.[xcv] Previously, ODA could not be linked to military aid. The new program will likely strengthen regional deterrence to counter China's military assertiveness.

Taiwan also has been boosting its deterrence capabilities, though it still has a long way to go to fill the gaps in its defenses. President Tsai managed to extend conscription by one year and continued to study asymmetric strategies, but such measures are only baby steps. Provoking China, President Tsai has continued to deepen U.S.-Taiwan relations by meeting with House Speaker Kevin McCarthy in California on April 5, 2023. Moreover, the visit to China from March 23 to April 3 by former Taiwanese president Ma Ying-jeou for cultural exchange was not part of a concerted strategy on Taipei's part, but a political gambit on the part of a KMT leader. Both activities may have only exacerbated the cross-strait problem.

In conclusion, given the limitations of the U.S.-Japan alliance, as described above, and deepening concerns in China about the current trajectory, it seems to be in all parties' national interests to avoid falling into a Thucydides Trap. One recourse for all parties might be to establish new preventive-diplomacy dialogues, through Track One, Track One and a Half, and Track Two diplomatic efforts, with the ultimate aim of removing the possibility of a Taiwan Strait contingency. Dialogues among the U.S., Japan, and Taiwan are critical to easing tensions and hopefully reestablishing the common goal of a stable and peaceful security environment in East Asia.

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Freedom of Navigation and the Taiwan Strait Problem

By Maomao Qu

In recent years, an increasing number of U.S. warships have passed through the Taiwan Strait under the name of freedom of navigation (FON), inciting heated discussions and reactions from China. FON in international law is not clearly defined, leaving room for different understandings. The Chinese mainland, Taiwan, Japan, and the United States generally support free navigation in the strait, but they differ on specific FON operations. Their opinions are influenced by their interests in the region, which are shaped by political and economic factors. The Taiwan Strait issue has created a security dilemma for all parties concerned and exacerbated tensions between the U.S. and China. How to avoid a Thucydides Trap and stabilize the Taiwan Strait are important questions that this paper seeks to answer.

This paper will examine FON in the strait from a theoretical and practical perspective, then analyze how actors relate FON to their interests. It will also evaluate the level of tensions between China and the U.S. over the Taiwan problem and offer policy recommendations.

Freedom of Navigation

This section examines freedom of navigation from the perspectives of international law and real-world practice. The United Nations Convention on the Law of the Sea (UNCLOS) is widely accepted by most countries in the world, having 167 signatories, but the code lacks unambiguous stipulations, which may constitute a reason why FON operations are being conducted in the Taiwan Strait and why different opinions are formed about these operations, even though free navigation is generally guaranteed by the convention.

Freedom of Navigation in International Law

It is important first to know what freedom of navigation is. The United Nations Convention on the Law of the Sea (UNCLOS) reflects a global consensus on maritime affairs. Adopted in 1982, UNCLOS lays down a comprehensive regime of law and order in the world's oceans and seas. It establishes rules governing all uses of the oceans and their resources. In the law, no article specifically refers to FON or gives this term a definition. Two articles, however, directly mention the concept: Article 38 and Article 87:

> Article 87
> Freedom of the high seas
>
> The high seas are open to all States, whether coastal or land-locked. Freedom of the high seas is exercised under the conditions laid down by this Convention and by other rules of international law. It comprises, inter alia, both for coastal and land-locked States:
> freedom of navigation; …[i]

However, does the Taiwan Strait fall under the category of the high seas? This question may involve the legal status of Taiwan, over which a debate has long continued. According to the UNCLOS, the Exclusive Economic Zone (EEZ) of a state is the area that extends beyond its Contiguous Zone (24 nautical miles) and Territorial Sea (12 nautical miles) seaward to a distance of no more than 200 nautical miles from its coastline baseline.[ii] The narrowest part of the Taiwan Strait is about 70 nautical miles, and the widest is around 220 nautical miles. Article 86 stipulates the application of high seas: "The provisions of this Part (Part VII High Seas) apply to all parts of the sea that are not included in the exclusive economic zone, in the territorial sea or in the internal waters of a State, or in the archipelagic waters of an archipelagic State", indicating that high seas do not contain the EEZ, territorial sea, internal or archipelagic waters.[iii] This definition partly contradicts the claim that "freedom of the high seas as defined in international law applies to waters beyond Taiwan's territorial sea limits".[iv] No matter what the legal status of Taiwan is, the strait is not part of the high seas.

Article 38 Right 2, concerning the rights of transit passage, also mentions freedom of navigation:

> Transit passage means the exercise in accordance with this part of the freedom of navigation and overflight solely for the purpose of continuous and expeditious transit of the strait between one part of the high seas or an exclusive economic zone and another part of the high seas or an exclusive economic zone. However, the requirement of continuous and expeditious transit does not preclude passage through the strait for the purpose of entering, leaving or returning from a State bordering the strait, subject to the conditions of entry to that State.

This clause raises two sub-questions. First, is Taiwan a state? This problem is not limited to these two articles; actually, the unspecified object of application of this law is a state. According to the Montevideo Convention on the Rights and Duties of States in 1933, the state, regarded as a person under international law, must have the following characteristics: a) a permanent population; b) a defined territory; c) a government; and d) the ability to enter into relations with other states.[v] Unfortunately, this convention did not cover the Taiwan problem, partly because this treaty was originally only for North and South American countries, and the Taiwan problem came up many years after the convention. James Crawford holds the view that Taiwan is not a state "because it still has not unequivocally asserted its separation from China and is not recognized as a state distinct from China".[vi] Brad R. Roth believes that Taiwan's status is fluid and indeterminate.[vii] Taiwan possesses a high level of autonomy from the Chinese mainland, but the one-China policy weakens the island's position. In summary, slight differences exist between de facto and de jure. De jure, Taiwan is not a state. Secondly, what are the conditions for Taiwan to claim statehood? There is no specification in the UNCLOS. Consequently, the concept of FON is theoretically ambiguous, leaving space for each actor to develop their own narrative.

Freedom of Navigation in Practice

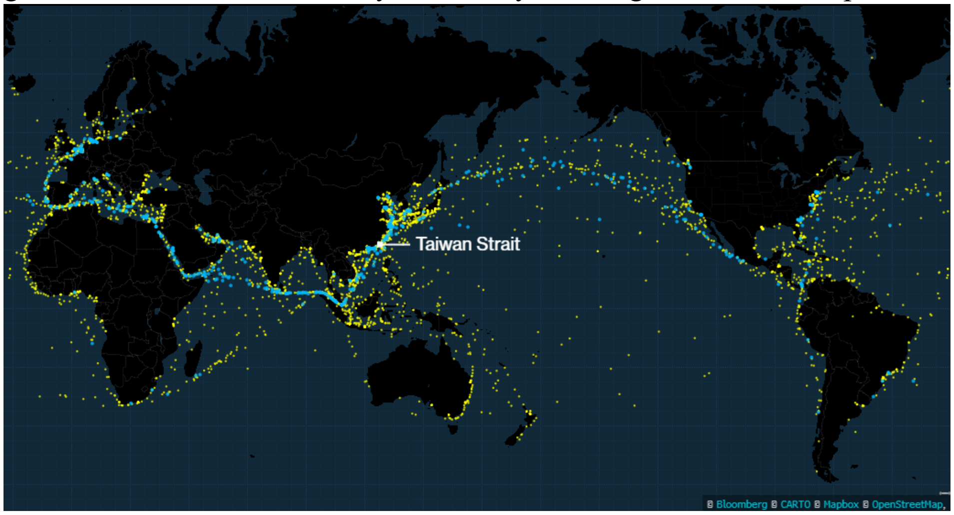
However, as Iain Scobbie contends, "International law does not exist in an intellectual vacuum".[viii] Therefore, it is indispensable to consider real-world practices of navigation in the Taiwan Strait.

Figure 1. Live Map of Ships in Taiwan Strait on May 1st, 2023

(Source: Marine Vessel Traffic)

Commercial ships enjoy free navigation in the Taiwan Strait. The strait serves as a major shipping channel and receives ships from all over the world. Until now, although China's military drills have slowed shipping at times in the Strait, no commercial ship has reported difficulties or hindrances in the passage. The above map (Figure 1) depicts the ships in the strait on May 1st, 2023, including cargo vessels, tankers, passenger vessels, fishing boats, recreational craft, high-speed craft, tugs, and special craft, etc. The profusion of these colorful emblems indicates a busy and smooth passage in the strait and emphasizes its importance as a transportation route. Figure 2 shows a similar situation. The accompanying map illustrates the whereabouts of container vessels on August 2nd, 2022, with the blue spots representing the top 10% of the fleet in terms of deadweight tonnage. More than 80% of the world's biggest container ships successfully passed through the strait. It is the principal shipping route connecting Japan, South Korea, the Chinese mainland, and Taiwan to the West, transporting commodities from Asian manufacturing centers to markets in the U.S., Europe, and everywhere in between back and forth.[ix]

Figure 2. Taiwan Strait as a Key Waterway for Large Container Ships in 2022



(Source: IHS Markit, Genscape, Bloomberg)

As for warships, their transit in the strait possesses more complicated geopolitical and ideological connotations, but innocent passage is guaranteed, even though the U.S. and coastal actors have different understandings of how to conduct an innocent transit. The FONOP follows Washington's understanding that it requires no prior approval or notification, while both mainland China and Taiwan state that such a procedure is necessary for warships.[x]

Taiwan, mainland China, the U.S., and Japan are the four main actors in cross-strait issues. Most interviewees from these four actors support the concept of free navigation, but they diverge on specific operations. Taiwan is not a party to UNCLOS because it is not a state, but it follows and supports this international law.[xi] Taiwanese authorities contend that FON operations, especially those of the U.S., not only guard the free and open Indo-Pacific but also ensure freedom of navigation in the strait.[xii] Beijing supports and respects the FON in accordance with international law. Nevertheless, China believes that the U.S. Freedom of Navigation Program in the Taiwan Strait bears additional political connotations, infringing on its sovereignty.[xiii] Scholars from Tsinghua University express a similar opinion. One of them mentions the possibility of intelligence collection and ideological propaganda.[xiv] Zhang Suixin points out the different understandings of warship passage in the strait as a source of divergence: Beijing requires prior notification or approval, while Washington argues there is no need.[xv] David Keegan from the Johns Hopkins University School of Advanced International Studies states that the U.S. FON operations address the concern that China forbids passage in the strait. Even though the U.S. has not ratified UNCLOS, Washington spares no effort to honor the law. He adds that the program does not only target the Taiwan Strait.xvi Michishita Narushige regards "strategic port visits" as a Japanese version of freedom of navigation operations. The Japan Maritime Self-Defense Force has sent its ships to certain strategically important ports, such as Klang in Malaysia, Muara in Brunei, and Hambantota in Sri Lanka to prevent China from monopolizing them.[xvii] An academic source at a Tokyo university (hereinafter referred to as AS) holds a similar view that Japan supports the FON and U.S. operations are not limited to the Taiwan Strait; some are even around Japan. There are differences in the concept of open seas between Tokyo and Washington.[xviii]

In summary, freedom of navigation is not a precisely-defined concept in international law, but real-world practices generally guarantee de facto FON in the Taiwan Strait. All four main actors in the strait support free navigation, but divergences appear on specific operations, and their views are influenced by their own interests. International law is often not law per se, but politics.

From FON in the Taiwan Strait to Power Struggles

The United States, Japan, (including in their alliance context), as well as China (the Chinese mainland), relate their opinions and actions on the FON in the strait to their own political and economic interests. Taiwan also matters, but limited access to scholars and practitioners on the island did not allow me to conduct interviews in this region.

The United States

The U.S. has a full structure for FON operations and publishes annual reports. The Department of State defines this program as a form of resistance to excessive maritime claims in order to honor UNCLOS, even though Washington has not ratified the law, i.e., the nation is not a contracting party.

In 2021 and 2022, ships of the 7th Fleet transited the strait.[xix],[xx] According to the website of the U.S. 7th Fleet, these operations underline the U.S. commitment to a free and open Indo-Pacific region. The US military can fly, sail, and operate anywhere international law allows. The fleet's activities in the Taiwan Strait can be traced back to 1950, when the Korean War broke out. Harry S. Truman ordered the 7th Fleet to assist in the defense of Taiwan, considering the island's strategic significance.[xxi] Since then, the fleet has been active in the strait and has cooperated with Taiwan's military forces from time to time. The Third Taiwan Strait Crisis in 1996 is another example. The mainland of China launched military drills to show its dissatisfaction. As a response, the U.S. commanded two aircraft carriers of the 7th Fleet in the strait.[xxii] These operations are believed to have shown Washington's support for the Taiwan authorities. But from Beijing's standpoint, these moves have interfered in China's domestic affairs and infringed on its sovereignty. More military operations near China in recent years have been interpreted as an expansion of the U.S. sphere of influence and a determination to defeat Beijing.[xxiii]

FONOPS serves as a concrete manifestation of U.S. foreign policy, which can also be analyzed using Mead's model. According to Walter Russell Mead, an interplay of four political traditions rooted in national interests has guided U.S. foreign policies: a. the Hamiltonian, which emphasizes protection of commerce and free trade; b. the Jacksonian that advocates for military strength; c. the Jeffersonian, which focuses on maintaining a democratic system; and d. the Wilsonian, stressing moral principle.[xxiv] In the case of FON operations in the strait, the Wilsonian (moral principle, or ideology), the Jacksonian (military strength), and the Hamiltonian (economic interests) are vividly illustrated.

Firstly, ideological factors, such as moral principles and "universal values" of liberal democracy and freedom under the U.S. definition, have played a role in FON operations. As Peter J. Boyer describes in A Church Asunder, values are in fact unstable and will change with the times and social development. Even people in the same time period and in the same social environment may make different choices because of their own cultural biases.[xxv] Patrick Porter also notices a cultural bias when analyzing the U.S. psychological war in the Pacific. Preconceptions are automatically used to fill the knowledge gap. Nevertheless, he points out the interplay of policies and values.[xxvi] Universal values may not exist, but U.S. values can be an ideological factor in the FON program, as the Department of State claims.

Secondly, changing military capabilities across the strait sway the strategic ambiguity that Washington has maintained for a long time. To keep the global primacy of the U.S., FON on a global scale is a prerequisite for U.S. forces to move freely all over the world. The increasing military abilities of China pose a possible threat to Washington, exacerbating the existing tensions between the two countries and leading to a shift in U.S. ties with both sides of the strait. Speaker Nancy Pelosi's visit to Taiwan in 2022 is considered a signal of change in the U.S.' policy of strategic ambiguity. Speaker Pelosi opted to go ahead with a visit to Taiwan even amid tensions across the strait and after President Biden said it would not be a good idea to go.

Keegan argues that Pelosi only represented herself instead of the U.S. government, which still adheres to strategic ambiguity, despite the controversy incited by her visit.[xxvii] But she took SPAR-19, a U.S. Air Force C-40, to Taiwan during her term, a courtesy extended to her as speaker by the U.S. military, which was opposed to the visit. U.S. forces are not allowed to give any ordinary citizen this level of assistance or protection to show their personal support. However, President Biden also raised tensions by indicating that the U.S. would use force to defend Taiwan in case of a contingency, clearly showing the country's support for the island.[xxviii] Yet, Keegan reckons that Biden's answer is still in line with strategic ambiguity. Biden was asked whether the U.S. would respond if Taiwan were attacked, and he will give a firm objection if the question refers to Taiwan's independence, just like President Bush's warning in 2003.[xxix] As a pivotal element of strategic ambiguity, dual deterrence remains effective. From Washington's view, the stronger military capacities of the mainland render it a more likely destabilizer in the strait.

Third, economic interdependence and decoupling coexist. On the one hand, economic interdependence is an inarguable reality. The two nations are extremely dependent on each other for trade. In fact, the U.S. and China set a new record last year with an exchange of goods worth $690.6 billion.[xxx] China has been the first supplier and the third export destination of the U.S. since 2009, despite being impeded by bilateral tensions.[xxxi] Additionally, the U.S. is China's largest trading partner.[xxxii] Jay Shambaugh, Under Secretary for International Affairs of the U.S. Department of the Treasury, stated that the administration does not seek to decouple from China or wish to hinder "China's growth in any way". He stressed that the two countries have a large scope for economic mutual benefit.[xxxiii] Secretary of the Treasury Janet L. Yellen expressed a similar opinion at a lecture at the Johns Hopkins School of Advanced International Studies that the U.S. is not trying to decouple from China and that interdependence of the two economies is a healthy thing.[xxxiv] On the security side, Jake Sullivan, U.S. National Security Advisor, has delivered a positive message that Washington redefines its economic relationship with China as de-risking rather than decoupling.[xxxv] Bilateral economic interdependence is so constant and inarguable that it is often overlooked, but these recent remarks were a good reminder.

On the other hand, certain moves seem to signal U.S. efforts to decouple from China, even if the original intent was to protect national interests. For example, several advanced production lines of the Taiwan Semiconductor Manufacturing Company Limited (TSMC) are planned to move to Arizona. But Keegan argues that the firm's decision is not a signal for further decoupling but an effort to reduce Washington's overseas dependence.[xxxvi] The TSMC in Taiwan and its advanced technology are inextricably involved in U.S.-China relations and cross-strait relations.

Remarks of U.S. Representative Seth Moulton incited controversy: "One of the interesting ideas that's floated out there for deterrence is just making it very clear to the Chinese that if you invade Taiwan, we're gonna blow up TSMC." Moulton then quickly added that he was not promoting this idea: "What I'm saying is (that) these are some of the things that are actually actively being debated among U.S. policymakers."[xxxvii] This idea may not be his intention, but it is truly dangerous that policymakers are discussing this possibility. Moreover, unprecedented regulations are anticipated to restrict U.S. investment in China.[xxxviii] Shambaugh mentions this aspect and explains it as a protection of U.S. interests.[xxxix] Since the Trump administration, national security legislators and cabinet members have worked to develop new regulations to monitor and conceivably prevent U.S. investments in Chinese technology, including chips and artificial intelligence. The intention is to block U.S. businesses from supporting or creating technologies that the Chinese military may later exploit.[xl] Nevertheless, the Semiconductor Industry Association (SIA) delivers a slightly different message. John Neuffer, SIA president and CEO, reckons that China is the largest market in this industry: "Our view is that we need to play in that market." He adds that U.S. semiconductor companies need "clear rules of the road" in order to pay attention and make preparations in accordance with what the U.S. government considers a national security problem.[xli] The Hamiltonian pursuit has also caused economic consequences, even among U.S. allies. According to JoongAng Ilbo, also known as Korea JoongAng Daily, Samsung, and SK Hynix have suffered from U.S.-China competition in the semiconductor industry, which led to poor performance in the first quarter.[xlii] Free trade is a key part of globalization and international exchange.

In summary, ideological factors, military strength, and intertwined economic interdependence and decoupling have shaped U.S. policy of FON operations in the Taiwan Strait, of which the end lies in maintaining the status quo in the strait and the global primacy of the country, as well as increasing its economic resilience.

Japan

Japan is sometimes overlooked in the Taiwan problem, but its historical and economic ties with both sides across the strait, its geopolitical location, and its alliance with the U.S. have created a delicate and complicated situation for the nation. Accordingly, Tokyo has developed its own interpretation of the FON in the Taiwan Strait.

Given the geographical proximity, Japan has established historical ties with both sides of the strait, despite discontinuities. These economic and cultural exchanges reached their peak in the Tang and Song dynasties. In the 17th century, Dutch and Spanish colonization and native tribes coexisted in Taiwan, while the mainland went through the Ming and Qing dynasties. The struggles of the Ming-led Zheng Chenggong, also known as Koxinga, and his followers to defeat the Dutch colonialists in the 1660s. During this period, there was little exchange between the Qing court on the mainland and Taiwan, which was ruled by Ming loyalists, resulting in more trade between the island and Japan. In 1683, Zheng Keshuang, grandson of Zheng Chenggong, surrendered to the Qing court, rendering Taiwan under Qing rule.[xliii]

The first Sino-Japanese War was fought during 1894-1895, when the two sides signed the Treaty of Shimonoseki, which ceded Taiwan to Japan and began the period of Japanese rule over Taiwan.[xliv] During this period, people on the island went through a different war experience than the mainlanders, partly because the Japanese colonizers across the strait implemented heterogeneous strategies. Japan regarded Taiwan as its colony: women on the island were forced into sexual slavery; men were recruited as soldiers and sent to other places to fight for the country. For better or worse, based on the colonization period, there remains an affinity between the island and Japan. On the mainland, during the second Sino-Japanese War (1937-45), Japan was a predator, with massacres, biochemical weapons, and other atrocities, including sexual slavery ("comfort women") and human experiments.

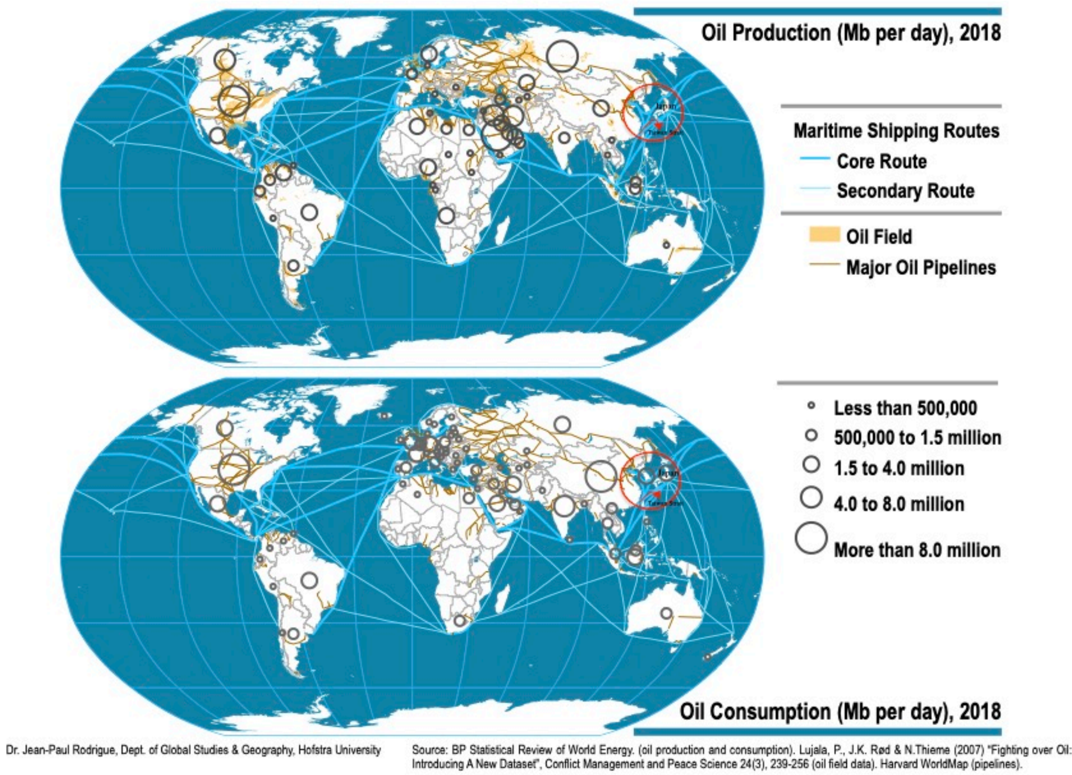
The island of Taiwan was colonized by Japan from 1895 to 1945, during which its local authorities' attitude changed. In May 1895, Tang Jingsong became the last Qing governor of Taiwan.[xlv] Meanwhile, the Qing court signed the Treaty of Shimonoseki to cede the island to Japan. Tang and his followers were disappointed and decided to establish the Republic of Formosa to resist the Japanese, setting the regnal year as "永清" (Yongqing, representing eternal allegiance to the Qing Dynasty).[xlvi] But Tang abandoned the army in Taiwan and fled to the mainland. The republic only existed for seven days. However, Lee Teng-hui, the first "Taiwan-born president" (1988-2000), said that his identity was Japanese when being interviewed by Japanese media about his own historical perceptions and opinions on Tokyo's ties with Taiwan on the 70th anniversary of the end of the second Sino-Japanese War.[xlvii]

Tokyo's current involvement in Taiwan affairs often invokes a highly sensitive response from Beijing partly because of the historical entanglement. The Foreign Ministry Spokesperson mentioned the period of Japanese colonization as a lesson from World War II and warned these figures not to interfere in China's domestic affairs again when commenting on Japanese political figures' visits to Taiwan.[xlviii] Yet, Narushige Michishita, a Japanese security expert at the National Graduate Institute for Policy Studies in Tokyo, holds a different view. Michishita states that many Japanese people, especially younger generations, are not even aware of the country's colonization of Taiwan.[xlix]

In addition to the historical legacy, economic factors have influenced Japan's attitude towards free navigation in the Taiwan Strait and its policy on cross-strait relations. On the one hand, the strait is a key waterway for the country, with an estimated 2,500 Japanese vessels passing through those waters annually. The bulk of Japan's energy imports from the Middle East passes through the Taiwan Strait.

A stable Taiwan Strait serves Japan's economic and energy security interests. AS emphasizes the significance of the strait for Japan: merchant ships from all over the world transit those waters.[l] More importantly for Tokyo, it serves as the main shipping lane between Japan, other Asian nations, and the Middle East. Moreover, the waterway, as Figure 3 shows, is located on the main shipping route for oil to Japan. Even though it is not the only way, three out of ten routes are near the island. If tensions continue to be exacerbated, the strait may become a choke point for Japan's maritime trade and supply lanes. Attendant risks may lead these ships to avoid transit. Jimbo Ken's view affirms this point. He reckons that the freedom of navigation in the strait is essential for Japan's security, not only because of its overseas dependence on oil but also since one key but closed lane via Russia renders the other lane through the Taiwan Strait more significant.[li] Indeed, the Russian invasion has changed the environment for Tokyo.

Figure 3. Global Oil Market 2018



(Source: Geography of Transport Systems)

Economic interdependence is an incontestable reality between Japan and both sides of the strait. In 2021, the mainland of China was Japan's top export destination, and Taiwan (also known as Chinese Taipei) ranked third. Japan was the third export destination for Beijing and the fifth for Taipei.[lii] In 2022, the Chinese mainland and Taiwan were, respectively, the first and fourth trading partners of Japan.liii Except for exchanges of goods, economic interdependence can be seen as a means to ease tensions. Jimbo regards these economic ties as a type of assurance to balance deterrence in order to maintain Japan's dynamic of being ambiguous on cross-strait relations.[liv]

From a larger perspective, the complicated political environment for Japan is composed not only of FON and cross-strait relations, but also involves a vexing territorial dispute over the Senkaku Islands with the Chinese mainland and Taiwan. In the case of the Taiwan Strait, two political factors have shaped Japan's policy in cross-strait relations: pacifist public sentiment in Japan and perceived threats from China.

Japanese public opinion concerning Japan defending Taiwan is negative. According to a survey conducted by the Japan Press Research Institute, 79% of respondents said they are somewhat or very anxious about a possible Taiwan contingency, but 74% stated opposition to the deployment of the Self-Defense Forces to defend Taiwan alongside the U.S. military.[lv] This negative feedback places the government in a difficult position. It is pivotal to notice this sentiment since the hawks have attracted much attention, possibly misleading public opinion analysis.

In recent years, the threat perception of China has grown in Japan. As a neighboring country, Japan has witnessed the single-digit growth of China's defense budget for the 8th straight year. It is also concerned about the increase in the PLA's military capabilities, particularly its maritime forces. The PRC was described as a source of security concerns in Japan's diplomatic bluebook for 2021 and 2022.[lvi,lvii] According to NHK, the 2023 blue book labels China as the "biggest strategic challenge" to the global order based on the rule of law. Yet, the report defines relations between Tokyo and Beijing as "an important bilateral relationship".[lviii] Japan's defense white paper in 2022 delivers a similar message. The report claims that China's military development and activities "lack transparency" and are "changing the status quo with strength" in the East China and South China Seas, important security concerns for Japan and the international community.[lix] The following map illustrates Tokyo's sense of insecurity toward China. In trying to provide an explanation of why China has focused on strengthening its maritime forces, some say China sees Japan as a hindrance to its regional ambitions. This perception is consistent with the above-mentioned official reports. China's Foreign Ministry, however, reiterated in a recent meeting between Chinese and Japanese Foreign Ministers that Japan exaggerates regional tensions and uses Beijing as an excuse to get rid of postwar restrictions and expand Japanese military forces.[lx] Japan sees such statements as nonsense. Despite its growing capabilities, China's standpoint is that its military forces are still defensive.[lxi]

Figure 4. Japan's Understanding of Chinese Strategy of Influence Sphere on Sea

(Source: Toyokeizai Online)

The same logic also applies to FON and cross-strait relations. Japan criticizes mainland China for exacerbating tensions in the Taiwan Strait, with its growing military capabilities and more frequent, even threatening, drills around Taiwan that shattered cross-strait stability. Japan has long emphasized the importance of its version of strategic ambiguity. Such ambiguity helps Tokyo to avoid being entirely entrapped in a contingency between the U.S. and China, but the policy also has resulted in a building up of Japan's deterrence capabilities, making Beijing think twice before considering taking action. As Sheila Smith pointed out in a Reischauer Center webinar concerning Japan-China Relations and the Changing Global Scene, Tokyo must adjust to the regional context of having a strong China. Fortunately, Japan is not unfamiliar with such a situation. The powerful Chinese empire got along well with Japan throughout the Tang Dynasty. Indeed, bilateral socio-economic contacts helped both countries in distinct ways.

In summary, historical, political, and economic factors have long swayed Japan's attitude towards free passage in the Taiwan Strait and its policy regarding cross-strait relations. Japan sticks to a general one-China policy, but with slight differences from its key ally, the U.S. (analyzed below). From a historical standpoint, Japanese colonization of Taiwan up through World War II has created unique linkages with both sides of the strait, making Beijing sensitive to Tokyo's involvement in Taiwan-related problems. For Tokyo, perceived Chinese threats and domestic pacifist sentiment against Japanese engagement in Taiwan's defense jointly contribute to a political situation that complicates national security concerns.

U.S.-Japan Alliance

The U.S.-Japan alliance is an unignorable force in Asia. It originates in the Treaty of Mutual Cooperation and Security signed between the United States and Japan in 1952 and revised in 1960. The treaty commits the U.S. to defend Japan in case of an attack by a third party, and in return, the U.S. is allowed to maintain military bases in Japan. Based on this treaty, the Alliance not only strengthened U.S.-Japan relations during the Cold War, but it also recognized the regional and global scope of the security relationship since that period. The Alliance is founded on shared interests, such as meeting the challenge of a rising China and direct security threats from North Korea. Russia continues to be of strong concern since its invasion of Ukraine. The Free and Open Indo-Pacific, a new regional concept, is also a common interest, although these two countries have differences in their respective concept of open seas, mentions AS.[lxii.]

First, expectations for this alliance have changed. Several interviewed scholars from Japan and China agree that the alliance focuses no longer only on Japan but on the Taiwan Strait, as well. Moreover, AS explains this shift in Tokyo's needs. In the past, Japan relied on U.S. military capabilities to defend against attacks, but it now hopes to play a more active role in the region and cooperate more broadly with Washington and other U.S. allies. Tokyo is unable to conduct military operations outside Japan, making it necessary to enhance its alliance with the U.S.[lxiii] Is Washington ready to embrace a more independent Japan? As it stands now, U.S. policymakers would say yes, due to the strength of the U.S.-Japan alliance. Will a more autonomous Japan fit into the U.S. island-chain strategy? That question may be more difficult for Japan to answer.

The island chain strategy is a strategic maritime containment plan first conceived by U.S. policymakers in 1951 that proposed surrounding the Soviet Union and China with bases. It reflects the lessons learned from the two World Wars and a burgeoning policy of internationalism in the U.S. Taiwan and Japan are key parts of the First Island Chain in East Asia. Even though the target changed after the USSR's dissolution, the U.S. has maintained a long-distance strategy extending from the homeland. During the First and Second World Wars, conflicts that arose distant from the U.S., finally involved the nation, particularly by blocking its trade. Therefore, Washington had to protect its rapidly globalizing security and economic interests. However, it is always easier to intervene earlier than to be forced to catch up later.[lxiv] As a result, Washington reckons that a remote defense line is indispensable. Pillar expresses a similar opinion in his book, Why America Misunderstands the World. Americans' common national experience profoundly affects how they view the outside world, which in turn has a significant impact on U.S. foreign policy.[lxv] Experiences from the two World Wars taught the U.S. a lesson, so it is possible for the country to formulate and implement an internationalist, proactive strategy. From this angle, international involvement is pivotal for U.S. interests in Asia. The First Island Chain, including Japan and Taiwan, serves as a buffer zone that permits Washington to take a leading security role in the region.[lxvi]

Second, Taiwan could affect the unity of the Alliance for the following four reasons. First, Japan has no Taiwan Act or any analogous legislation. Thus, the country cannot fully collaborate with the U.S. in the event of a Taiwan contingency. Second, U.S.-Japan mutual expectations are not clear. Although it is possible to adjust expectations with a public statement, a clearly stated outlook would be difficult to implement because it would ruin the subtlety of ambiguity for both sides. Third, the importance of Taiwan is distinctly different for each country. Both AS and Jimbo contend that a Taiwan contingency is indivisible from Japan's defense. Geopolitical proximity would cause Japan to be automatically involved, and the U.S. military bases in Japan exacerbate Tokyo's dilemma. In short, responding to such a contingency would be a matter of national security. But for the U.S., Taiwan, despite being part of the First Island Chain, would not bring imminent danger to its homeland. Fourth, the main focuses are different. Japan's baseline is regional stability, meaning no violence in the strait. It is ideal to maintain the status quo, but the possible status quo changer may not necessarily be mainland China, as AS notes.[lxvii] Nevertheless, Washington concentrates on "what the United States would need in order to defeat Chinese aggression and how it can address any Japanese concerns".[lxviii] In other words, the U.S. focuses on China and Japan, its ally. The diverse focuses engender different attitudes and action plans between the two allies, creating differences in their version of strategic ambiguity.

In summary, the U.S.-Japan alliance has benefited these two states by reflecting their shared interests, but new expectations have emerged for the alliance and Washington and Tokyo may not see the Taiwan problem in the same way. Japan is often portrayed as a follower of Washington, which has long guided Tokyo through the various iterations of the Alliance. But Tokyo's priority still lies with its own interests, which may not be completely in line with Washington's.

China

Beijing's motivations underlying the FON issue in the Taiwan Strait mainly refer to sovereignty and territorial integrity, two of which Qin Gang, former Minister of Foreign Affairs, stressed during a visit to Germany. He specifically mentioned that the U.S. did not faithfully implement the Potsdam Proclamation even though Washington drafted it.[lxix] Before this trip, Qin met with the U.S. Ambassador to China Nicholas Burns. He emphasized the Taiwan problem and stated that it was a top priority to stabilize the bilateral relationship between Beijing and Washington and that rationalizing the U.S. view on China would be the first step.[lxx] Despite its dissatisfaction, China shows its will to communicate with the U.S.

However, Beijing is still annoyed by three concerns. First, the Taiwan problem is being weaponized by the U.S. to contain China. It sees Taiwan as a strategic asset being used by the U.S. to win the competition with China. Michael Swaine denies this view and warns that it would be a clear violation of the one-China policy and would lead to conflict with China if the U.S. officially took this position.[lxxi] Moreover, the eye-catching possibility that Beijing may resort to force to solve the Taiwan problem is a misperception. According to a think-tank analyst in Shanghai, there is actually no reason to use force until Beijing perceives that the possibility of peaceful reunification is completely zero. The priority for East Asia still lies in development. Second, the Taiwan problem has become more military than political because of frequent arms sales from the U.S. to Taiwan and rhetoric that compares the island to Ukraine. Their legal status and geopolitical locations make these two cases dissimilar. Third, the internationalization of the Taiwan problem worries China. The U.S. involvement in cross-strait relations has existed for decades, but the participation of other states is another concern. For example, Australia has joined the Global Cooperation and Training Framework as a full partner since 2021.[lxxii, lxxiii] In sum, China's concerns have arisen from the perceived weaponization, militarization, and internationalization of the Taiwan problem.

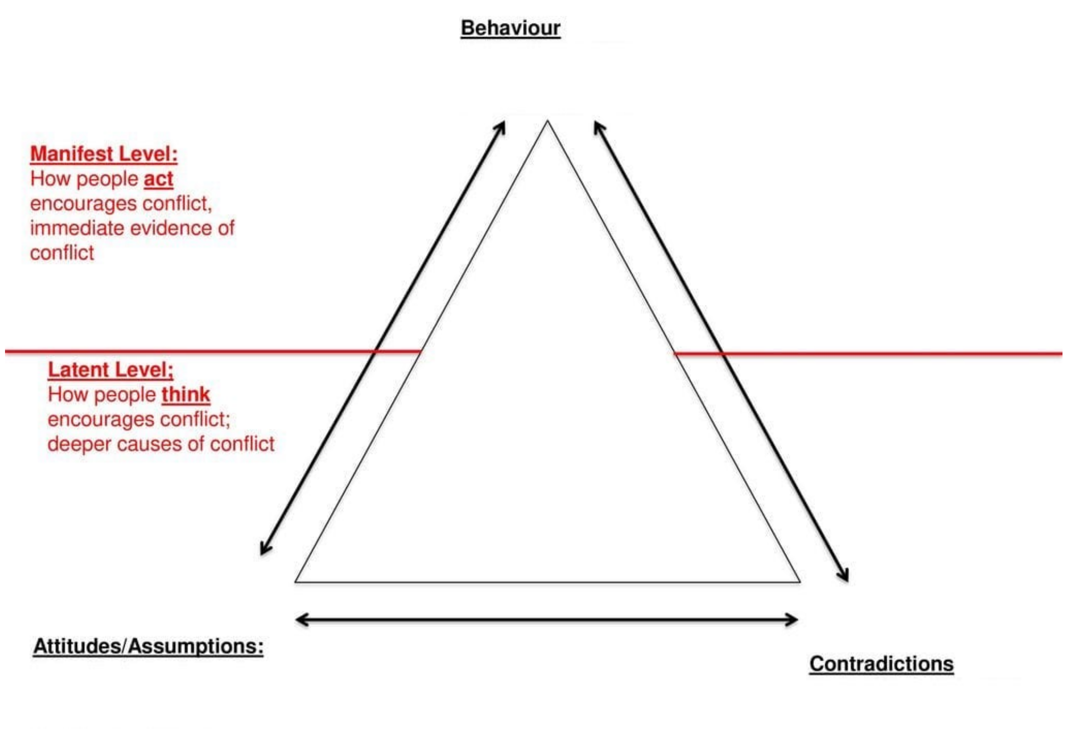
A Step Further: How to Avoid Thucydides Trap?

As David Lampton contends, Taiwan is a symptom of deteriorating U.S.-China relations, so it is impossible to solve the Taiwan problem without improving the bilateral relationship.[lxxiv] As for Sino-U.S. relations, the Thucydides Trap is a hypothesis proposed by Graham Allison to predict the future of these two countries. He borrows Thucydides' view on Athens and Sparta to describe that war between the two powers is likely to occur when the hegemonic position of a major power is threatened by an emerging power.[lxxv] But is it inevitable?

Conflict Triangle

The conflict triangle is an analytic theory that may offer inspiration. Based on Johan Galtung's ABC triangle, a conflict can be broken down into three components: C is the contradiction, i.e., the essence of a conflict; A stands for attitude, in other words, the way each perceives the other; and B represents behaviors.[lxxvi] More specifically, security concerns over national interests constitute the basis of the current conflict.

Figure 5. Galtung's Conflict Triangle



(Source: Modern Diplomacy)

As for attitudes, both Beijing and Washington harshly criticize each other, but they are aware of the considerable consequences caused by the deterioration of bilateral relations. Mutual misperception may be a reason for their attitudes. Heterogeneous evaluations of strategic ambiguity are an example. Scholars from Tsinghua University reckon that Washington is turning from ambiguity to clarity by showing more support for Taiwan. Anti-China sentiment has prevailed in the U.S., which is confirmed by a Pew survey.[lxxvii] Nevertheless, scholars in Washington believe that strategic ambiguity is a proven effective approach to cross-strait stability, and the U.S. is still adhering to it, as Professor Keegan mentions. Moreover, have these misperceptions engendered a new cold war? Before the COVID pandemic, the leaders of the U.S. and China realized that avoiding the Thucydides Trap was a challenge for their countries. Do today's leaders feel the same way? Bonnie Glaser highlighted the likelihood of a "Cold War-type strategic competition" in 2018.[lxxviii] This possibility has been discussed for a long time. As the pandemic is brought under control and related restrictions are reduced, scholars from the two states have had more opportunities for face-to-face exchanges. At a panel discussion hosted by Harvard University in April this year, Yan Xuetong argued that the current competition is not a cold war because ideology is no longer the end aim but an approach to the goal of "technology superiority".[lxxix] In addition, the above-mentioned economic interdependence and possible cooperation on global challenges still bring the two powers together. Both sides are conscious of unbearable consequences and hold a more rational attitude towards the conflict than earlier.

The two sides, therefore, deliver messages to keep communication channels open while continuing to shower each other with criticism. A deeper factor underlying the seemingly paradoxical behaviors is a lack of trust. Recent interactions between high-level officials have striven to send positive signals, but old points of conflict still remain active.[lxxx] The following questions may be asked: How to maintain positive momentum? How to prevent old tensions from being exacerbated? Preventative diplomacy can lead to solutions, as I will argue next.

Preventative Diplomacy

The high cost of managing conflict makes preventative diplomacy crucial, but how to break the existing vicious circle of distrust between Beijing and Washington? I make three recommendations: keep communication channels open, prevent hawks from drawing all the attention, and find a mediator.

First, open communication channels are a prerequisite for a more accurate sense of intentions. Stephen Walt and Robert and Renée Belfer express their concerns over insufficient communication. The progressive breakdown of contact between the two states makes each side more and more isolated in its own illusions and forges a possibly false narrative about its place in the world. Still, both Chinese and U.S. officials show their desire to continue communicating, and Wang Wenbin, China's Foreign Ministry Spokesman, highlights the significance of communication to improve understanding and manage divergent stances.[lxxxi] Top Chinese official Wang Yi and NSC advisor Jake Sullivan met in Vienna May 10-11, 2023, and they both agreed to maintain strategic communication channels.[lxxxii]

Second, it is important to prevent defense hawks on both sides from attracting all the attention. In the past months, strong views could be seen on Chinese social media claiming that pandas are being abused in the U.S., and that Panda Lele at the Memphis Zoo died as a result of poor care. Some even called for a break in panda diplomacy with the U.S.[lxxxiii] In response, the Foreign Ministry clarified that pandas are being well cared for in the U.S. and Beijing is willing to continue such cooperation with Washington.[lxxxiv] Across the Pacific, in April, the Republican Party ran a campaign advertisement that fabricated a Chinese attack on Taiwan, and blamed President Biden -- "the weakest president ever" – for allowing it to happen.[lxxxv] The Democratic Party also has its share of defense hawks. How to balance the messaging so that the hawks are not the only voice coming from Washington is the responsibility of the Biden administration.

Third, a mediator like Japan could contribute to increasing mutual understanding between Beijing and Washington. Tokyo's baseline is the status quo in the Taiwan Strait, and it can play a crucial role in maintaining regional stability and peace if it has the diplomatic will and skills to do so. In this sense, Japan has a certain level of motivation to mediate, at least to ease tensions. Thanks to its longstanding cultural and diplomatic proximity with China and its ally status with the U.S., Japan could take on a mediator role if it wished to do so. But who has the authority and ability to make such a bold approach? Kishida's tough attitude towards China renders this approach dismal for him to initiate. But difficulty does not mean impossibility. In March 2023, China and Japan completed the construction of a direct telephone line for an air-sea liaison mechanism.[lxxxvi] This hotline will enrich mutual communication channels between the defense establishments of both sides, strengthen the ability to avert maritime and air crises, and help further maintain regional peace and stability. The Chinese and Japanese ministers of defense initiated the hotline on May 16th.[lxxxvii]

Conclusion

In conclusion, freedom of navigation is not a notion that is well-defined in international law, leaving room for conflicting interpretations. However, in the Taiwan Strait, actual behavior largely upholds the de facto FON. Although the strait's four players promote free passage, differences exist among them on specific activities, and their opinions are swayed by their own interests. International law is frequently more political than it is actually legal. Through the lens of the FON, the U.S. motivations lie in preserving the status quo across the strait, its global primacy, and enhanced economic resilience. Japan is motivated by its security concerns in the national, military, and economic fields. Thus, the U.S.-Japan alliance needs to coordinate their interests and adjust their expectations. China's sovereignty and territorial integrity are closely related to the Taiwan problem. Among these actors, U.S.-China relations lie at the core of problems around Taiwan. The deterioration of bilateral ties is seen by some scholars as leading to a fateful clash between a hegemon and a rising power, according to Thucydides Trap advocates. Yet, based on an analysis of the attitudes and behaviors of Beijing and Washington, the theory offers a direction for solutions to avoid that trap: preventative diplomacy. To increase mutual trust, it is advised to maintain open lines of communication, avoid letting defense hawks grab all the attention, and seek out a mediator.

This paper also sheds light on the concept of freedom of navigation beyond the Taiwan Strait. Even widely accepted international law is interpreted differently, and in concrete practice, it is not as binding as might be expected. Powerful non-contracting actors or contracting parties have acted according to their own interpretations of the law and national interests, creating friction and defeating the very purpose for which the international law was created. These frictions essentially reflect conflicts of interest among the states[lxxxviii].

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lxxxviii A “spiral of silence” was observed during the interviews for this paper. The spiral of silence is a political science and mass communication theory proposed by political scientist Elisabeth Noelle-Neumann. An individual's perception of the distribution of public opinion affects one’s willingness to express one’s own opinion, which in turn affects the perceptions of others and ultimately the willingness of others to express their opinions. A higher willingness for public expression is shown when people feel their opinions match the strong opinions in their environment. This dynamic works in a spiral as strong opinions become stronger and weak opinions become weaker in society. In other words, one tends not to express one’s view publicly, if the idea is perceived as contrary to prevalent strong opinions. Interviewees refused to be quoted in the paper or requested anonymity when expressing their viewpoints, i.e., weak opinions. The sensitivity and practical relevance of this topic may also be reasons for their concerns. Additionally, this observation can explain an increasing reciprocal demonization, such as the propaganda and disinformation between the U.S. and China, which has contributed to exacerbating bilateral relations (Noelle, Neumann, Elisabeth, The Spiral of Silence: Public Opinion – Our Social Skin. 2nd ed. The Unidersity of Chicago Press, 1993).

The Free and Open Indo-Pacific Concept and Japan's Search for a Role in the Region

By Viola Lingyu Du

Introduction

The Free and Open Indo-Pacific Strategy (FOIP) was introduced by Japanese Prime Minister Abe Shinzō in Nairobi on August 27, 2016, at the 6th International Conference on African Development. It is arguably the most important element of Japan's foreign policy under the Abe Administration. FOIP aims to promote fundamental principles that were created under the postwar rule-based international order by strengthening connectivity between Asia and Africa and throughout the Pacific and Indian Oceans. Abe's message aimed to underline the importance of freedom, the rule of law, and free trade with the goal of realizing a stable and prosperous Indo-Pacific region. Although the vision is meant to be inclusive and primarily focused on development and collaboration, the geostrategic importance of FOIP can be hardly overlooked as the nature of such an initiative deepens the linkage between security and development. With China's increasingly assertive military actions and political influence in the region and growing tensions between the U.S. and China, many observers saw FOIP as a containment strategy encircling China through a network of like-minded nations.

Regardless of the different responses FOIP has received, it is important to note that it is still an evolving concept. From Abe's first time as prime minister in 2006-2007 to Prime Minister Kishida Fumio's renewed promotion of the vision in 2023, FOIP has gone through several stages, from a geopolitical strategy to counter the influence of a rising China, to building ties with vulnerable developing countries in the Global South. Japan insists that FOIP does not aim to contain China. As FOIP develops into a more strategic concept, Japan is faced with a geostrategic dilemma in determining its long-term strategy: It must decide whether to transform its version of FOIP into a more security-oriented initiative similar to the FOIP concept adopted by Washington to counter China, putting Japan more in line with the U.S.'s Indo-Pacific strategy; or, whether to pursue a non-security-focused FOIP strategy that would garner greater political support from a broad swath of countries, particularly those in Southeast Asia. This approach might help avoid tensions with Beijing, but it could raise concerns in Washington about Japan's commitment to collaborating with the U.S. in addressing the increasingly unstable security landscape.

Because Japan does not want to have to choose between the U.S. and China, it could at some point face such a dilemma. This paper, in tackling that potential conundrum, first unpacks the evolution of FOIP and assesses how Japan's middle-power diplomacy has played out within the FOIP framework. Second, this paper discusses Japanese diplomatic efforts prior to FOIP to contribute to maintaining international peace and compares Japan's version of FOIP to similar concepts held by the U.S. and other nations. Third, it evaluates the strengths and weaknesses of FOIP and predicts how it might appear in the future. This paper argues that through fluctuations of geopolitical dynamics in the Indo-Pacific, Japan's vision of FOIP reflects its evolving policy towards the region. That vision is designed to be inclusive and aims to drive international development in the Indo-Pacific. However, given that the U.S. has also adopted FOIP as its regional policy, Japan's close relationship with the U.S. makes it vulnerable to criticism that its FOIP is also a security strategy designed to encircle and contain China. In actuality, FOIP remains a forward-looking concept whose flexibility allows the Japanese government to interpret and apply it In a number of ways that best fit its interests. Although it falls short in implementation, FOIP remains the core foreign policy guiding Japan's changing role in the Indo-Pacific.

The Evolution of the FOIP Concept

FOIP 1.0 – Origins of FOIP Coincide with China's Rise (2006-2016)

Japanese scholar Hosoya Yuichi characterizes FOIP 1.0 as the security strategy the Abe administration introduced in 2007 to respond to the problem of how to deal with a rising China. Although the Japanese government did not officially use the term "Free and Open Indo-Pacific" at the time, it implied that cooperation among democracies in the Indo-Pacific region should become the core of the regional order.[i] During Abe's speech "Confluence of the Two Seas" at the Parliament of the Republic of India in August 2007, he proposed the idea of a "broader Asia":

> By Japan and India coming together in this way, this "broader Asia" will evolve into an immense network spanning the entirety of the Pacific Ocean, incorporating the United States of America and Australia. Open and transparent, this network will allow people, goods, capital, and knowledge to flow freely… as this new "broader Asia" takes shape at the confluence of the two seas of the Indian and Pacific Oceans, I feel that it is imperative that the democratic nations located at opposite edges of these seas deepen the friendship among their citizens at every possible level.[ii]

In this speech, Abe, for the first time, brought up the idea of strengthening connections between the Pacific and Indian Oceans, incorporating the U.S., Australia, and India. He also mentioned key concepts that later appeared in the official FOIP statement, such as freedom, openness, transparency, cooperation, development, and democracy. At the same time, Japan also launched a long-term continental strategy called the "Arc of Freedom and Prosperity" (AFP), which focused on promoting freedom, human rights, and the rule of law "along the Eurasian continent to form a rich and stable region based on universal values."

The AFP was drafted by Yachi Shōtaro, National Security Advisor to Prime Minister Abe, who later became the head of his National Security Secretariat (NSS) and was then Vice-Minister for Foreign Affairs in Abe's first time in office from 2006 to 2007. Yachi, often referred to as "Japan's Kissinger," was part of a powerful trio within the government of Abe and then Foreign Minister Asō Tarō. Their collective objective was to position Japan as a prominent advocate of democracy, human rights, freedom, and the rule of law, both at home and on the global stage. They sought to portray Japan as an influential "Asian thought leader," drawing on the nation's historical triumphs and setbacks to provide guidance and inspiration to other developing countries in the region.[iii]

These initiatives can be seen as a multilateral response to China. Japanese policymakers aimed to actively influence the regional order rather than being passively influenced by China's actions. They held the belief that the United States, India, Australia, and Japan should be the primary actors in shaping the regional architecture because they shared fundamental values like democracy, freedom, and the rule of law, which they deemed essential to establishing a robust regional order.[iv] Consequently, the first Quadrilateral Security Dialogue (Quad) meeting was held between Abe and U.S. Vice-President Dick Cheney in 2007.

At the time, however, both the AFP and the Quad faced significant challenges and did not achieve substantial success. Abe, too, had to resign as prime minister in 2007 for health reasons. From the start, Beijing perceived the call for security cooperation within the Quad as an attempt to encircle China. In response, China sought to weaken this multilateral effort by strengthening bilateral cooperation with Japan and Australia, respectively. Following the resignation of Abe, his successors Fukuda Yasuo, Australian Prime Minister Kevin Rudd, and U.S. President Barack Obama, all prioritized fostering friendly relationships with China over advancing the Quad agenda.[v] Moreover, many ASEAN countries expressed deep concerns regarding the Quad's potential impact on ASEAN centrality. They were wary of any development that could lead to a rivalry between major powers in the region.[vi]

Amicable relations between Japan and China, however, proved to be short-lived. China's increasingly assertive behavior in the South China and East China Seas, exemplified by its severe reaction to Japan's handling of the collision of a Chinese trawler near the Senkaku Islands in September 2010, caused Japan to become more wary of Chinese maritime activities in the area.[vii] This prompted Japan to reevaluate its stance and consider the need for a new approach to address the challenges posed by China. Japanese leaders and their advisors started to revisit the idea of creating a broader regional concept for the Indo-Pacific.

When Abe returned to the Prime Minister's Office in December 2012, he revived the idea of the "Quad" in an article called "Asia's Democratic Security Diamond". He wrote:

> Peace, stability, and freedom of navigation in the Pacific Ocean are inseparable from peace, stability, and freedom of navigation in the Indian Ocean. Developments affecting each are more closely connected than ever. Japan, as one of the oldest sea-faring democracies in Asia, should play a greater role in preserving the common good in both regions. Yet, increasingly, the South China Sea seems set to become a "Lake Beijing," which analysts say will be to China what the Sea of Okhotsk was to Soviet Russia: a sea deep enough for the People's Liberation Army's navy to base their nuclear-powered attack submarines, capable of launching missiles with nuclear warheads. Soon, the PLA Navy's newly built aircraft carrier will be a common sight – more than sufficient to scare China's neighbors.[viii]

In this article, Abe acknowledged China's growing maritime assertiveness, and he pledged to increase Japan's efforts to balance China's influence in the region. As part of this strategy, Abe established the National Security Council in 2013 to consolidate policymaking under his office, and enacted new security legislation in 2015. The new laws allowed the Self-Defense Forces to participate in overseas conflicts under the guidance of "proactive contribution to peace." Japan also prioritized enhancing its defense capabilities and strengthening the Japan-U.S. alliance, as demonstrated by the issuance of new "guidelines for Japan-U.S. defense cooperation" in 2015. Furthermore, Japan actively sought to foster partnerships with like-minded countries such as Australia and India. These security ties have the potential to evolve into military alignments and could serve as an additional dimension of Japan's external balancing efforts.[ix]

Considering the short-lived Quad in 2007, Abe was not sure how the Obama and Gillard administrations would react to revitalizing the Quad idea in 2013. In order to avoid repeating the mistake of rolling out the idea too fast, Abe decided to introduce a concept rather than a concrete diplomatic proposal, so governments wouldn't be forced to take a position immediately. Recognizing that Japan still lacked a framework that would envelop the entire region in a more coherent and inviting formulation than the earlier Arc of Freedom and Prosperity and the newly restored Quad concept, Abe returned to the core geographic features that connected the Quad countries and formed a benign and protective blanket around Southeast Asia—the Pacific and Indian Oceans.

Recognizing Japan's need for a more comprehensive and cohesive regional framework that surpassed previous initiatives like the Arc of Freedom and Prosperity, Abe then turned his attention to the fundamental geographical features that linked the Quad countries and formed a protective network around Southeast Asia – the Pacific and Indian Oceans.[x]

Amidst the fluctuating geopolitical dynamics in Asia, Abe's concepts of the "Confluence of the Two Seas" and "Asia's Democratic Security Diamond" laid out the foundation for FOIP 1.0. While this framework involved international cooperation, it predominantly pursued a competitive strategy towards China. While it faced criticism from other Asian nations for potentially deepening divisions and promoting great power rivalry, FOIP 1.0 experienced a period of flourishing cooperation when Abe and President Xi Jinping reconciled and improved bilateral relations between the two countries.

FOIP 2.0: Period of International Cooperation (2016-2020)

As described by Dr. Jimbo Ken, the Free and Open Indo-Pacific (FOIP) initiative evolved from Quadrilateral security cooperation among key democracies in the region into a broader and more comprehensive regional cooperation. In 2017, the Chinese government sent its first signal since 2012 to the Japanese government about repairing bilateral ties, acknowledging the significance of amicable China-Japan relations as a means of mitigating concerns regarding the Korean Peninsula situation and the Trump administration's foreign policy. The Trump administration's decision to withdraw from the Trans-Pacific Partnership (TPP) and its focus on bilateral trade negotiations had a detrimental impact on joint U.S.-Japan leadership in promoting economic connectivity within the framework of FOIP. As Washington pursued further economic decoupling from China, the escalation of trade tensions between the U.S. and China posed significant risks of creating two competing economic blocs. Japan, as a major export economy, was extensively engaged with China on trade and did not want to suffer collateral damage in the U.S.-China trade war.[xi] As both nations recognized the mutual benefits of maintaining a good relationship, relations began to thaw.

The improvement in bilateral relations began with a shift in Japan's stance towards the Belt and Road Initiative (BRI). In May 2017, Nikai Toshihiro, the Secretary-General of Japan's ruling Liberal Democratic Party (LDP), attended the inaugural Belt and Road Forum in Beijing, carrying a letter from Prime Minister Abe to Chinese leaders. During this period, Abe also made favorable remarks regarding the BRI, signaling a positive change in Japan's attitude towards the initiative.[xii] As of yet, however, nothing concrete in the way of joint projects has developed. In May 2018, Li Keqiang became the first Chinese prime minister to visit Japan in eight years, attending the China-

Korea-Japan trilateral summit hosted by Japan. At the summit, the leaders celebrated the conclusion of the Maritime and Aerial Communication Mechanism (MACM) and signed a China-Japan social welfare treaty.[xiii] In October 2018, Prime Minister Abe paid his first state visit to Beijing in seven years.[xiv] Abe stated in his January 28, 2019, policy speech to the Diet that during his fall visit to China, he and Chinese leaders agreed to establish their relationship on three principles: shift from competition to cooperation under international standards, maintain neighborly relations without posing a threat to each other, and promote a free and fair global trade regime.

The 2019 G20 summit in Osaka served as a remarkable demonstration of successful international cooperation. During this event, there was a notable rapport between Trump and Abe, while President Xi Jinping began to show trust in Abe's leadership. The summit covered a wide range of critical issues, culminating in the adoption of a Leaders' Declaration. This declaration emphasized a collective commitment to addressing key concerns such as technological innovation, economic development, and sustainable growth.[xv]

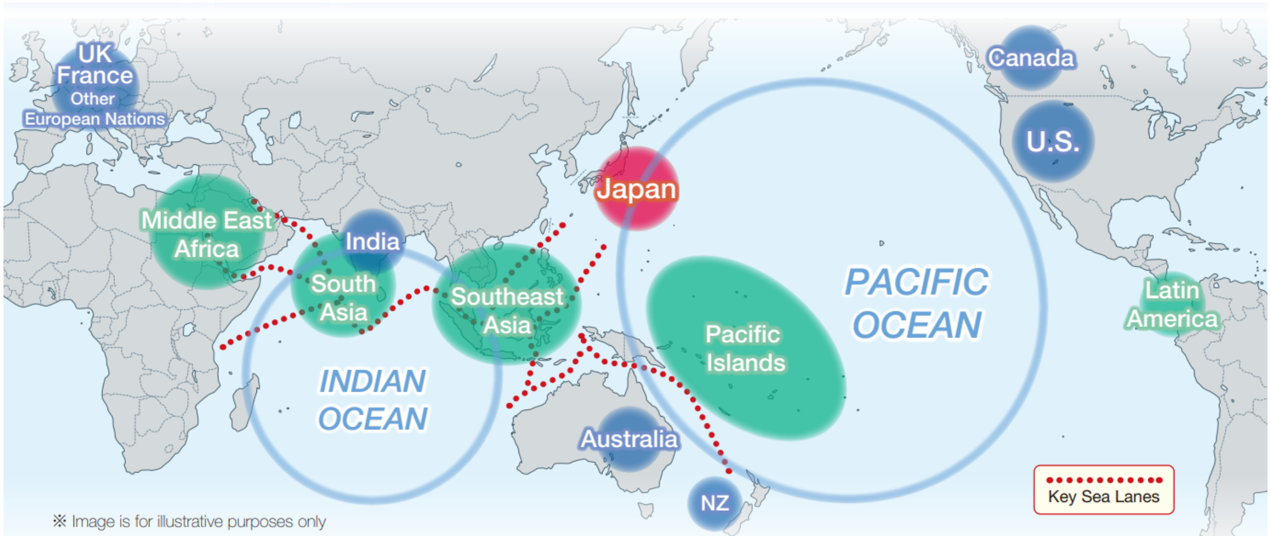
Even during the best of times in U.S.-China relations, however, there were always elements of fierce competition, and the Osaka summit marked the end of the collaborative era. Just as China-Japan ties warmed, starting in 2017, the U.S. National Security Strategy, issued the same year, named both China and Russia as "revisionist powers." The new policy was enforced through diverse channels, including export controls, direct investment control, immigration control, and government procurement. Three weeks before Abe's visit to Beijing in 2018, Vice President Mike Pence made his now-famous remarks on China at the Hudson Institute, bashing Chinese statecraft and its technological policies.[xvi] As Sahashi Ryo pointed out, numerous scholars have contended that the concepts of engagement and partnership are no longer applicable to U.S.-China policy. This shift is not attributed to resentment towards China's particular actions, but rather influenced by a sense of urgency and impatience regarding China's approach to American power.[xvii]

Since the outbreak of the COVID-19 pandemic in 2020, U.S.-China relations have further deteriorated. Japan was caught in the middle again, searching for the delicate balance in-between supporting U.S. security goals in Asia and maintaining good economic ties with China. As Prof. Sahashi stressed, Japan cannot change the reality of growing Chinese military capabilities and activities surrounding Japan's territory in the South China Sea, nor could it decouple from an economically important China. Therefore, it was strategically necessary and economically beneficial for Japan to maintain stable ties between the U.S., China, and itself, a trilateral arrangement that some in Japan argue has helped stabilize regional order in East Asia since the 1970s.[xviii] This approach recognizes the importance of inclusion and persuasion, as well as competition in managing such a relationship. As Ken Jimbo acknowledged, this was when the FOIP initiative became more competitive with China and security-focused, to the detriment of the collaborative projects that marked the pre-COVID-19 period.[xix]

Japan's Efforts to Maintain International Security and Order Since WW2

According to Japan's Ministry of Foreign Affairs (MOFA), FOIP is a vision rather than a strategy, designed to achieve a desirable international order in the Indo-Pacific region. MOFA prioritizes three pillars to achieve its vision: promoting the rule of law, freedom of navigation, and free trade; enhancing economic prosperity through connectivity; and fostering peace and stability through Capacity-Building Assistance (CBA) and Humanitarian Aid. The FOIP concept was designed to be inclusive and welcomes cooperation with any country that supports this idea (Figure 1). This map from the Ministry of Defense uses the color blue to highlight Japan's traditional allies in the Global West and green to show the Global South regions FOIP aims to influence. Interestingly, the map does not indicate China.

Figure 1. The Japanese Ministry of Defense's Depiction of FOIP in 2022



(Source: Achieving the Free and Open Indo-Pacific (FOIP) Vision: Japan Ministry of Defense's Approach, Ministry of Defense, Japan)

In that sense, however, the FOIP concept is nothing new. Since the end of World War II, Japan has followed a path of economic development grounded in modern principles such as the rule of law, liberal democracy, and respect for human rights. Japan has also taken significant steps to promote international cooperation and security. For example, Japan signed the United Nations Convention on the Law of the Sea (UNCLOS) in 1983. Being a nation surrounded by the sea and heavily reliant on natural resources and trade, Japan recognized the crucial importance of upholding the rule of law in maritime domains. Therefore, ensuring the preservation of the rule of law at sea became imperative for safeguarding Japan's maritime rights and interests since the Cold War era.[xx]

In the post-Cold War era, Japan has played an increasingly important role in shaping the liberal order and ensuring international security. Japan's endeavors to promote peace and stability in the Indo-Pacific region have encompassed various initiatives. These include deploying peacekeeping forces to such countries as Cambodia, Mozambique, East Timor, and South Sudan. Additionally, Japan has dispatched Maritime Self-Defense Forces (MSDF) ships to the Indian Ocean and the Middle East, actively participating in counter-terrorism and counter-piracy operations. Furthermore, Japan has undertaken numerous capacity-building measures aimed at supporting the development of countries in Southeast Asia, South Asia, and the South Pacific.[xxi] Since the early 2000s, Japan's relations with such Indo-Pacific countries as India and Australia have grown stronger. Japan established a 'Global Partnership' with India in August 2000, and elevated it to a 'Global and Strategic Partnership' in 2006. Additionally, Japan's relations with Australia have rapidly developed through non-traditional security cooperation such as peacekeeping, non-proliferation, and counter-terrorism efforts since the early 2000s.

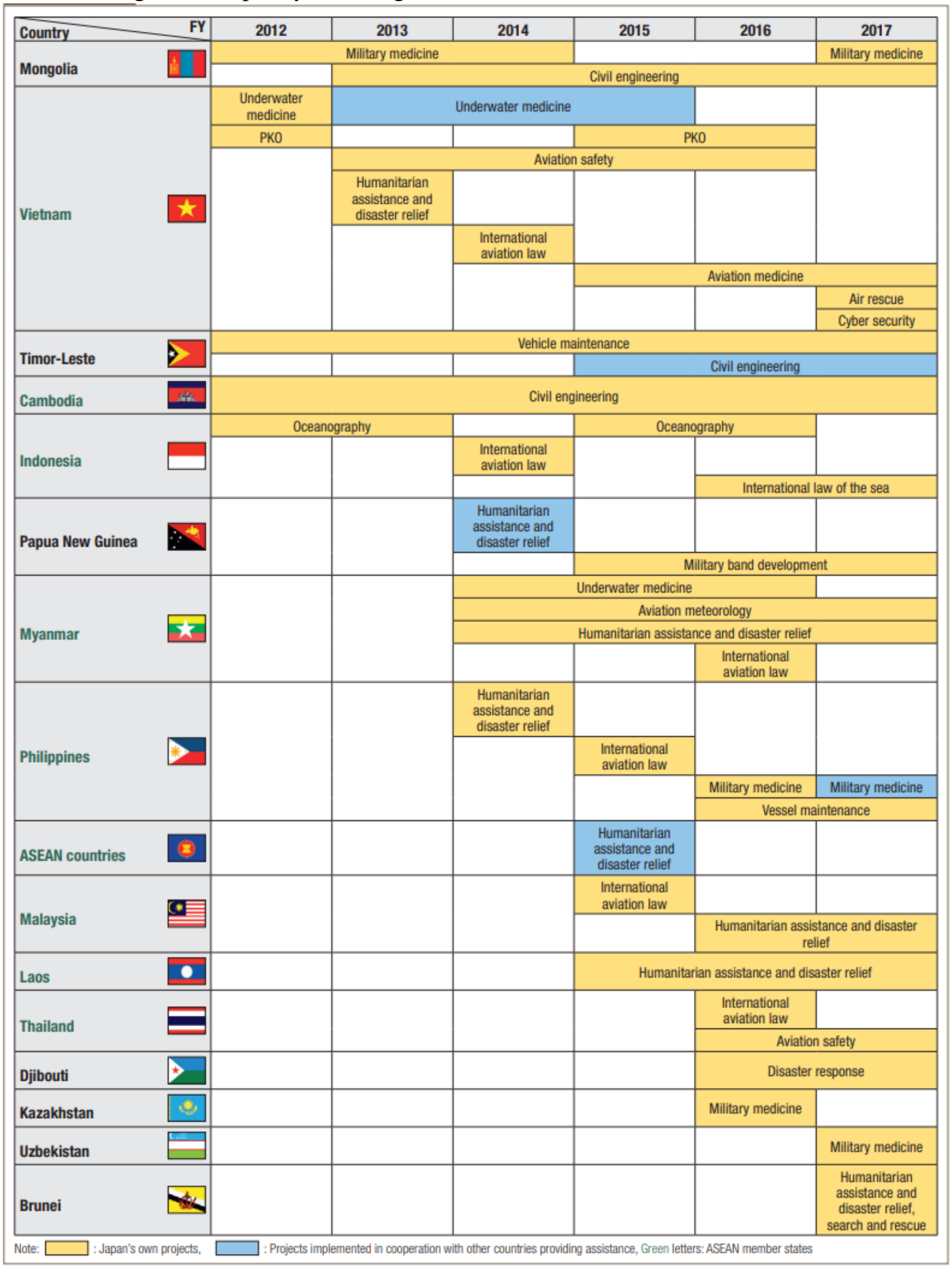
What is New About FOIP? A Vision Rather than Strategy by Design

If FOIP represents a continuation of previous Japanese policy, why is it necessary? The major reason for articulating a new policy was the rise of China and the relative decline of the U.S. as a global power. However, FOIP is not simply a geopolitical strategy to counter China. As Tokyo wishes to engage Beijing on many broad issues, the intensification of U.S.-China competition has made such a policy stance increasingly difficult, especially since China continues to challenge the current international order, or simply put, as Prof. Sahashi noted, U.S. primacy in the region.[xxii] In their article, "The Rise of China and Japan's 'Vision' for a Free and Open Indo-Pacific," Japanese scholars Satake Tomohiko and Sahashi Ryo cited the "Thucydides Trap" theory to describe the current state of U.S.-China relations, while seeking solutions to avoid that trap. As the existing hegemon prevents the rising power from replacing its position through all necessary measures, these scholars propose a way to escape from this trap and avoid a hegemonic war by creating a broader space that can accommodate both the rising power and the declining hegemon.[xxiii] Japan has strived to expand the geopolitical concept from "Asia-Pacific" to "Indo-Pacific" as an attempt to create a broader space in the region. Compared to the Asia-Pacific concept, the Indo-Pacific has far more diverse actors including not only China but also Southeast Asian Countries and Eastern African countries. Even some European countries, such as Britain and France, have shown support for the FOIP vision.

Although the ideas FOIP promotes are nothing new, Japan believes pursuing it as a vision could bring in more regional and extra-regional actors into the fold, potentially leading to a new regional order that is less U.S.-centered. Although the U.S. is still likely to continue playing an important role, other middle powers, such as Japan, India, Australia, and ASEAN countries, will have the opportunity to take greater responsibilities in reshaping the region.

In fact, since 2012, Japan has built and strengthened strategic partnerships in the Indo-Pacific region through such means as extensive capacity-building assistance. The term "strategic partnership" is widely used by the Ministry of Defense in a security context and is designed to proactively create regional stability and improve the global security environment by enhancing the capacity of recipient countries through continuous human resource development and technical assistance in security and defense fields on a regular basis.[xxiv] As Japan aims to enhance cooperation with the Global South more, Figure 2 shows a list of capacity-building assistance activities involving developing countries from 2012 to 2017.

Figure 2. Capacity Building Assistance Activities from 2012 to 2017.



(Source: Defense of Japan 2018, Ministry of Defense)

The 2017 version of FOIP went further in promoting inclusivity. It does not exclude China or Russia, as incorporating them into the FOIP framework is essential to the success of the vision. Therefore, it is safe to say that FOIP remains an inclusive concept, at least by design, whose vision can be shared with many players. Theoretically, no country has to choose between the U.S. and China.

Leadership Within FOIP

Yet, the reality of implementing FOIP is not as simple as it sounds in theory. This inclusive initiative faces significant drawbacks. With more actors in the region, even if they largely agree on the same ideas, it is hard to get a consensus among countries that harbor very different individual interests. Without definite leadership, it is unlikely that effective or concrete results can take place. The important question, then, is which country will take the lead in carrying out this FOIP vision?

I imagined FOIP was an ideal way for Japan to step up to a leadership role and expand its influence in the region, but to my surprise, both scholars I interviewed said Japan's role as a regional leader would be modest and for Japan, leadership was unimportant. Sahashi indicated that because Japan could not compete with either the U.S. or China, it needed to stretch out its capacity and maintain a balance of power favorable to Japan. Sahashi further emphasized that without a U.S. presence in the region, Japan could not lead. What is essential to Japan is to engage other middle powers and encourage their participation.[xxv] For this to occur, Japan requires U.S. cooperation. Jimbo, on the other hand, offered a different perspective on this question. He said that Japan is more likely to take a quasi-leadership role, and he stressed that different countries have very different interpretations of what a "Free and Open Indo-Pacific" means. They could be using the same language, but their emphasis and implications could be vastly different.[xxvi]
For example, the White House version of the FOIP concept is clearly more a strategy than a vision, focusing on investing in democracy and press transparency, international law for seas and skies, and common approaches to critical and emerging technologies, such as cyberspace.[xxvii] Compared to the values-oriented approach the U.S. promotes, Japan has intentionally refrained from using language that conveys such value judgments in its FOIP statements (Figure 3).

Figure 3. Comparison between the U.S. FOIP and Japanese FOIP

Japanese Version of FOIP	US Version of FOIP – Larger Scope
An inclusive version	A security strategy targeting China
Rule-making and norm-setting	Promote liberal values
Infrastructure and capacity-building	Build connections with and beyond the region through QUAD, ASEAN, EU, NATO
Expand our efforts for maritime security	Maintain strong defense presence and integrated deterrence with a focus on innovation
Transnational threats are addressed in the newest remark of FOIP by Kishida	Build regional resilience to combat transnational threats

(Source: Chart made by the author)

Drawing lessons from the shortcomings of FOIP 1.0, where ASEAN countries expressed opposition due to concerns over increased geopolitical rivalry stemming from its value-focused approach, Japan starting in 2017 sought to prevent skepticism and criticism among the regional states. For FOIP 2.0, therefore, Japan refrains from using value-based rhetoric in order to avoid the perception that it intends to establish a regional order that excludes countries with differing values and ideologies, despite sharing liberal values. As a result, FOIP 2.0 focuses more on rule-making and norm-setting.

This is represented by the signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Economic Partnership Agreement (EPA) with the European Union (EU), and the Regional Comprehensive Economic Partnership (RCEP). Compared to the strong security element in the U.S. FOIP, according to Jimbo, the Japanese FOIP puts a strong emphasis on infrastructure- and capacity-building with only a modest role for security. Although capacity-building assistance is frequently used by the Ministry of Defense in its approach to FOIP, the scholars I interviewed believe its role in the security sphere is minimal.
Limitations of FOIP – Other Nations' Perspectives

Still, Japan's efforts to enhance capacity-building in the Indo-Pacific region face significant challenges due to divergent interpretations of FOIP and varying priorities among countries in the region. These countries also have different perceptions of a desirable regional order, and some are modifying their version of FOIP around their relationships with China and the realities of international politics. As a result, integrating the capabilities of all countries is proving to be extremely difficult, hindering the development of a unified regional concept.

For example, in June 2019, ASEAN released the 'ASEAN Outlook on the Indo-Pacific (AOIP)', which reasserted the association's emphasis on ASEAN centrality, internal connectivity, and consensus-based approaches inclusive of China.[xxviii] It does not refer to the necessary measures to build a free and open region. In addition, it lacks a clear and forceful declaration regarding the future of key principles, such as the rule of law, freedom of navigation, and free trade. Instead, it prioritizes increasing its leverage in shaping the regional order and acting as a mediator amidst competing interests in the strategic environment.

Furthermore, as Sahashi pointed out, the Japanese FOIP concept has not gained widespread support among ASEAN countries and other nations in the Global South. These countries prioritize economic development and are often drawn to China's Belt and Road (BRI) projects.[xxix] For example, in November 2019, ASEAN and China issued a joint statement on aligning the Master Plan on ASEAN Connectivity 2025 (MPAC 2025) with BRI, further reinforcing China's role as a partner in strengthening ASEAN's connectivity.

However, although there are some differences between the U.S. version of FOIP and the Japanese version, these differences are too subtle for ASEAN countries to treat them differently. William Choong, Senior Fellow at the Yusof Ishak Institute in Singapore, bluntly wrote that by the second half of 2018, it became an open secret that both the US and Japanese versions of FOIP strategy were meant to target China. The major difference is that Japan has been more restrained about containing China, and the US has become more strident.[xxx] The 2018 National Defense Strategy of the Trump administration depicted China as a "strategic competitor" aiming to disrupt the international order from within. This characterization contradicted the stance of ASEAN and its member states, who have traditionally avoided taking sides in the midst of U.S.-China competition.[xxxi] This raises the question of whether the Japanese FOIP is able to maintain autonomy apart from the U.S.'s FOIP.

India is viewed as having great growth potential and being essential for creating order in the Indo-Pacific region. In 2018, at the Shangri-La Dialogue, India's President Modi reiterated the importance of an open and inclusive Indo-Pacific, and that the Indo-Pacific should not simply be a strategic term. Even so, India later withdrew from RCEP negotiations due to concerns about trade imbalances with China, indicating a reluctance to promote economic liberalization.[xxxii] Due to India's economic ties with China and domestic developmental needs, it lacks the perspective of order-building. South Korea shares the objective of promoting an open and liberal regional order but is cautious about provoking China, having previously experienced China's economic retaliation following the deployment of the US Terminal High Altitude Area Defense (THAAD) on South Korean territory.

In the Future – FOIP 3.0?

All these different considerations and calculations create obstacles for Japan to have concrete plans to implement FOIP. Does this mean that FOIP is merely a symbolic vision? If not, how should Japan maintain the strength of FOIP? Answers may be found in Prime Minister Kishida's March 2023 speech on the future of the Indo-Pacific and Japan's New Plan for Reinvigorating FOIP.

In this speech, Kishida's new stance toward FOIP has an even broader scope than before, with a heavy emphasis on economic development. It aims to broaden cooperation in areas like climate and environment, global health, connectivity, and cyberspace, and create an international order where "diverse nations co-exist without falling into geopolitical competition."[xxxiii] Expanding from FOIP 2.0, Kishida highlighted building economic relations based on trust and the need for rulemaking to prevent unfair development finance. He brought up the phrase "multi-layered connectivity" with an emphasis on Southeast Asia, Northeast India, the Bay of Bengal, and the Pacific Islands region, and reiterated the importance of the positive synergy between ASEAN Outlook on Indo-Pacific (AOIP) and Japan's FOIP. Regarding security, Kishida's updated FOIP expanded its previous focus on the rule of law of the sea to encompass air, as well. Additionally, Japan aimed to facilitate joint training exercises with armed forces from countries such as India and the U.S., as well as goodwill training with ASEAN countries and Pacific Island nations.[xxxiv]

Kishida also outlined Japan's plans to implement this new FOIP. One way is to strengthen diplomatic efforts, expand official development assistance (ODA) in different forms, revise the Development Cooperation Charter, and set guidelines for Japan's ODA for the next 10 years. The goal is to enhance coordination among agencies handling ODA, introduce "offer-type" cooperation tailored to development needs, and establish a framework for "private capital mobilization-type" grant aid to attract investments and support start-ups. Additionally, he mentioned the ongoing deliberation of a draft amendment to the Japan Bank for International Cooperation (JBIC) Law, which aims to encourage private companies to expand in areas like digital and de-carbonization while ensuring economic security by including foreign companies supporting Japanese supply chains in the loan portfolio and enabling investment in startups with overseas operations.[xxxv]

It is interesting to see that although Kishida mentioned a variety of aspects the new FOIP should tackle, the actual methods to promote cooperation all lay in securing a better economic and financial future for the region. In the "methods" section of his speech, Kishida did not mention anything about security cooperation beyond what was already said about joint training exercises in the previous section. It is clear that Japan hopes to broaden its scope to address many transnational challenges and be inclusive of countries in the region. However, by not mentioning China and emphasizing all of China's surrounding regions, Japan always faces the dilemma that as long as it has a security aspect in FOIP, it cannot prevent speculation that it is still a China-containment strategy.

FOIP holds significance in both symbolic and practical terms. As Sahashi put it, it is a "bumper sticker" with some actions. He acknowledged the importance of FOIP as a front-line Japanese foreign policy, as its framing provides a sense of urgency. It helps certain departments get more budget money from the Ministry of Finance. He also admitted that even among Japanese policymakers, there is no consensus on what FOIP really entails, which makes it short on details.[xxxvi] The positive side is that it is designed to be flexible. Under its framework, it can be many things to many people. It can represent a dovish viewpoint, different from the hawkish attitude within the ruling Liberal Democratic Party (LDP). In terms of action, Japan will have to keep ramping up its capacity-building assistance with other nations, trying to strike a regional balance in favor of Japan's interests by incorporating not only Japan's traditional allies but also nations from the developing world. Jimbo shared a similar view in terms of the importance of engaging with the Global South countries. He thinks Japan needs to find a more nuanced way to promote FOIP but acknowledges that the budget is limited.[xxxvii]

FOIP's autonomy is also still in question. As President Biden has continued referring to FOIP, despite the preference among his political advisors for a framework different from President Trump's, the U.S. has largely held on to the Indo-Pacific policy from the Trump era. In March 2021, Biden hosted the first Quad summit via video conference with Prime Minister Suga and his Indian and Australian counterparts. During the summit, significant achievements were announced, such as a plan to supply 1 billion doses of COVID-19 vaccine to developing countries in Asia and enhanced collaboration regarding rare earth metals. Abe's initial proposal for a Quad summit not only returned but also became a focal point in the intricate diplomacy of Asia.[xxxviii] However, the U.S.'s participation and the revitalization of the Quad also meant the security aspect America cares the most about would influence, if not infiltrate, the new FOIP Kishida proposed, making it more difficult for Japan to implement its more inclusive and investment-based version of FOIP.

There are disagreements under the table between the U.S. and Japan. Sahashi highlighted that although Japan wanted to be a loyal partner to the U.S., it was very costly for Japan to follow some aspects of the U.S. strategy, such as rejecting the Chinese company Huawei, as it was a dominant vendor to many Japanese businesses. Lobbying from the business community in Japan also favored a more dovish and pro-collaboration policy.[xxxix] In terms of how to maintain the strength of FOIP, Jimbo thought collaboration was key, and that competition was not helpful. He suggested having more FOIP projects and working actively with China's BRI.[xl]

Conclusion

FOIP represents an important and necessary evolution in Japan's foreign policy approach. Its vision is to create a peaceful and prosperous Indo-Pacific region with increasing connectivity, all within the guidelines of international law for navigation and trade. Its flexible framework further allows for collaboration and inclusivity, guiding Japan's foreign policy conduct while allowing for a range of interpretations and applications.

FOIP has gone through several stages of evolution, going from mostly a China containment strategy that focused heavily on promoting democratic values with the Quad to an inclusive and non-value-based vision aiming at international cooperation and development. FOIP is once again at the center of attention with its broader scope to tackle transnational challenges, such as global health, cybersecurity, and climate change. However, it is inevitable for some to view FOIP through a security lens, perceiving it as an act of balancing power or as a strategy to contain China. While this perspective is not entirely unfounded, it is important to recognize that FOIP's flexibility allows it to be applied in many different ways. Therefore, labeling FOIP as one thing or another is not productive, as it can be used to explain and interpret many of Japan's initiatives and policies. Ultimately, FOIP is a forward-looking approach that seeks to promote peace, stability, and prosperity in the region, and its success will depend on continued collaboration and inclusivity among all stakeholders.

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Divided War Memories Block Sino-Japanese Reconciliation

By Wanxin He

Introduction

East Asia is currently a region with considerable dynamism and growth prospects. However, the heavy burden of history still haunts the relationship between Japan and China, the two dominant powers in the region. More than seventy years after the end of WWII and fifty years after the normalization of diplomatic relations, the two countries have yet to reconcile on the history issue. Relations between Japan and China have been further challenged by regional power struggles and a contentious territorial claim – the Senkaku Islands – but this essay argues that the failure of the two countries to reconcile lies in a divided war memory. War memory is about how we understand and memorize historical events from the viewpoint of the present. It is not just about the need to explore historical truth, but also about the ongoing political and cultural construction of war memory which reflects a country's national identity and its historical viewpoint. Therefore, to find a way to reconcile, it is of great importance to examine the evolution of war memory in both countries. In this essay, I will discuss the changes in Japan and China's versions of war history over time, the historical issues over which Japan and China have disagreements, and why reconciliation between Japan and China has been so difficult.

Japan's Contested War Memory

According to Gi-Wook Shin, "Questions about and legacies of what happened in the past are difficult to deal with, as they touch upon the most sensitive issues of national identity, the formation of historical memories, and national myths that play a powerful role to this day."[i] China believes that Japan has not fully reflected on its responsibility for the war, and Japan's apologies have been undermined by Japanese Prime Ministers paying homage at Yasukuni Shrine, the denial of wartime aggression by Japanese far-right groups, and history textbook revisionism aimed at whitewashing the past. Many Japanese believe that Japan has already apologized sufficiently for the war and atrocities committed. In Japan, the efforts of conservative and far-right political forces to strengthen national identity and pride in the country, coupled with Japan's victim consciousness and the evolution of Japan's position in the international community, together form a complex picture of Japan's war history memories.

During the occupation period from 1945 to 1952, SCAP (Supreme Commander for the Allied Powers) censored Japan's public discourse and played an important role in shaping Japan's early postwar historical memory. The atomic bombs dropped on Hiroshima and Nagasaki marked Japan's defeat in an extremely brutal manner and put an end to Japan's nearly half-century of foreign expansion. The entire country was mentally exhausted, and, in the face of the tremendous effects of the atomic bombings, the prevailing mood was one of defeat and despair.

During this period, the outcome of the Tokyo War Crimes Trials and the handling of the Emperor's responsibility for the war weighed heavily on everyone's minds, and directly influenced the Japanese people's understanding of Japan's war responsibilities. Under SCAP, the Emperor was absolved from responsibility and retained his position as a symbol of national unity. He was never subject to the War Crimes Trials. Still, Japan needed someone to be held responsible for launching aggressive wars, and for most people, the militarists assumed this role. As Philip Seaton points out: "The result was that two closely linked interpretations of war responsibility had emerged as the Tokyo War Crimes Trials drew to a close: the 'damasareta' (we were tricked) and 'shidosha sekininkan' (leaders' responsibility). In this view, the Japanese people were not only victims of the horrors of war but had been victims of their own leadership, with the emperor powerless to curb the military."[ii] The sophistry of the militarists and the enormous trauma caused by the war prevented most Japanese from deeply reflecting on the country's responsibility as an aggressor committing war crimes. Instead, such thinking gave rise to a sense of victimhood.

The outbreak of the Cold War profoundly changed the course of postwar Japan. To resist the spread of Communism, the United States decided to build Japan into a beacon of democracy and liberalism in the Asia-Pacific region. Former enemies became allies, and the United States took a lenient approach to Japan's war responsibility by shifting the focus to Japan's postwar reconstruction. Under the anti-communism policy, left-wing forces in Japan, such as the socialists and communists, were suppressed. Such groups advocated profound reflection on Japan's wartime responsibility. According to John Dower, "The 1949 'red purges' signaled the rehabilitation or 'depurging of wartime politicians and bureaucrats, many of whom later returned to prominent positions in public life.'[iii] For example, Kishi Nobusuke, the grandfather of Shinzo Abe, who was a vice-minister for munitions during wartime and was once a Class-A war criminal suspect, became prime minister in 1957. The fact that many politicians who were directly involved in planning the war were not held accountable and were able to return to politics is closely related to the rise of Japan's powerful right-wing forces in later years. In summary, during the occupation period, the outbreak of the Cold War had a profound impact on domestic politics, hindering a deep reflection on war responsibility during the years of the Occupation and beyond. Many people chose to actively forget the trauma of the war and focus on the peaceful reconstruction of the country and a return to normalcy in their lives. In that context, the feeling that the Japanese were the victims of the war emerged.

In 1952, occupying authorities withdrew from Japan, and sovereignty was returned to Japan. The period from the 1950s to the 1970s was the second phase in the formation of Japan's war memories. In 1955, the Liberal and Democratic parties merged to form the Liberal Democratic Party (LDP), creating the "1955 system" in which the conservative LDP solely ruled for nearly 40 years and the Japan Socialist Party remained the permanent major opposition party. According to Philip Seaton, "The second postwar phase of memory, therefore, is characterized by a swing to the right in the domestic political environment and popular representations of the war".[iv] During this period, without the Occupation's censorship, many conservative memoirs and books were published, beautifying the war with the purpose of liberating the Asian world from the Western colonial system and promoting the heroic actions of Japanese soldiers. At the same time, many books documenting the atomic bombings of Hiroshima and Nagasaki were also published, further deepening Japan's sense of victimhood. It is worth noting that during this period there were also progressive trends, including anti-war and anti-nuclear weapons campaigns. With strong support and financial aid from the United States and international financial institutions like the World Bank, Japan quickly completed postwar reconstruction and achieved rapid economic growth. Driven by its goal of returning to the international community, Japan restored normal diplomatic relations with South Korea and China in 1965 and 1972, respectively. These were major diplomatic achievements for Japan.

From the early 1980s to the late 1990s, dramatic changes in Japan's political and economic environment became the background for changes in Japan's war memory. On the one hand, with the demise of the 1955 system in 1993, two consecutive non-LDP Prime Ministers, Hosokawa Morihiro and Murayama Tomiichi, both acknowledged that Japan's aggressive war and colonial rule had caused tremendous damage and suffering to neighboring Asian countries. On the other hand, during this period, there was an evident revisionist backlash characterized by a movement to revise history textbooks, as well as the further politicization of prime ministerial visits to Yasukuni Shrine, where Class-A war criminals were enshrined. The dispute between China and Japan over historical issues triggered by such visits has continued from the 1980s to the present day.

Yasukuni Shrine is a privately owned shrine in Tokyo where over 2.5 million war dead are commemorated. Founded in the late 19th century by the Meiji Emperor as a war shrine, Yasukuni became the central site for State Shinto activities during Japan's militarist period. It was revived after the war as a private organization, but the shrine only became controversial when the priests there began to enshrine Class-A war criminals in the late 1970s. The Emperor stopped visiting the shrine when he heard of that, but some prime ministers and many LDP members, including cabinet ministers, continue to visit the shrine on special occasions.

One important fact about Yasukuni is that ever since its establishment, it has had both political and religious functions, serving as a memorial site during the war years to build national unity and loyalty to the militarist state and its values. Yasukuni Shrine was established in 1869 to honor the spirits of those who died during the Boshin War (1868-1869) and encourage those alive to continue fighting for the emperor. After WWII, the Occupation reduced the emperor to a "symbol of the unity of the nation." Japan's new Constitution, produced during this time, established the principle of separation of politics and religion. Since then, although Yasukuni Shrine became a private institution no longer funded by the government, it has become a mecca for right-wing thinking, as seen in its revisionist museum that aims to justify Japan's expansionist past.

Until 1975, prime ministerial visits to Yasukuni were a regular occurrence. The visits mainly occurred during the shrine's spring and autumn festivals.[v] The turning point came in 1978, when it was discovered that 14 executed WWII class-A war criminals had been secretly enshrined at Yasukuni. The Emperor, who used to visit before that revelation, never went back again. In 1985, however, Prime Minister Nakasone Yasuhiro made an official visit to Yasukuni Shrine on the symbolic date of August 15, the day of Japan's WWII surrender and South Korea's liberation. What made his visit so special was that unlike his predecessors, he declared that this was an official visit.

Nakasone had been pressured by opposition parties to cancel his planned visit, but he decided to go anyway. His action resulted in unprecedented harsh criticism from China and South Korea. China's Foreign Ministry held a press conference to express its displeasure. What prompted Nakasone to take the political risk of visiting the controversial shrine? At the time, Japan already had emerged as an economic superpower, backed by a rising self-confidence among its conservative groups. They believed that Japan's new status and its shameful history of defeat in WWII were incompatible, and that Japan needed to have a history it could be proud of.

Yasukuni Shrine became the ideal location for shaping a patriotic history. Nakasone faced great pressure from conservative groups including the powerful Japan Association of Bereaved Families, members of which resorted to a large-scale hunger strike demanding that he pay an official visit to the shrine. Such groups had an intimate relationship with the LDP and were often instrumental in electing members of the Diet sympathetic to their causes. Nakasone never went again to Yasukuni, but since then, other prime ministers have gone from time to time. The issue of Yasukuni is as alive today in countries like China and South Korea as it was then. Historical denialism and the glorification of Japan's wartime history have not faded away, as symbolized by Yasukuni and its revisionist museum.

In the 1990s, with the bursting of the economic bubble, rising unemployment, and a stagnant economy, Japan saw a resurgence of historical revisionism. As Philip Seaton notes, "Conservatives were increasingly nostalgic about the war days and economic miracle, when there were clear national missions, every citizen had a role to play, and the hardships were endured as self-sacrifice for the greater good of the nation."[vi] In 1996, the Japanese Society for History Textbook Reform was formed with its agenda to remove from history textbooks such issues as the "comfort women" (World War II sex slaves to the Japanese military) and other facts or events that the organization denied had existed. In 2001, the group's revisionist textbook was approved by the Ministry of Education for junior high school use. Very few schools actually adopted the controversial textbook for use by students, and the approval of the revisionist version faced harsh protests and criticism from progressive groups in Japan and critics abroad.

By the 1990s, with the end of the Cold War, Japan was expected to play an increasingly active and positive role in international affairs. It was thus essential for the Japanese government to make clear statements of apology for its militarist past. Urged by progressive groups in Japan to openly face the past, former soldiers finally began to confess their atrocities during the war. Pressure also built for the Japanese government to make an official statement acknowledging responsibility for the past. In September 1992, Emperor Akihito made a groundbreaking statement during his visit to China: "In the long history of the relationship between our two countries, there was an unfortunate period in which my country inflicted great suffering on the people of China. I deeply deplore this."[vii] In 1993, Hosokawa Morihiro became Japan's first non-LDP Prime Minister to clearly acknowledge that Japan had fought a 'war of aggression' in WWII. During the same year, just before it collapsed, the LDP government of Prime Minister Miyazawa Kiichi issued a statement (the so-called Kono Yohei statement) acknowledging the existence of the comfort women system. Then, in 1995, on the fiftieth anniversary of Japan's defeat in the war, Socialist Prime Minister Murayama Tomiichi (in a coalition government with the LDP) issued a statement addressing Japan's responsibility for the war. It included such words as 'mistaken national policy', 'colonial rule and aggression', and 'deep remorse and heartfelt apology'. Although the cabinets of Hosokawa Morihiro and Murayama Tomiichi did not last long, the LDP never rejected their statements.

In 1996, the Liberal Democratic Party (LDP) returned to power in a coalition government, allowing right-wing forces to exert significant control over the official narrative of the war. Leftist forces after the collapse of the Soviet Union gradually lost control of the narrative as their numbers in the Diet diminished.[viii]

Following the terrorist attacks on the nerve centers of the United States in 2001, the global political agenda revolved around the 'war on terror' and the resulting wars in Iraq and Afghanistan. For Japan, then under Prime Minister Koizumi Junichiro, it was a good chance for Japan to step up to the plate and show itself to be a nation able to play a global security role. Koizumi succeeded in strengthening the U.S.-Japan alliance and increasing Japan's role in international affairs by supporting the "coalition of the willing" and dispatching SDF troops for non-combat activities in Iraq and the Indian Ocean.

Under Prime Minister Koizumi, however, the dispute between Japan and China over war memory issues was further exacerbated by his numerous visits to Yasukuni Shrine. Such violations of the status quo with China and South Korea only fanned the flames of East Asian nationalism. After encountering China's fierce criticism, Koizumi eventually made a concession and chose to visit Yasukuni Shrine on August 13 instead of August 15. In his statement, Koizumi generally followed the Murayama Statement, and expressed 'condolences for those Chinese people who were victims of aggression'.[ix] Just two months after visiting Yasukuni Shrine, Koizumi visited China to ease tensions between the two countries. During the visit, he visited the Museum of the War of Chinese People's Resistance Against Japanese Aggression and expressed a "feeling of heartfelt apology."

Koizumi continued to visit Yasukuni Shrine every year during his tenure, despite repeatedly stating to the international community that Yasukuni Shrine visits were a domestic matter for Japan and that Japan had the right to mourn those who died for their country. It is difficult to believe that paying respects at Yasukuni Shrine, which enshrines Class-A war criminals from World War II, has anything to do with preserving peace, as Koizumi once claimed. Obviously, Koizumi's visits to Yasukuni Shrine undermined previous high-level apologies and made them appear insincere. In 2005, large-scale anti-Japanese demonstrations erupted in China in protest against Japan's bid to join the UN Security Council, which was directly related to the anti-Japanese sentiment caused by Koizumi's visits to Yasukuni Shrine.

After Koizumi, Abe Shinzo served twice as prime minister, becoming the longest serving in office from 2012 to 2020. His one visit to Yasukuni Shrine in 2013, and his record as a historical revisionist, exacerbated the historical perception dispute between China and Japan. More than half a century after the end of the war, the upbringing and experiences of the new generation of Japanese politicians, represented by Abe, significantly differ from those of the politicians who personally experienced the war in Japan. According to Nakano Koichi, "As they build their political careers in the post-Cold War era and while the neoliberal norm was quickly gaining ascendancy, their worldview, as well as their understanding of history, were bound to be different from the earlier generation."[x] Abe was born in the postwar period and allied himself with historical revisionists early in his political career. In 1997, Abe and other young right-wing politicians established a parliamentarian group that aimed to nurture patriotism among young Japanese through revisionist textbooks. The group focused on trying to remove references to atrocities committed by the Japanese military such as the Nanjing Massacre and the comfort women issue from school textbooks.

As Michael Mochizuki states, “In his book entitled Toward A Beautiful Country, Abe criticized the Tokyo War Crimes Tribunal and argued that Japanese Prime Ministers should not hesitate to go to the Yasukuni Shrine.”[xi] In 2013, when Abe paid a sudden visit to Yasukuni Shrine, even the U.S. Embassy in Tokyo expressed its ‘disappointment’ with the visit.

In 2015, Abe issued a statement on the 70th anniversary of the end of WWII, which can be seen as a lens to examine how he promoted an agenda of reconciliation with countries affected by the war. With the aim to issue a statement that reoriented Japan's foreign policy towards a forward-looking trajectory, thereby eliminating the necessity for repetitive apologies, Abe commissioned a sixteen-member advisory panel to assist him in the formulation of said statement. The panel had disagreements on whether to use ‘aggression’ or not. Abe himself wanted to avoid using the term "aggression," but in the final official statement, Abe only vaguely mentioned ‘aggression’ without explicitly stating it, unlike the Murayama Statement’s clear acknowledgment of ‘aggressive war’ and ‘colonial policy’. What is particularly noteworthy in Abe’s statement is that he mentioned “We must not let our children, grandchildren, and even further generations to come, who have nothing to do with that war, be predestined to apologize.”

What was the driving force behind Abe’s relentless efforts to rewrite Japan’s wartime history? He wanted to see a ‘truly independent’ Japan. For Abe, the post-war pacifist constitution was seen as humiliating and hindered Japan from exercising sovereignty as a normal nation. According to Tamamoto Masaru, “Abe sees the post-war constitution as the ultimate symbol of victor’s justice, as punishment for Japan’s wartime transgressions, and he is incapable of letting that be and moving on.”[xii] So, basically, Abe’s agenda was a part of his ambition to amend the Constitution, especially Article Nine, which renounces war and limits Japan’s self-defense capability. To become a normal country with constitutionally recognized armed forces, patriotism must be cultivated among younger generations so that they are willing to fight and even die for the country. A shared glorious history serves as the best tool to instill patriotism, and that is why school textbooks were revised to educate younger generations to be proud of their country’s history and get prepared for potential war.

For Abe, nationalism could serve as a unifying force, rallying people around a shared sense of national identity and pride. Faced with a territorial dispute with China and fearing North Korea’s existential threat and China’s military expansion, Abe successfully had the Constitution reinterpreted to allow limited collective self-defense and enhance the alliance with the U.S. He also promoted a revisionist historical narrative, allied with right-wing political forces revising Japan's sense of wartime responsibility, and acknowledged wartime atrocities.

China’s Perspective: Changing Narrative about the War

In order to achieve reconciliation between Japan and China, it is important to probe into the differences between the two countries. Just like Japan, China’s war memory and official narrative about the war has changed over time. However, what differs is that, throughout different historical periods, China's war narrative has always served the political objectives of the Chinese

Communist Party (CCP). According to Yang Guobin, “In China, the Communist Party has struggled to sustain a ‘memory regime’ that determines which memories are acceptable and the narrative into which they fit.”[xiii] I will divide Chinese war memory evolution into three different periods and examine how it is mobilized to strengthen CCP’s political legitimacy and influence Sino-Japanese relations.

During the first period from the end of the war to the 1980s, the official narrative focused on the Chinese Communist Party's successful leadership in the Chinese people's resistance against aggression, rather than emphasizing the atrocities committed by the Japanese military. From Mao Zedong's strategic perspective, he viewed Japan as a potential ally and believed that maintaining good relations with Japan could help balance against the Soviet Union. In 1954, Premier Zhou Enlai told visiting Japanese Diet members: “The history of the past sixty years of Sino-Japanese relations was not very good. However, it is a thing of the past, and we must turn it into a thing of the past. Moreover, we cannot let such history influence our grandchildren.”[xiv] When China was about to normalize relations with Japan in the early 1970s, Chinese scholars and filmmakers were not allowed to produce anything harmful to Sino-Japanese relations. In 1978, China reached a significant turning point as it successfully resolved its political turmoil. Deng Xiaoping, the newly appointed leader of the nation, made the strategic decision to prioritize economic development as the cornerstone of China's socialist construction. Given its shared affiliation with the East Asian cultural sphere, Japan undoubtedly emerged as an ideal partner for China's endeavors in opening its economy to the international arena. Following the signing of the Treaty of Peace and Friendship with Japan, Deng Xiaoping embarked on a visit to Japan in 1979, where he delivered a message of discarding historical burdens and fostering a mutually beneficial and friendly relationship between China and Japan.

In summary, before the normalization of Sino-Japanese relations in 1972, China's war narrative did not focus extensively on the atrocities committed by the Japanese military during the war. When conducting historical education for the public, there was often a dichotomy between the military and civilians, portraying most of the Japanese population as good, with only a small number of right-wing militarists being responsible for aggression and war. In the honeymoon period of Sino-Japanese relations, Chinese leaders often emphasized the need to let go of historical hatred and look forward. This approach served the political objective of maintaining a good relationship with Japan and accepting economic assistance such as ODA.

The second phase spans the 1980s to 2012. During this period, many of Japan's wartime atrocities gradually became known to the Chinese people as the two societies became closer due to exchanges, and television and other forms of media were developed in China. Many grassroots organizations emerged, demanding accountability and compensation from Japan for its wartime atrocities. During this period, a shift in China's official war narrative began to take place, closely intertwined with the country's domestic political changes. According to Walter F. Hatch, “As the ‘iron rice bowl’ cracked, transforming fabled proletariats into market-vulnerable precariat, communism began to lose its ‘stickiness’ as an ideological glue binding the Chinese people to the party.”[xv]

The Chinese people have always been adept at learning lessons from history, and one lesson they have learned from China's history of being invaded since the mid-19th century has been widely summarized in China in this concise phrase: "The backwardness leads to bullying and humiliation." For Deng Xiaoping, this was an excellent slogan to mobilize the country to devote itself to the modernization campaign. So, the official war narrative, including Patriotic Education at this period, not only stressed the heroic fight of Chinese soldiers, but also the ‘bullying and humiliation’ of Japanese forces during the war. The Memorial Hall of the People's War of Resistance Against Japan was founded in Beijing in 1987, while the September 18 History Museum in Shenyang was established in 1992, as part of a widespread effort across the country to construct museums and memorial halls dedicated to commemorating the war, serving as strongholds for patriotic education.

The third phase, starting in 2012, should be seen in the context of rising nationalism in China, China’s military expansion, and the ongoing territorial dispute with Japan. Xi Jinping came to power as president in 2012 with a new political vocabulary, such as the ‘Chinese Dream’ and the ‘Great Rejuvenation of the Chinese Nation.’ To strengthen control by the CCP and solidify his own political legitimacy, Xi wanted to convey to the Chinese people that the CCP had successfully led the Chinese people in resisting aggression and would undoubtedly “lead the victory of the Great Rejuvenation of the Chinese Nation.” This highly nationalistic slogan was consistent with China’s firm stance on the Taiwan Strait issue and the territorial dispute over the Senkaku Islands with Japan. To unite the country ideologically and instill patriotism in younger generations, the CCP’s victory and the atrocities committed by the Japanese military were emphasized to an unprecedented extent. In 2014, the Chinese National People's Congress designated September 3 as Victory over Japan Day and established a National Commemoration of the Nanjing Massacre on December 13. As Daqing Yang stated, “The Day of National Commemoration of the Nanjing Massacre was a completely new designation, underscoring the importance attached to this most publicized instance of Chinese wartime suffering.”[xvi] China’s celebration of the 70th anniversary of the end of WWII served as an example to examine what Xi wanted people to remember. Xi’s statement saw the war as a victory for the entire Chinese nation, affirming the contributions of the Nationalist Government (KMT) during the war with Japan. Under Xi’s leadership, China's war memory has been unified, emphasizing the war as a form of resistance against Japan’s aggression. The Chinese people were urged to never forget the suffering and to follow the leadership of the Chinese Communist Party to achieve the great rejuvenation of the nation.

The Difficulty of Reconciliation

According to Yaacov Bar-Siman-Tov, reconciliation is "the re-establishment of friendly and harmonious relations between the opposing parties following the resolution of a conflict, or the transformation of relations of hostility and hatred between the parties into relations of friendship and harmony."[xvii] More than fifty years had passed since China and Japan normalized their relationship. However, the history issue still haunts Sino-Japanese relations. I will next analyze this question from the historical background and current political dynamics.

The first aspect that makes Sino-Japanese reconciliation difficult is the legacy of the San Francisco Treaty and the Tokyo War Crimes Tribunal. The Tokyo War Crimes Tribunal, led predominantly by Western nations, prioritized examining Japanese atrocities that had a profound impact on the Western allies. These included Japan’s audacious assault on Pearl Harbor, as well as the inhumane treatment endured by Allied prisoners of war at the hands of Japanese forces. On the contrary, Japan's war atrocities in Asia were not fully addressed, including the Nanjing Massacre, the forced labor issue, and the use of chemical weapons. More importantly, the 'comfort women' issue was not even known at that time. Emperor Hirohito was absolved from war responsibility, and, while many war criminals were executed, some war criminals were given lenient sentences or even exempted from responsibility. In sum, Japan failed to fully reflect on its war responsibly upon the end of the war, blaming the militarists in charge, and the victims' suffering in China was not addressed by the tribunal.

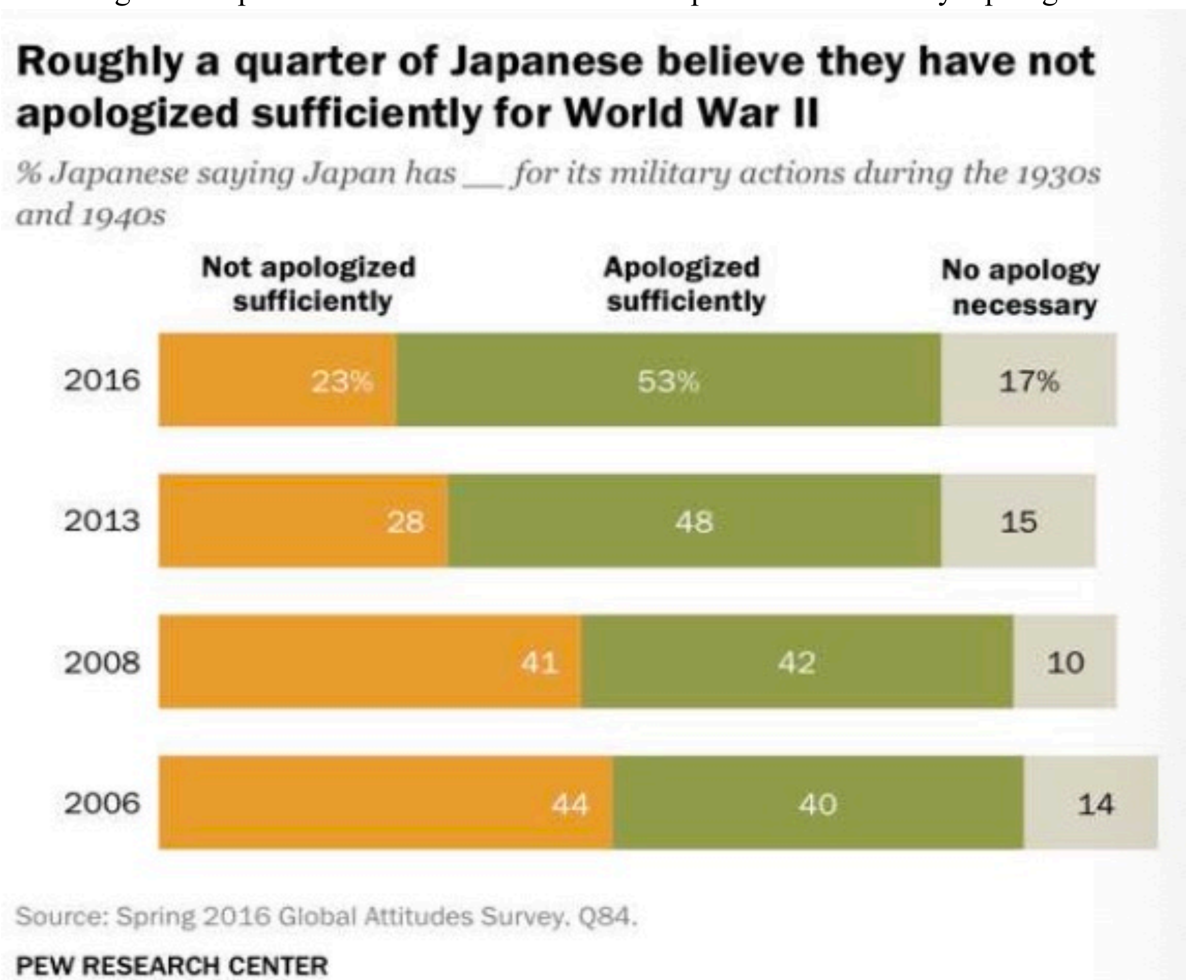
Despite its purpose of formally establishing peace between Japan and the Allied Powers, the San Francisco Treaty bore the irony of excluding the participation of both the governments of Korea (ROK/DPRK) and China (PRC/ROC) in the peace conference. Consequently, this omission directly contributed to a multitude of unresolved problems. The issue of sovereignty over the Senkaku Islands is one of those unresolved problems, and with the unfolding of the Cold War, the waters around the Senkaku Islands were treated as a strategically important military buffer zone. Entering the 21st century, the territorial disputes between China and Japan have continued to impact their bilateral relations. The nationalist sentiments arising from these real and unresolved issues have hindered the momentum for both sides to address historical issues. As a result, achieving reconciliation between China and Japan has become even more challenging.
Furthermore, whenever Japan invokes the San Francisco Peace Treaty to assert that all its wartime responsibilities issues of compensation have been fully resolved, China and South Korea often argue that they did not participate in the San Francisco Peace Treaty and therefore the treaty lacks international legal validity for them. This allows their respective populations to continue pursuing claims against Japan. The issue of comfort women and forced labor, which has prompted South Korea to seek compensation from Japan, stems from unresolved wartime matters between Japan and its two deeply affected Asian neighbors. These issues were not addressed by the San Francisco Peace Treaty.

The second reason that makes reconciliation difficult is that China and Japan have already missed the optimal period for reconciliation. As memories of the war fade away, in both China and Japan, memory will be more likely to be shaped by postwar politics and culture, making it more difficult for the two countries to reach a shared understanding and an agreement on historical issues. The participants in the reconciliation process should be the generation that directly experienced the war. However, the Cold War deprived the people of both countries of nearly two decades of opportunities for mutual exchange and understanding. Under the influence of limited communication, China and Japan developed different narratives about the war. This divergence was not promptly addressed to foster mutual understanding but, rather, was undermined by the confrontation during the early Cold War and the eagerness to maintain a good relationship after diplomatic normalization.

In the post-memory era, the leaders of both countries who grew up in the post-war period did not directly participate in the war, nor did the majority of people in the two countries. Their memories of the war were often shaped by political propaganda and textbook education. As mentioned above, different official war narratives shaped different war memories. In China, the Patriotic Education Movement, initiated in the 1980s, reached new heights under the leadership of Xi Jinping. Generations of young people are educated never to forget the sufferings and sacrifices of their ancestors. Currently, many Chinese people have become highly sensitive and nationalistic regarding historical issues with Japan. This sensitivity hampers their ability to objectively understand the historical truth. Unlike China, younger generations of Japanese may feel no responsibility for the war and thus do not need to apologize for the aggression committed by their ancestors. This is consistent with Abe's statement on the 70th anniversary of the end of WWII: "We must not let our children, grandchildren, and even further generations to come, who have nothing to do with that war, be predestined to apologize."[xviii]

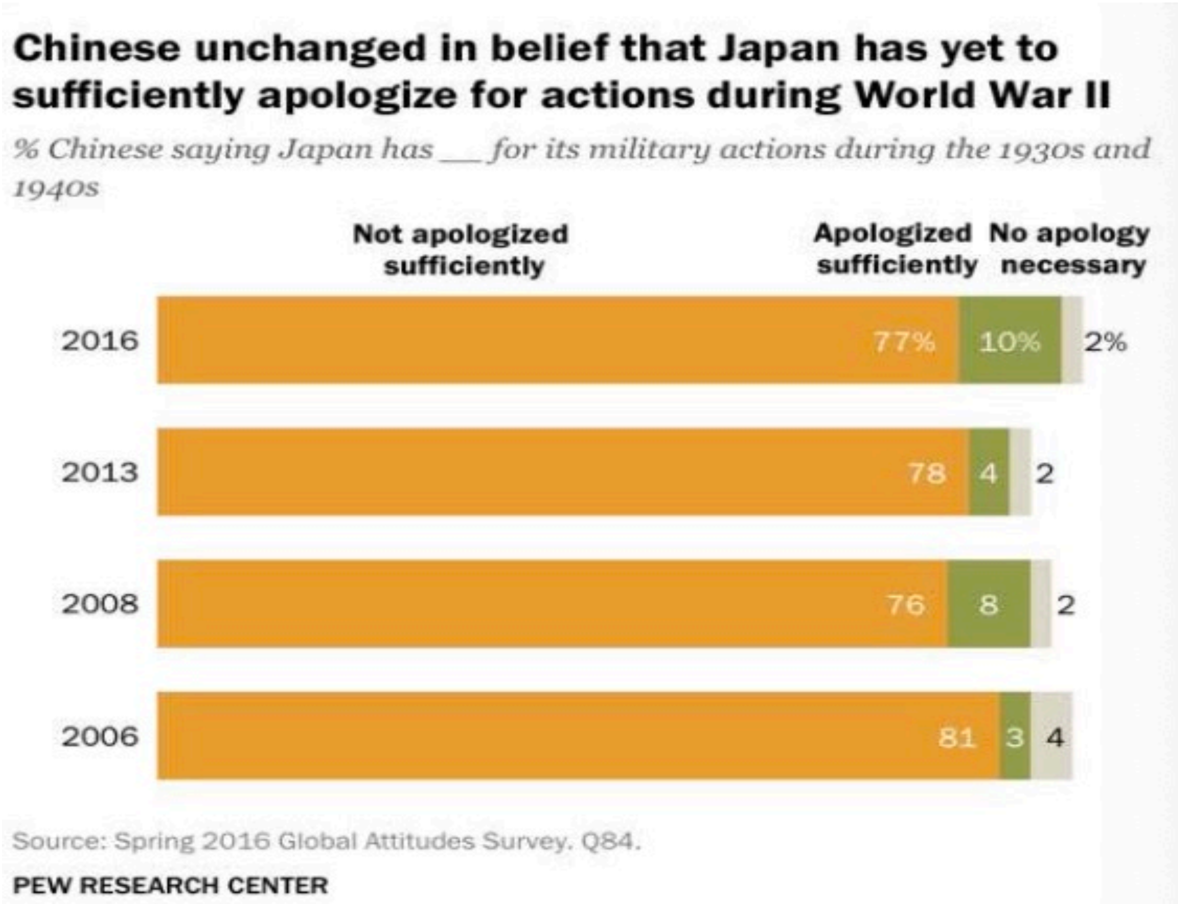
Through Figure 1 and Figure 2 below, we can clearly see how these different war narratives affect people's attitudes about whether Japan has apologized sufficiently.

Figure 1. Japanese Attitudes About Whether Japan Has Sufficiently Apologized



(Source: Spring 2016 Global Attitudes Survey. Q84 Pew Research Center)

Figure 2. Chinese Attitudes About Whether Japan Has Sufficiently Apologized



(Source: Spring 2016 Global Attitudes Survey. Q84 Pew Research Center)

The third reason that makes reconciliation difficult is unfavorable external factors. The success of reconciliation efforts requires favorable external factors, such as common security interests and regional economic integration. Although China and Japan share the same economic interests due to economic interdependence, the two countries' security strategies are at odds. In terms of security, Japan's legal alliance with the United States is perceived by China as an attempt to hinder its rise as a regional or even global power. Beijing is growing increasingly concerned about the U.S.-Japan defense guidelines, alongside Japan's policy of 'collective self-defense'. With China's tough stance on the Taiwan Strait and military expansion, Japan is increasingly worried about a regional contingency, with an eye on the Russia-Ukraine crisis. In its newly released National Security Strategy, Japan states that now is "the most severe and complex security environment since the end of WWII"[xix]. The strengthened military alliance between Japan and the United States, coupled with China's military expansion, significantly increases instability in the security realm. This dynamic is not conducive to the reconciliation of historical issues between Japan and China.

Conclusion

In summary, Japan's ability to face its past has never been as forthcoming as Asian victims of the war have demanded. Japanese society itself has long been divided over accepting war responsibility, over the very narrative of its wartime as seen in history textbooks, and even over whether to visit Yasukuni Shrine, where war criminals are enshrined. In the background, and sometimes foreground, have been rightist politicians and groups eager to revise history. While China's war memory has always served political goals, its current highly nationalistic narrative, together with the lingering territorial disputes and different security concerns with Japan make Sino-Japanese reconciliation difficult. However, just as regional integration in Europe has facilitated reconciliation among European countries, we should recognize the strong impetus for China and Japan to achieve reconciliation through regional integration in East Asia. To create favorable circumstances for reconciliation, the leadership on both sides should not sacrifice efforts to reach a common historical understanding. Moreover, dialogue between the two countries is needed in order to facilitate mutual understanding of history based on objective factual narratives and to eliminate bias and hostility.

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A Pragmatic Decoupling: Japan-Russia Relations in 2023

By Devin Woods

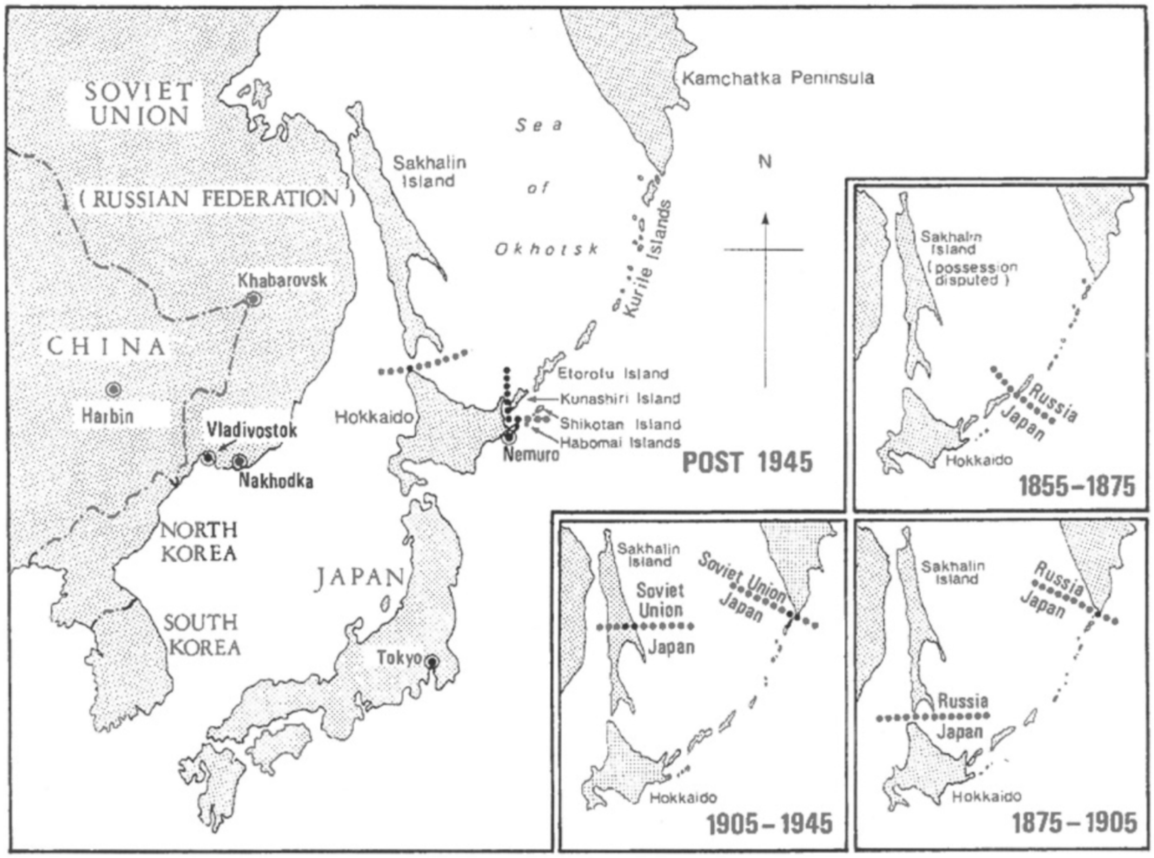
Introduction

After years of false hopes, the Japan-Russia relationship has taken a turn for the worse since 2020. On the one hand, the two countries have much to offer each other. They are close neighbors, with the shores of Russia's Sakhalin Island visible from the northern tip of Japan's Hokkaido on a clear day. Japan could achieve its long-term goal of energy security in part by importing Russia's abundant Arctic oil and natural gas. Russia could strengthen the long-depressed Siberian economy, and gain long-sought recognition as a great Asian power, by integrating its economy and increasing personal ties with its Japanese neighbors. Yet, the relationship has been fraught with tension for decades. Since Russia seized four islands northeast of Hokkaido at the end of World War II, Russia and Japan have been locked in a bitter territorial dispute. This dispute prevents the two nations from signing a formal peace treaty to end World War II, and limits both tangible economic cooperation and intangible personal ties between the two.

For years, Japanese and Russian leaders hoped that these disputes might give way to productive relations. As recently as 2019, Prime Minister Abe Shinzo met with President Vladimir Putin in an attempt to convince Putin that it was mutually beneficial for Japan and Russia to reach a compromise. As of 2023, Abe's attempts appear to have failed. After Russia's 2022 invasion of Ukraine, Japan leveled unprecedented new sanctions on Russia, while Russia escalated its militarization of the disputed Northern Territories and formally withdrew from negotiations to resolve the dispute. All four experts whom I interviewed for this paper agreed that under these circumstances, it is highly unlikely that the territorial dispute will be resolved during the lifetimes of any of the key players involved. I argue, therefore, that Japan should acknowledge that Japan-Russia relations are a lost cause. Rather than expend resources on further negotiations, I recommend that Japan initiate a pragmatic two-step decoupling from Russia. First, Japan should give up all attempts to regain its Northern Territories or proceed with Japan-Russia peace treaty negotiations. Second, Japan should gradually shift away from using Russian energy, prioritizing increased energy imports from nations such as Canada to maintain its goal of energy supply diversity. If Japan takes these steps, it will be in a better position to expend resources on mutually-beneficial relations with other Indo-Pacific powers.

The Northern Territories Dispute and Japan-Russia Peace Treaty Negotiations

Figure 1: The Evolution of the Japan-Russia Border



(Source: Hara, Kimie. A History of Russo-Japanese Relations. Brill, 2019. pp. 559)

Territorial Agreements 1855-1961 and Their Modern Relevance

The First Japan-Russia Border

To demonstrate the insoluble nature of the Northern Territories issue in 2023, it is first necessary to show how the nature of the dispute has shifted over time. This is because modern Japanese and Russian diplomats rely heavily on past precedent. Before the 1850s, Japan and Russia had no formal relations[i.] Russian leaders since Peter the Great tried and failed to establish a permanent presence in Siberia[ii.] Japanese leaders since 1639 forbade Japan from establishing most relations with outside countries, during a long period known as Sakoku, or 'closed country'[iii.] As a result, no official border existed between Japan and Russia during this time, and the countries experienced limited mutual contact. By the middle of the 19th century, this situation became unsustainable. In the 1840s, Russian leaders began surveying Sakhalin Island, just north of Hokkaido, for development, even though Japan previously declared rule over the same territory in 1798[iv]. Simultaneously, Japanese leaders were forced to reevaluate the coherence of Sakoku, when US Navy Commander Matthew C. Perry arrived in Japan with a fleet of "black ships," and forced Japan to open to trade with the outside world, or face imminent invasion[v]. Japanese leaders realized Russia could encroach upon Japanese territory at any moment. To offset Russian territorial advances, Japan began rapidly developing Hokkaido, a northern island sparsely inhabited by the

Ainu ethnic group[vi]. Then, Russian Admiral Euphimy Vasil-evich Putianin sailed to Japan and demanded the establishment of formal Japan-Russia trade relations. As part of the negotiations, the two nations signed the Treaty of Shimoda, the first Japan-Russia treaty, in 1855[vii]. This treaty established the first formal Japan-Russia border, giving Russia control of all islands north of Etorofu and south of the Siberian Kamchatka Peninsula. Japan was granted control of the four islands directly northeast of Hokkaido (Kunashiri, Shikotan, Habomai, and Etorofu)[viii]. Japan's Cabinet Office and Japanese legal scholars still maintain this division of territory, to the present day, citing the Treaty of Shimoda[ix]. The Treaty of Shimoda also left the territorial division of Sakhalin Island ambiguous, with both Japanese and Russians permitted to inhabit and develop the island.

The Treaty of Saint Petersburg (1875) and Subsequent Border Adjustments

By 1875, both Japan and Russia were unable to uphold the 1855 arrangement regarding Sakhalin Island's neutrality. Frequent disputes occurred between the Japanese, Russian, and Ainu people living on the island, and Japan and Russia agreed that the island should be ceded to one nation or the other[x.] In 1875, Japan and Russia signed the Treaty of Saint Petersburg. This treaty stipulates that Sakhalin Island would be ceded to Russia, while the Kuril Island Chain would be ceded to Japan[xi]. Unlike the Treaty of Shimoda, the legally binding version of the Treaty of Saint Petersburg was written in French. The French version of the treaty states that:

"Sa Majesté l'Empereur de toutes les Russies, pour Elle et Ses héritiers, cède à Sa Majesté l'Empereur du Japon le groupe des Îles dites Kouriles qu'Elle possède actuellement avec tous les droits de souveraineté découlant de cette possession, en sorte que désormais ledit groupe des Kouriles appartiendra à l'Empire du Japon"[xii].

However, the Russian and Japanese translations of the treaty disagree as to whether le groupe des Îles dites Kouriles (the group of islands called the Kurils) includes Kunashiri, Shikotan, Habomai, and Etorofu. On the Japanese interpretation, these four islands should be considered part of Hokkaido, rather than part of the Kuril Island Chain[xiii]. Japanese scholars continue to support this interpretation, up to the present day. In any event, Japan took control of the entire island chain in 1875.

The Treaty of Portsmouth (1905)

The 1875 agreement lasted until 1905, when Japan defeated Russia in the Russo-Japanese War (1904-1905) Under the terms of the Treaty of Portsmouth, Russia ceded the southern half of Sakhalin Island to Japan (the new border being at a latitude of 50 degrees north)[xiv]. In addition, Japan was allowed to retain the entire Kuril Island Chain[xv]. The result of the war greatly surprised Russia and the Western World. The major powers including the United States now recognized Japan's military as one of the most advanced in the world[xvi].

The Yalta Agreement (1945), the Potsdam Declaration (1945), and the Treaty of San Francisco (1951)

In February 1945, towards the end of World War II, Winston Churchill, Joseph Stalin, and Franklin D. Roosevelt met in Yalta, USSR, for the Yalta Conference. The three leaders intended to shape the post-war international order. As part of the resultant Yalta Agreement, they agreed that the USSR would be allowed to retake Southern Sakhalin, as well as the entire Kuril Island

Chain, upon Japan's defeat[xvii]. The leaders, however, failed to define the Kuril Islands, compounding the ambiguities of the Treaty of Saint Petersburg. Later, the July 1945 Potsdam Declaration articulated the Allied positions on the terms of Japan's imminent surrender, stating that "Japanese sovereignty shall be limited to the islands of Honshū, Hokkaido, Kyushu, Shikoku and such minor islands as we determine"[xviii]. The declaration failed to explain whether Hokkaido, or "such minor islands as we determine," included Kunashiri, Shikotan, Habomai, and Etorofu. The Potsdam Declaration also quoted the earlier 1943 Cairo Declaration, stating that Japan must be expelled from all territories it had taken "by violence and greed," apparently a reference to the territories awarded to Japan by the 1905 Treaty of Portsmouth[xix]. On August 18, 1945, three days after Japan surrendered to the Allies, Russia invaded the four disputed islands[xx]. Russia continues to possess the islands, as of 2023.

Japan maintains that Russia's invasion of the islands was illegal under international law for several reasons. First, President Truman stated that any transfer of territory between Japan and the USSR must not occur until a formal peace treaty was signed between the two nations[xxi], an interpretation that Japan endorses. Second, Japan claims that the Kuril Islands referred to by the Yalta Agreement cannot refer to the disputed islands, because these islands are part of Hokkaido, not the Kuril Islands[xxii]. This argument apparently favors the Japanese translation of the Treaty of Saint Petersburg, rather than the definitive French version. Third, Japan insists that the disputed islands should not be counted among the territory that Japan took "by violence and greed," as referenced by the Cairo and Potsdam Declarations. This is because Russia ceded the islands to Japan of its own free will with the Treaty of Saint Petersburg, and because the islands were not among the territories that Japan took from Russia at the end of the Russo-Japanese War.

In September 1951, forty-nine nations, including the United States and Japan, signed the Treaty of San Francisco, intended to serve as a final peace treaty between Japan and the Allies, ending World War II[xxiii]. However, the USSR refused to sign the treaty[xxiv], and the Russian Federation refuses to acknowledge its legitimacy even today. Although the treaty states that Japan would renounce any claim to the Kuril Islands, the U.S. State Department clarified during the negotiation process that it considered the disputed islands to be part of Hokkaido, not the Kurils, and therefore considered Russia's invasion of the islands to be doubly illegal[xxv]. Soviet negotiators cited Japan's refusal to acknowledge their definition of the Kuril Islands as their primary reason for refusing to sign the treaty[xxvi]. As of 2023, Russia and Japan are still unable to agree on the terms of a peace treaty because of this dispute.

The 1956 Joint Declaration

On October 19, 1956, the Soviet Union and Japan signed a joint declaration formally ending the state of war between the two countries, and formally reinstating diplomatic relations. The declaration also offered a compromise on the island dispute: although the formal definition of the Kuril Islands remained ambiguous, Russia agreed to cede Shikotan and Habomai to Japan upon the completion of a formal peace treaty[xxvii]. Shikotan and Habomai are the smallest of the four islands, amounting to five percent of the disputed territory[xxviii]. Japan agreed to postpone the question of Kunashiri and Etorofu, the two larger islands, because they prioritized securing the return of Japanese nationals still held by the USSR since the war[xxix]. Neither Prime Minister Hatoyama nor Premier Bulganin, who signed the agreement, nor their immediate successors, were able to initiate peace treaty negotiations.

The Joint Declaration is relevant to modern debates surrounding the islands for two reasons. First, it was the last time for over thirty years that Russia acknowledged the existence of a territorial dispute with Japan and the possibility of ceding territory to Japan. All successive Soviet leaders refused to acknowledge the dispute, or even the existence of the 1956 Joint Declaration[xxx]. Second, the declaration marked the first appearance of the 'two island compromise' theory, namely that it is better for Japan to accept a smaller initial territorial concession than achieve no concessions whatever. Proponents of this theory argue, based on the terms 1956 Joint Declaration, that a two-island compromise is the only hope of extracting any territory from Russia. Opponents of the theory argue that Russia would have a strong incentive to indefinitely delay the transfer of the two larger islands, after the two smaller islands are transferred. Therefore, they say, a two-island compromise would be tantamount to renouncing the two remaining islands. The two-island compromise theory is controversial within Japan, in part due to its association with politicians such as Suzuki Muneo, who are known to have close ties with (and perhaps excessive sympathy for) Russian leaders[xxxi].

The Bubble Era: Gorbachev and Kaifu Achieve a Breakthrough

Breaking with the precedent of post-Bulganin Soviet leaders, President Mikhail Gorbachev, negotiating with Japanese Prime Minister Kaifu Toshiki and Liberal Democratic Party (LDP) General Secretary Ozawa Ichiro in the early 1990s, agreed to acknowledge the existence of the four islands dispute in writing[xxxii]. According to Ambassador Togo Kazuhiko, Gorbachev was in the midst of domestic economic reforms and wished to acknowledge the dispute as a gesture of goodwill so that Japan and the Soviet Union could build a stronger economic relationship[xxxiii]. Japan was at that point still in the midst of an economic bubble and predicted by some scholars to overtake the United States as the world's largest economy within a few years[xxxiv]. Russian leaders, therefore, had good reason to reach a compromise on the islands, hoping that Russia could benefit from increased Japanese trade and investment. However, scholars are divided on whether Gorbachev truly intended to make any concessions regarding the islands[xxxv]. In 1992, after the economic bubble had burst, Japan's economic leverage over Russia began to decline.

The Yeltsin Era

The Yeltsin Era brought new opportunities for negotiation. Like Gorbachev, Yeltsin was keen to strengthen ties with Japan, even though Japan's economy was significantly weakened. In 1993, Yeltsin met with Prime Minister Hosokawa Morihiro and agreed to resolve the island issue in a manner satisfactory to both nations so that a peace treaty could be signed[xxxvi]. In subsequent meetings with Prime Minister Hashimoto Ryutaro, Yeltsin argued that it was important for Japan and Russia to solve the issue of the islands before the new millennium[xxxvii]. Yeltsin's health soon deteriorated[xxxviii] and in 2000, he was replaced by Vladimir Putin before he was able to make any progress on the issues with Japan.

The experts interviewed for this paper were sharply divided on whether Yeltsin was sincere in trying to resolve the island dispute. Ambassador Togo Kazuhiko, who was one of the Ministry of Foreign Affairs' (MOFA) top Russia experts during the Yeltsin-era negotiations, believed that a compromise was imminent at several points. He claims that Yeltsin made an initial proposal to return the islands in 1992, but that Japanese negotiators rejected the proposal because the terms were unfavorable to Japan[xxxix]. Later, when Hashimoto Ryutaro was prime minister, Japanese negotiators proposed that Russia could acknowledge the Russia-Japan border as lying north of Etorofu, therefore transferring the territorial rights for the four islands to Japan[xl]. In this scenario, however, the actual transfer of the islands to Japan would be indefinitely postponed, and Russia would be allowed to continue governing the islands. According to Ambassador Togo, Yeltsin was attracted to this idea, but Russian bureaucrats were opposed, so no agreement was reached[xli].

Professor Koizumi Yu of Tokyo University is skeptical that Yeltsin intended to return the islands. According to Koizumi, Japanese government officials and commentators had a tendency, during the Yeltsin and Gorbachev eras, to cherry-pick remarks indicating that Russia might be willing to return the islands[xlii]. Koizumi notes that there is no incontrovertible evidence that Russian negotiators during this era ever considered ceding any territory to Japan. This is reinforced, says Koizumi, by the outcome of Abe's negotiations with Putin (as I shall explain below)[xliii].

Putin and the "Shin-Roha:" Japan's Only Real Chance Squandered?

In 2000, Putin and Prime Minister Mori Yoshiro restarted negotiations. Ambassador Togo and other MOFA officials believed that this change in power in Russia might bring a new window of opportunity. First, some believed that Putin might be a pragmatic reformer who was more open than his predecessors to ceding territory in exchange for increased economic cooperation with Japan[xliv]. Second, Mori was known as a member of the "Shin-Roha," an informal designator referring to a group of Japanese politicians known for their close ties with Russia. Mori's father, who was mayor of Neagari Village in Ishigaki Prefecture for almost thirty-six years, established a close relationship between Neagari and the Siberian town of Shelekhov, Irkutsk, visiting Irkutsk fifteen times over the course of his career[xlv]. On this basis, Prime Minister Mori was able to build a close personal rapport with Putin. Mori was also known for his close ties with Suzuki Muneo, a Hokkaido-based member of the Diet known for his ties to Russian politicians[xlvi]. While both Suzuki and Mori claimed that their ties with Russian politicians gave them the ability to open up a "new channel" for Northern Territory negotiations, others within the LDP and MOFA feared that Mori and Suzuki were too sympathetic to Russia's negotiating positions[xlvii]. Later, both were involved in scandals related to their Russia ties. Suzuki was accused of accepting bribes from construction companies to fund a Hokkaido-based Japan-Russia "friendship house," otherwise known as "Muneo House"[xlviii]. Around the same time, Suzuki was implicated in several other corruption cases, eventually facing prison time[xlix]. Mori, after his time as Prime Minister, controversially stated that Japan might accept a return of only three islands, leaving Etorofu to Russia[l]. Of course, Mori's statement was opposed to the fundamental positions of MOFA, dating back to the 1950s, and thus never seriously considered.

Despite these controversies, talks between Mori and Putin resulted in some breakthroughs. In Ambassador Togo's telling, Putin and Mori discussed the fact that Gorbachev refused to acknowledge the existence of the 1956 Declaration in writing. Putin said he would break with his predecessors by acknowledging the 1956 Declaration, effectively admitting that Russia would cede Habomai and Shikotan to Japan upon the completion of a peace treaty[li]. Putin and Mori also agreed to separate, parallel debates on each pair of islands (Habomai+Shikotan, and Etorofu+Kunashiri), along the lines of the 1956 Declarationlii. Ambassador Togo believes that this was perhaps the biggest window of opportunity to date for Japan to retake territory from Russia[liii]. He also asserts that some Japanese negotiators during this time believed that if the two pairs of islands were negotiated separately, a peace treaty could be achieved within a year[liv].

Ultimately, proponents of the so-called 2 + 2 island solution were overpowered by others in MOFA who believed that once Russia agreed to return the two smaller islands, they would consider the debate closed and refuse to discuss any further territorial concessions[lv].

Abe's Gambit: Summit Diplomacy and Trying to Solve the Unsolvable

During his second time as Prime Minister, from 2012-2020, Abe Shinzō attempted to build a productive personal relationship with Putin. He did so as part of a larger strategy of summit diplomacy, through which he hoped to resolve a variety of historical disputes with countries neighboring Japan, including China and South Korea[lvi]. Abe tried to appeal to Putin in a manner resembling that used by Japanese negotiators during the bubble economy era. Namely, he proposed closer economic cooperation between Japan and Russia (especially on energy), in exchange for concessions from Russia on the islands dispute[lvii]. Abe believed that Japan and Russia could mutually benefit from such an agreement. Japan, by importing more Russian oil and gas, along with other natural resources, could enhance its energy supply diversity and reduce dependencies on strategically vulnerable chokepoints like the Strait of Malacca. Russia, meanwhile, could make progress towards improving economic conditions in Russia's far east, and gaining recognition as an Asian power, a top goal of Putin's[lviii].

Putin was slow to agree, so during the final negotiations between Putin and Abe in 2019, Abe took a step that no other prime minister before him had been willing to take publicly: he suggested to Putin that Russia could first cede Shikotan and Habomai, the two smallest islands, to Japan. In lieu of transferring Etorofu and Kunashiri, Russia could grant Japan increased access to them, such as by offering more opportunities for Japan and Russia to jointly develop them[lix]. Russian negotiators responded that in order for Russia to consider such possibilities, Japan would first have to acknowledge that Russia's sovereignty over the four islands was legitimate[lx]. Japan was unwilling to take this step, which would have contradicted over seventy years of legal arguments from Japanese scholars, and the negotiations ended without any progress. Then, in 2020, Russia's Duma revised the Constitution to forbid Russia from ceding territory to other countries in almost all cases[lxi]. This change effectively forbade Russian officials from offering any territorial concessions to Japan. Soon after, Abe resigned for a second time due to health problems. Around the same time, as I shall explain below, Russia began to militarize the islands, effectively ending any realistic prospect of a territorial compromise with Japan.

The Ukraine War and Japan

The Ukraine War's Impact on Japan and Kishida's Response

Any hopes that Prime Minister Kishida Fumio, who assumed office in October 2021, could reengage with Putin to resolve the island dispute were dashed when Russia invaded Ukraine in February 2022. In 2014, when Putin annexed Ukraine's Crimean peninsula, Abe preferred to avoid strong sanctions against Russia, similar to those imposed by the United States, for fear that such actions would cause Putin to withdraw from peace-treaty negotiations[lxii]. Kishida believes that close cooperation with the U.S. and EU allies after the Russian invasions was necessary not only from a moral point of view but also to possibly dissuade China from an invasion of Taiwan. He decided that Japan must lock step with the U.S. and NATO on sanctions against Russia wherever possible. Following the start of the Ukraine War, Kishida's government quickly imposed strong sanctions against Russian individuals and organizations, some of which are associated with Vladimir Putin's closest allies[lxiii].

The result was as many in Tokyo feared. In March 2022, Russia announced that it was formally withdrawing from peace treaty negotiations with Japan[lxiv]. MOFA responded by issuing a new hardline position stating that the four islands were the inherent territory of Japan, and that Japan could make no compromises with Russia regarding these territories, effectively ending Abe's proposed 2+2 island solution[lxv]. In short, both sides enshrined the status quo in law and official policy. This is one reason why further negotiations would be a waste of time.

Russia's Militarization of the Northern Territories: The End of an Era

Since the end of Abe's negotiations with Putin, Russia has steadily militarized the disputed islands, further signaling that any territorial handover to Japan was unlikely. In December 2020, Russia installed a surface-to-air missile system on Kunashiri and Etorofu, to carry out military training exercises[lxvi]. In March 2022, around the time that Russia formally withdrew from peace treaty negotiations with Japan, Russia carried out a large-scale military exercise involving over 3000 personnel on the Kuril islands, including the four disputed islands[lxvii]. Then, in December 2022, Russia installed a K-300 Bastion-P mobile coastal missile defense system on Paramushir Island, for the purpose of protecting the disputed territories[lxviii]. These are but a few examples of Russia's militarization of the islands, which has gradually escalated since the start of the Ukraine War. Recent Russian military activity in the region has extended as far as Northern Hokkaido. In March 2022, Russia sailed six warships through the Soya Strait separating Hokkaido from Sakhalin Island[lxix]. It is likely that Russia will continue to use such activities to signal to Japan that it no longer intends to negotiate on territorial issues, and to protest Japanese sanctions against Russia.

Russia's militarization of the disputed islands marks a point of no return for Russia. Even if Putin was never inclined to cede territory to Japan, as is evident by the outcome of the 2019 Abe-Putin negotiations, one can imagine that a future reformist Russian leader may have taken a different view, so long as a compromise with Japan might have been economically beneficial to Russia. Yet, it is hard to suppose, along the same lines, that a future Russian leader, no matter how sympathetic to the Japanese position, would consider ceding territory containing strategically important military infrastructure to a foreign country, especially considering that Japan is the largest hub for the US military in the Indo-Pacific. This is why all four experts whom I interviewed agreed that the Northern Territories dispute will not be resolved in our lifetimes. Still, does it follow that there is no reason to pursue more productive Japan-Russia relations? Before we come to this conclusion, it is important to address the problem of Japan-Russia energy trade.

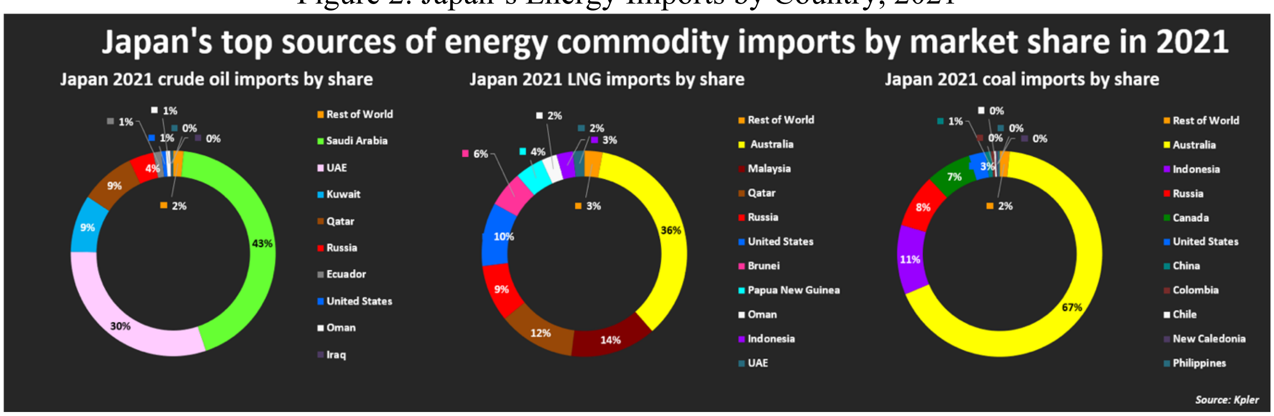
Japan-Russia Energy Trade: A Last Area for Productive Cooperation?

Japan's Reliance on Russian Energy

Abe Shinzo's approach to negotiating with Russia over the Northern Territories reflected his broader belief about Japan's role in the East Asian regional order. He believed that while Japan may have geopolitical disagreements with its neighbors, including China, Russia, and South Korea, it was possible to reach an understanding with each of these nations to enhance economic cooperation, even if all differences could not be resolved[lxx]. Russia is an outlier among Japan's neighbors. China in contrast remains Japan's biggest trading partner, and South Korea is the fourth largest one. Russia is not even among Japan's top ten trading partners[lxxi]. Rather, Japan's economic interest in Russia is mainly confined to a few strategic sectors, most notably energy. Throughout the 20th century, Japanese leaders fretted over Japan's paucity of natural resources. For key sources of energy, including crude oil, natural gas, and coal, Japan is required to import through strategically vulnerable sea lanes, usually passing through the Malacca Strait[lxxii]. Like China, Japan worries that in the event of an armed conflict, a hostile power might block Japan's access to such routes, essentially creating an existential threat for it, particularly its energy supplies[lxxiii]. Thus, Japan wishes to diversify its energy supply, so that if any one source is cut off, it can compensate by increasing imports from other regions. Under ideal circumstances, Russia could be a major part of this plan. Energy trade, then, might be the last good reason for Japan to seek better relations with Russia, so long as the Northern Territories issue is insoluble.

As can be seen in the graph below, Russia provides a small, yet significant portion of Japan's energy supply. Before the Ukraine war, Japan relied on Russia for 4% of its crude oil, 9% of its LNG, and 8% of its coal imports[lxxiv]. Japanese energy companies also invested in several high-profile Russian energy projects, including the Sakhalin-1 and Sakhalin-2 oil and gas projects, located next to Sakhalin Island's Pitun-Astokhskoye oil field and the Lunskoye natural gas field[lxxv]. Since Japan became a permanent observer on the Arctic Council, the Japanese government has encouraged Japanese companies to invest in Russian Arctic energy projects[lxxvi]. Many of these plans, however, have been stalled or canceled due to the Ukraine War[lxxvii].

Figure 2: Japan's Energy Imports by Country, 2021



(Source: Reuters, Kpler)

Russia's Energy Leverage

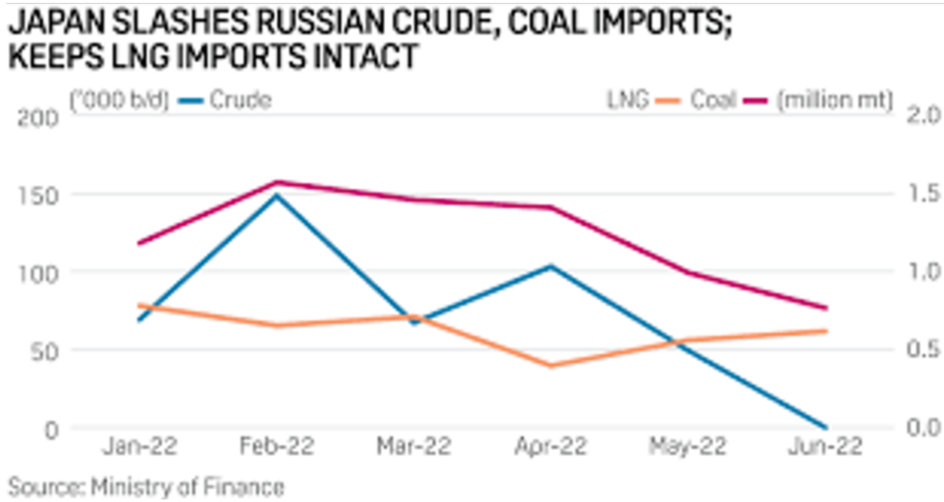
In recent years, some Western commentators have argued that Russia will "win the climate crisis," for a number of reasons[lxxviii]. Russia likely contains tremendous untapped oil and gas fields. As mentioned by scholars such as Rodger Baker, as much as a quarter of the world's untapped LNG supplies are likely to lie either in Northern Siberia, or off Russia's northern coast[lxxix]. Currently, much of this area is impossible to develop, due to the thick sheets of ice that cover the Russian Arctic and the adjacent Arctic Ocean for most of the year[lxxx]. However, with the advance of global warming, Siberia will warm significantly. By 2080, half of Siberia's landmass will transform into arable farmland[lxxxi], and the sea off its Arctic Coast will be ice-free during most summers, by as early as 2035[lxxxii]. A 2020 New York Times article predicted that as Siberia warms, a massive wave of migration to Siberia's newly accessible farming regions is possible[lxxxiii]. At the same time, investments in Russian Arctic energy could skyrocket, with companies building modern infrastructure to access Siberian oil and gas. China is already working towards this goal. In 2018, it launched the Polar Silk Road, and several Chinese companies invested in the enormous Northern-Siberian Yamal LNG project, as an initial foothold in the region[lxxxiv]. If these predictions hold true, Russia could become one of the leading Asian oil and gas exporters. All the more reason, geopolitics permitting, for Japan to invest in Russian energy.

Yet, the risks of investing in Russian energy remain significant. Even before the current Ukraine War, some Japanese investors were hesitant to invest in Russian Arctic energy projects, both for geopolitical reasons and because the process of energy transportation is dangerous and fraught with technical difficulties[lxxxv]. The risks of investment increased in early 2022, after Japan imposed new sanctions on Russia, because Japanese analysts feared that Russia might nationalize the Sakhalin-1 and 2 oil and gas projects. In fact, Russia did nationalize Sakhalin-2 in July 2022, causing many Western companies to sell their stakes in the project. For now, Japanese companies appear to be maintaining their stake, despite the risk of arbitrary punishments from Putin's regime, due to a perceived lack of alternate options for Japan to import LNG[lxxxvi]. Considering that total Japanese imports of Russian oil, gas, and coal amount to less than 10% of Japan's import portfolio, it follows that Japan should only maintain or increase its investments in Sakhalin-2 or similar Russian energy projects if there is no less risky way for Japan to maintain its energy diversity goals.

The Ukraine War and Japan-Russia Energy Trade

Abe refrained from imposing harsh sanctions on Russia in 2014 in part because he was afraid of the damage that a loss of Russian energy would do to Japan's economy[lxxxvii]. Contrary to Abe's fears, Japan was relatively successful in substituting away from Russian energy after Russia's invasion of Ukraine. As demonstrated in the graph below, by the summer of 2022, Japan successfully cut imports of Russian coal and crude oil, with crude imports falling to almost zero[lxxxviii]. Japanese LNG imports, meanwhile, have only marginally decreased since the start of the war[lxxxix]. There are at least two reasons for this. First, despite the risks of investing in LNG given the current geopolitical situation, many Japanese energy companies have signed long-term contracts to import Russian LNG. For instance, Kyushu Electric Power Company's current contract obligates it to import half a million tons of LNG per year, for 22 years (it is unclear when the current contract was signed)[xc]. Tokyo Gas, Osaka Gas, and many other Japanese energy companies have similar contracts[xci]. It would be legally and financially difficult for these companies to exit from Russia, or even decrease their investments. Second, Kishida believes that while it is possible to divest Japan from Russian oil and coal, it will be difficult for Japanese companies to divest from Sakhalin-2 without compromising Japan's energy security[xcii]. While the first of these reasons holds true until the relevant contracts expire, there is good reason to be skeptical of the second.

Figure 3: Japan's Declining Oil and Coal Imports from Russia



(Source: Ministry of Finance, S&P Global)

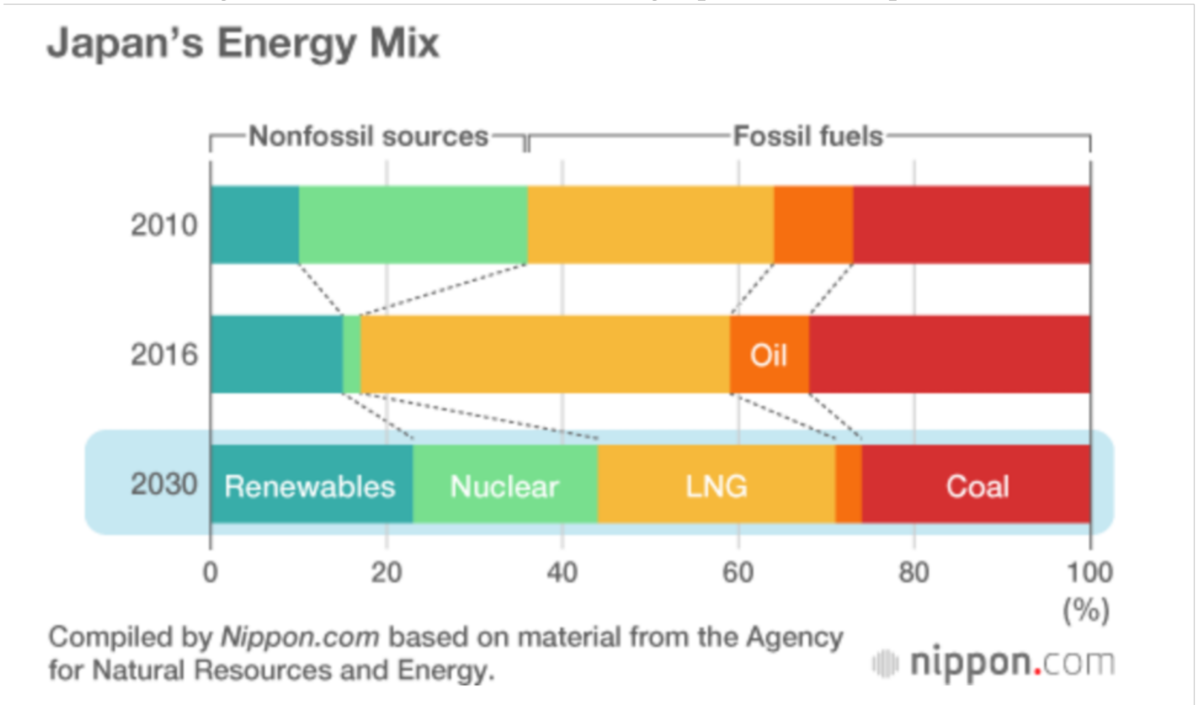
Can Russian Energy Be Replaced?

Several of the experts with whom I spoke were skeptical of the Kishida Administration's claim that Japan cannot wean itself off of Russian LNG. Temple University Professor James Brown, for instance, argued that even in the event that Japanese companies were suddenly forced to leave Sakhalin-2, Japan would be able to avert a major energy shortage by buying LNG on the spot market[xciii]. It is unlikely that Japan will be forced to leave anytime soon, though, since Russia's wartime economy welcomes income from Japanese energy trade. Additionally, some Japanese scholars have proposed alternate LNG trading partners for Japan. For example, The Institute of Energy Economics (IEEJ) published a report suggesting that Japan increase LNG exports from Canada and Australia[xciv]. Geopolitically, both of these countries are good options, since they are both democracies and maintain good relations with Japan. However, Australia is already Japan's largest LNG trading partner, so if Japan were to replace its Russian LNG with Australian LNG, it would be reliant on Australia for almost half of its LNG imports, compromising energy diversity. Canada could be a more promising option. Canada is the sixth-largest producer of LNG in the world[xcv]. Though Canada is far from Japan, there is nothing but ocean between the two countries, so Canadian LNG would not have to pass through any strategic choke points, before reaching Japan. Additionally, in 2022, Canada announced its intention to deepen trade relations with Japan and other Indo-Pacific countries as part of a larger strategy of containing China's influence in the region[xcvi]. The Kishida Administration may envision increased LNG trade as part of this arrangement. However, there are several obstacles to be overcome before this possibility might be realized. Most significantly, Canada lacks the infrastructure to ship LNG to Japan in bulk[xcvii]. Currently, most Canadian LNG exports are transported to America via pipeline[xcviii]. However, Canada is currently constructing a new export terminal to ship LNG to more remote locations, with completion scheduled for 2025[xcix]. Further research might look into whether Japanese energy companies are interested in investing in Canadian LNG.

It is also possible that Japan will be less dependent on LNG in the future, due to increased use of renewable and nuclear energy sources. The graph below shows one scenario in which Japan cut its LNG by more than one-third by 2030, potentially eliminating the need for Russian LNG[c]. However, this scenario assumes advances in renewable technology which are far from certain.

Additionally, it assumes the Japanese people will support a large-scale return to nuclear energy, less than twenty years after the 2011 Fukushima disaster. While public opinion polls show that more Japanese people support nuclear energy use in 2023 than before the Ukraine War[ci], nuclear energy still remains controversial in Japan, and its long-term projects are far from certain. In short, while Japan's back to reduce LNG imports is uncertain, it retains a number of potential options to do so. Therefore, energy trade is not a compelling reason for Japan to seek better relations with Russia, in the long term.

Figure 4: One Scenario for Reducing Japan's LNG-Dependence



(Source: Nippon.com; the Agency for Natural Resources and Energy)

Policy Recommendations for a Pragmatic Decoupling

It is often claimed that Japan should continue engaging with Russia, either because a new generation of Russian leaders might be more willing than previous generations to compromise on the Northern Territories dispute, or because Japan can achieve great energy security by importing Russian energy. I have tried to show that neither of these claims hold up to scrutiny. Instead, I recommend that Japan pragmatically decouple itself from Russia. Of course, I do not mean to suggest that Japan should cut off all contact with Russia. In the civilian realm, relations should proceed as before. Japanese leaders, however, can only benefit from disengaging with Russia. In doing so, they can free up key diplomatic and economic resources, to be reallocated to higher-potential bilateral relationships within the Indo-Pacific.

Defense Recommendations

I agree with all four of the experts I interviewed that the Northern Territories issue will never be resolved barring a drastic, unexpected political change on the Russian or Japanese side. Russia can no longer cede territory to other nations due to changes in the Constitutional by Putin.

Even if a future, reform-minded Russian leader could overcome this legal barrier, there is now so much vital Russian military infrastructure on the disputed islands that it would be politically impossible to hand them over to Japan. Abe's failure to take back any territory, despite offering compromises that would have been unthinkable under previous Japanese leaders, shows that Japan will not be able to make any progress through diplomacy, as long as Putin and the system in which he operates exist.

At the same time, Japan has no legal or military means to take back the islands by force. Therefore, Japanese leaders should come to terms with the fact that the issue is insoluble. Of course, they need not say so publicly. While public interest in the islands is waning in Japan, it would still be politically unacceptable for any Japanese leader to publicly refute the possibility of regaining the islands. Japan would do better to focus on supporting US efforts to defeat Russia in the Ukraine War. Though a Russian defeat certainly does not guarantee a systemic political change in Russia, supporting NATO efforts to help Ukraine is currently the most direct action Japan can take to weaken Russia and protect Japanese interests in the Indo-Pacific. To this end, Japan should focus on implementing the recently-approved defense spending increase, and continue to leverage new sanctions on Russia.

Energy Recommendations

Energy trade appears to be the only remaining reason for Japan to maintain relations with Russia. And yet, the benefits of Japanese investment in Russian energy are unclear. For Japanese energy investors, the risk of conflicting with future Western sanctions, if the Ukraine War continues to escalate, is profound. Japanese companies should therefore cease all new investments in Russian energy, at least as long as the Ukraine War and the current Russian political system continue to exist. I agree with Prime Minister Kishida that in the short run, Japan has little choice but to maintain its investments in Sakhalin-2 LNG. In the long run, however, Japan should stop importing Russian LNG, just as it has stopped importing Russian coal and to some extent oil. Though many Japanese companies still have long-term contracts with Sakhalin-2, they can start investigating other options for when those contracts expire. Canadian LNG is one promising option to replace Russian LNG. Currently, Canada lacks the infrastructure to export LNG to Japan. Canada's recently announced plan to increase economic cooperation with Japan is the perfect opportunity for Japan to invest in such infrastructure. If Japan does so, Canadian LNG will someday be the perfect option to replace Russian LNG while maintaining Japan's energy security goals, since transportation routes between Canada and Japan lack any strategic chokepoints akin to the Malacca Strait. Lastly, Japan should continue to investigate the possibility of replacing Russian LNG with nuclear and renewable energy sources. While it is uncertain that either of these sources can reduce Japanese dependence on LNG in the short term, a breakthrough in either nuclear safety or renewable efficiency could put Japan in a position to decrease LNG use in the long term.

Conclusion

Japan is not incapable of productive compromise with its neighbors. China is a shining example. Though Japan has outstanding historical (including territorial) disputes with China, China remains Japan's top trading partner. In 2019, when Abe traveled to Beijing to discuss some of these controversies with Xi Jinping, he brought a delegation of top Japanese business leaders with him, and they were warmly received. For all the imperfections of the Sino-Japanese relationship, the relationship functions. The same cannot be said of Japan's relationship with Russia, and Japan should come to terms with this difference. Japan has tried for over seventy years to resolve the Northern Territories dispute. Since Abe's 2019 failure to retake the islands, and Russia's militarization of the islands since 2020, it is clear that Japan will not succeed in retaking them in the foreseeable future. Likewise, Japan need not endure the risks of Russian energy investment, when it can shift to more amenable and democratically-inclined partners, in the long run. Doing so is not a defeat for Japan. It is a pragmatic decoupling, and it will allow Japan to focus on its strengths in the Indo-Pacific, in the tumultuous years to come.

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Japanese Cybersecurity Policy: Still a Work in Progress

By Chelsea Suzuko Uchida Wells

Introduction

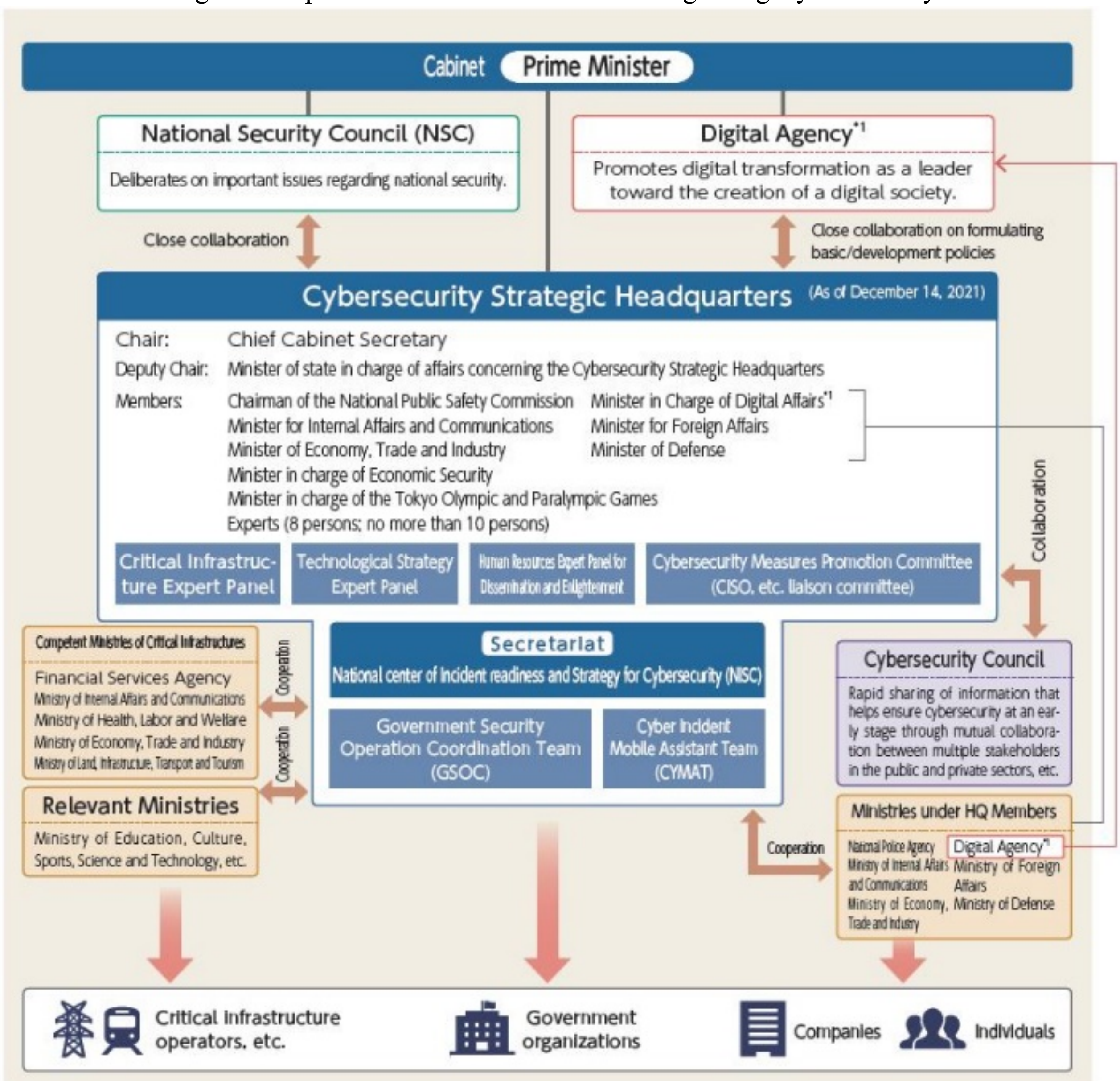
The role of cybersecurity has increased in recent years. Broadly, cybersecurity can be defined as the protection, damage prevention, and functional restoration of digital assets such as data, networks, and systems[i]. Digitization and globalization have accelerated Japanese and international reliance on internet networks, increasing cyber vulnerabilities. It is also highly likely that in a future contingency, hybrid warfare blending conventional tactics and cyberattacks will be pursued to achieve military objectives. We have already seen some examples of this during the Russian invasion of Ukraine, although its effects have been limited so far[ii]. Some experts, such as Japanese cybersecurity professional Osawa Jun, have even suggested that cyber may be the primary first-strike arena in the case of a Taiwan contingency[iii]. Within the cyber arena, Japan has faced different challenges from Western nations in some respects, having been criticized for its slow digitalization, lack of cybersecurity personnel, and seemingly insufficient cybersecurity capabilities and policy. Various Japanese government agencies and private companies have also been subject to numerous cyberattacks, particularly from China and North Korea, after Japan joined sanctions against Russia owing to Ukraine. Cyberattacks are particularly concerning as they can be used as a grey-zone first strike, decreasing trust in government institutions and weakening state unity during peacetime. Further, Japan's ambitious goals, as seen by the growth of data centers, successful expansion of digitization partially due to the pandemic, and an updated security strategy, all require improved cybersecurity measures.

To combat the rise in cyber threats and prepare for cyber playing a larger security role, Japan has been taking significant steps to improve its cybersecurity, first as preparation for the Tokyo Olympics and then as part of a new security strategy[iv]. On January 6, 2023, Japan and the United States signed an updated memorandum of cooperation on cybersecurity to improve collaborative efforts in cyber operations[v]. Within its new National Security Strategy (NSS), the Japanese government outlines its commitment to more active cyber defense, addressing and countering information warfare, strengthening its cybersecurity capabilities, and increasing collaboration with international partners, government agencies, and critical infrastructure companies[vi]. The recently established Digital Ministry is also taking an active role in preventing and addressing cybersecurity threats as it continues to pursue increased incorporation of digital assets in Japan. The NSS aims to increase Japan's cybersecurity capabilities to be on par with Western nations.

In this paper, I will assess the efficacy of Japan's cybersecurity policy and consider opportunities for further cooperation with the United States and other international partners. I will examine the many misconceptions regarding Japan's cybersecurity policy and how some aspects are more advanced than commonly perceived due to differing priorities from those of the United States. Japan's cybersecurity policy, however, still leaves much to be desired, particularly with respect to threat response infrastructure. Its cyber capabilities have increased in preparation for single events like the Tokyo Olympics. That factor and cultural norms can partially explain the lack of centralization. First, I will go over recent developments in Japanese cybersecurity. Next, I will cover the general issues associated with current cybersecurity policy in Japan, adding the current work being done to address these issues. Finally, I will conclude with current collaborative efforts with the United States and policy recommendations.

Overview of Japanese Cybersecurity Policy

Figure 1. Japanese Government Structure Regarding Cybersecurity



(*1) Basic Act on Creation of a Digital Society (Act No. 35 of 2021), Act for Establishment of the Digital Agency (Act No. 36 of 2021). (effective since September 1, 2021)

(Source: NISC)

Government Institutions

There are three main government institutions within the Japanese government that are responsible for addressing cybersecurity. The Cybersecurity Strategy Headquarters, established under the Cabinet in 2014, is the highest-level government organization pertaining to cybersecurity[vii]. It works directly with the Cabinet, the National Security Council, and the Digital Agency to promote Japanese cybersecurity policies. Chaired by the Chief Cabinet Secretary but involving the Prime Minister in meetings, it has the authority to evaluate cybersecurity policies by administrative organizations, request materials, and take other necessary measures to enhance Japanese cybersecurity[viii]. The National Center of Incident Readiness and Strategy for Cybersecurity (NISC), established in 2015 as a secretariat of the Cybersecurity Strategy Headquarters, as seen in the figure above, is the primary office in charge of establishing cybersecurity strategy and policy. Its predecessor with the same acronym, National Information Security Center, was established in 2005. The current NISC has a staff of 200 people who work with industry and academia to coordinate general strategy and establish cybersecurity policy. While implementation details are left to each ministry, the NISC is authorized to conduct intra-governmental collaborations. However, it does not have the authority to oversee industry practices[ix]. In 2019, NISC launched a Cybersecurity Coordination Center to provide 24-hour response to cyberattacks and share information[x].

Finally, the Digital Ministry was established in 2021 to accelerate Japan's digital transformation during the Covid-19 pandemic[xi]. To accomplish this, it has taken an active role in streamlining data sharing and incorporating cyber capabilities, such as proposing the Government Interoperability Framework for better intragovernmental coordination[xii]. It has also been addressing cybersecurity policy and capabilities within the context of digital transformation in Japan by incorporating zero-trust architectures, which require validation at every step of the process, and creating cybersecurity evaluation measures for government infrastructure[xiii]. The Digital Ministry is also involved in data sharing and data privacy measures, although its policies are more focused on intragovernmental efforts than addressing industry practices.

Key Legislation

The prominent cybersecurity legislation in Japan is the Basic Act on Cybersecurity. This law outlines the overarching framework for national and local government cybersecurity policies and responsibilities[xiv]. It became the basis for the 2021 version of Japan's Cybersecurity Strategy. The Act on the Protection of Personal Information, passed in 2005, is the primary legislation pertaining to data protection and privacy in Japan. It has since been amended twice, in 2015 to address offshore data transfers and in 2020 to enable enforcement through penalties[xv]. The influence of the European Union's data protection legislation, GDPR (General Data Protection Regulation), can be seen, as I will show below. The Foreign Exchange and Foreign Trade Act (FEFTA) addresses cybersecurity indirectly by regulating the export and foreign acquisitions of capabilities and businesses pertaining to sensitive technologies, such as telecommunications and software[xvi]. The Telecommunications Business Act (TBA) also indirectly addresses cybersecurity practices by protecting the secrecy of communications. The Ministry of Internal Affairs and Communications (MIC) is the primary government ministry in charge of implementing the TBA. While the TBA does not go into detail regarding cybersecurity implementation methods, meaning any guidelines are not legally binding, the implication is that it is in the best interests of infrastructure and telecommunications companies to comply with guidelines and bolster their cybersecurity capabilities to prepare against cyberattacks and prevent service disruptions. As this legislation does not directly address cybersecurity, it can be overlooked when international cybersecurity professionals are analyzing Japanese cybersecurity policy, giving the illusion that Japan lacks cybersecurity policy pertaining to industry.

Clear gaps can be seen in cyber threat preparedness requirements and cybersecurity policy that addresses threats to digital industry assets that are not customer data. Further, due to the lack of clear implementation guidelines, cybersecurity measures and effectiveness may differ depending on the government organization or company. However, vague legislation regarding implementation should not necessarily count against Japanese cybersecurity policy as it could allow for greater flexibility to respond to the evolving cyber threat landscape.

Area Case Studies

Tokyo Olympics

Japan experienced a whopping 450 million cyberattacks during the 2021 Tokyo Olympics, more than double those experienced by the London Olympics[xvii]. None of these attempts were successful thanks to the efforts of NTT cybersecurity professionals, who were tasked by the Japanese government with providing telecommunications and network security services during the games. NTT (Nippon Telegraph and Telephone Corporation) is the leading telecommunications firm in Japan which also has a subsidiary, NTT Data, which specializes in cyber capabilities. Knowing that digital and information technologies will play a central role during the Olympics, the Japanese government started preparations early. Starting in 2016, NISC asked companies that would be providing critical infrastructure for the Olympics to conduct a total of six cybersecurity risk assessments and hosted a total of five large-scale cyber exercises[xviii]. The data and response from the Cybersecurity Coordination Center, mentioned above, were also used in preparation for the Tokyo Olympics. These measures were tested during the 2019 G20 Osaka Summit and the 2019 Rugby World Cup, which served as dry runs for Japanese cyber readiness on an international scale. The specific cybersecurity measures that NTT implemented during the Tokyo Olympics were based on predictions made by NTT's Global Threat Intelligence Center, which in turn based its predictions on cybersecurity threats posed during previous major sporting events. The FBI also worked with the Japanese government to issue cyber threat warnings to private companies in advance of the games[xix]. Cybersecurity was particularly important during the Tokyo Olympics as facial recognition technology was used for authentication purposes, making it essential to protect data[xx]. As it was able to stop all cyberattacks, the Tokyo Olympics is a success story for Japanese cybersecurity, with NTT's capabilities being the most significant.

Japan is currently seeing another surge of attempted cyberattacks in advance of the G7 Hiroshima Summit[xxi]. During the summit, the Hiroshima city website saw, and quickly resolved, access disruptions[xxii], speculated and later claimed by the alleged perpetrators to have been due to a cyberattack[xxiii]. While there were many cyberattacks related to the G7[xxiv], the effects appear to have been limited based on the lack of reporting. Through the G7, Japan has shown its commitment to cybersecurity, as seen from simulations conducted in preparation for the transportation ministers' meeting[xxv].

Data Privacy

Japan has fairly stringent data privacy rules. Much of this has to do with foreign influence, or gaiatsu, from the European Union. Japanese data privacy laws are heavily influenced by the

EU's GDPR. This partially has to do with the extreme stringency of said regulation, and how international companies are required to comply in order to conduct business. According to a government employee, stringent restrictions by foreign countries influence Japanese policy due to the immense direct impact it has on Japanese industry's ability to operate internationally. However, depending on the ministry, the degree of dedication and willingness to adjust domestic legislation to better accommodate international trade differs due to it being perceived as compromising Japanese legislative autonomy. In private industry, businesses are equally, if not more, dedicated to protecting customer data. According to Matthew Foote, a cybersecurity professional working in Japan, companies ensure customer and company data protection through various methods. Regarding government efforts on behalf of foreign companies operating in Japan, in case of a data breach or inadequate cybersecurity procedures, the Japanese government issues business improvement orders. If the company does not meet the stipulated data protection conditions, its license to operate is suspended. For particularly egregious instances, the government may even cancel the license. Of the government requirements, the Financial Service Agency's incident report requirements appear to be the most stringent due to the large impact incidents can have on the financial assets of citizens. Yet, company internal requirements tend to be even more stringent in the interest of maintaining trust and responsibility for their clients.

The finance and trade communities also generally comply with the Payment Card Industry Data Security Standard (PCI DSS). This is a set of requirements that is necessary for companies to handle credit or debit card transactions[xxvi]. In addition to following government policy, many companies form ISACs, or information-sharing communities, within their industry to share information about cyber threats. Participation in these communities is purely voluntary, with many companies reluctant to join due to how it could hurt their competitive chances by revealing weaknesses. Activity within the communities is also nonbinding, although companies are strongly encouraged to conduct 'traffic signal' reporting based on the severity of the cyber threat observed so the community can share information and prepare for possible threats. Industry professionals have high regard for international cybersecurity and data security frameworks and generally comply with them, along with relevant Japanese government policy, to conduct business smoothly, maintain their reputation with customers, and sustain safe operations.

DFFT

To find areas of cooperation amid the fractured world of international regulations, at the 2019 G7, then-Prime Minister Abe Shinzo proposed the idea of the international Data Free Flow Trust (DFFT). Japan's leadership in this initiative has garnered considerable support. DFFT has been fleshed out through international discussion for the past four years, with a roadmap designed during the 2020 G7 and an action plan at the 2021 G7. However, there have been some obstacles. Japan, the United States, and the European member nations each have similar goals but differ largely in suggested implementation. The direction currently proposed focuses on increasing interoperability and compatibility in the short- to mid-term. This April, a joint meeting of G7 digital and technology ministers was held[xxvii]. At this meeting, Japan's Digital Minister Kono Taro discussed his proposal for an Institutional Arrangement for Partnership (IAP). The IAP will aim to further cooperation to reach DFFT goals without interfering with domestic regulations. It would also consider possible uses of Privacy Enhancing Technologies (PETs) which are technical capabilities that allow secure data sharing. Minister Kono hopes to make the IAP a platform for not only discussion but also implementation of seamless cybersecurity policy. At the meeting in

April, the digital and technology ministers agreed to convene a meeting in the coming months to discuss further details for implementation. At the G7 Hiroshima Summit, the member countries emphasized the importance of trust, partnerships, and open flows of information and supported the digital and technology ministers' annex on operationalizing DFFT[xxviii].

Information Warfare

The war in Ukraine has led to an increase in information warfare from Russia. Information warfare is the use of cyber and electronic capabilities to manipulate data and information to gain a strategic advantage. Japan's concern for information warfare was reflected in the 2023 National Security Strategy (NSS). The Ministry of Foreign Affairs (MOFA) and Ministry of Defense (MOD) have both received additional budget funds to address this issue, with both planning to use artificial intelligence (AI) to monitor and analyze the information space and improve intelligence gathering[xxix]. Enhancement of the cyber threat-hunting capabilities and development of cyber counterattack capabilities are also being considered by the Self Defense Forces (SDF)[xxx]. Japan is also working with the United States and other Five Eyes nations to monitor information warfare techniques and threats in the Indo-Pacific region to counter China[xxxi]. An extension of information warfare is cognitive warfare, which seeks to disrupt the decision-making processes through misinformation and disinformation, among other tactics.

The Japanese government also has added to its latest Defense Buildup Program a plan to comprehensively develop intelligence capabilities and counter disinformation on a national scale[xxxii]. The plan stresses the importance of spreading and identifying accurate and reliable information to decision-makers and the general public alike. However, concerns remain regarding how practices to counter disinformation and misinformation may influence democracy and the degree to which new security measures can be implemented.

Space

In 2021, the Japan Aerospace Exploration Agency (JAXA), which is Japan's space agency, was subject to cyberattacks by Chinese individuals with suspected links to the Chinese military[xxxiii]. JAXA has responded to this by bolstering cybersecurity through its cybersecurity office and working to improve cyber capabilities. On an operational level, Japan's high degree of integration in space operations with the United States allows it some mission assurance. Japan also needs to independently address counterspace threats, especially the cyber aspect, while protecting assets on the ground. For example, satellite constellations rely on a high degree of automation, so a disruption in systems due to a cyber threat could easily cause a collision. Space security was included in the most recent NSS, while protecting space capabilities from cyber threats was included in the 2021 cybersecurity strategy. However, space assets have yet to be included in the Japanese government's list of critical national infrastructures[xxxiv]. Cybersecurity relating to space is addressed in the latest iteration of the Basic Space Plan[xxxv]. In addition to pursuing additional space cybersecurity measures, the Japanese government will need to enhance public-private partnership for the cybersecurity of commercial space to ensure security of operations.

Issues with Current Policy and System

Technical Capability

The United States is currently conducting joint exercises with international partners in Southeast Asia that include strengthening cybersecurity measures. While Japan is often involved in these exercises and provides a great deal of assistance to the region, including technical assistance, according to a former official who is knowledgeable about Japanese efforts in the area, it is not ready to lead any efforts to improve cybersecurity due to the lack of technical capabilities. This is an issue as cybersecurity capabilities would be essential to developing a Free and Open Indo-Pacific (FOIP), which is a primary goal of the Japanese government. While Japan has been working with multilateral organizations to support cybersecurity capability building[xxxvi], it will likely need to focus primarily on bilateral cooperative relationships for the time being, until Japanese domestic cybersecurity technology and capabilities are further enhanced. It is important to note that there are areas where Japan has the technical capabilities and simply needs to bolster them to increase capacity to the point that it can provide aid.

A JAXA cybersecurity and information technology professional seconds this point. He told me via email that increasing Japanese cybersecurity by improving capabilities and updating requirements will be essential for continued international space cooperation. One aspect where this would play a large role in satellite data sharing, as mentioned by a NASA official currently working with JAXA and other international partners. Currently, when sharing earth observation data, lower-resolution images are provided to maintain security. This only works when cybersecurity is maintained at a standard acceptable to all parties involved, so continued capability building, and increased coordination will be crucial for international space activity. The increasing security dimension of space is likely to further complicate matters. Exemplifying this weakness, Japan's lack of suitable cybersecurity practices has been an obstacle to deepening cooperation and expanding information sharing for Washington[xxxvii]. Moreover, another obstacle is the fact that Japanese professionals in scientific areas are not necessarily proficient in English, which may lead to international partners underestimating Japanese technical capacity. This highlights the need for effective international communicators who are well-versed in technical concepts.

Yet, in certain aspects, Japan does have technical capabilities in cybersecurity. In 2020, Japan led the first cyber defense drill between ASEAN, the United States, and some European nations[xxxviii]. During this joint exercise, which was held virtually due to the Covid-19 pandemic, the member nations participated in a hypothetical scenario where essential infrastructure companies were subject to a cyberattack. Riding off the heels of a cyberattack on hospitals and universities, Japan was acutely aware of the importance of preparedness. While it must be noted that the specific scenario played to Japan's strengths, not relying on coordinated efforts by a centralized government organization, this joint exercise shows that Japan does have a degree of cybersecurity capability comparable to that of international partners.

Structural Issues

I interviewed Mochinaga Dai, assistant professor at Shibaura Institute of Technology who is also affiliated with Keio Research Institute and the JPCERT Coordination Center. According to him, the cybersecurity threats that Japan faces are no different from those faced in other countries. The current focus in Japan is on maintaining essential infrastructure systems, protecting from ransomware, and preventing insider threats. His biggest concern is the amount of time it takes to enact policy. Currently, this process takes about two to three years due to the length of Diet discussions, but considering the speed at which cyber technology evolves, the ideal timeframe would be two to three months. While it is inevitable that international guidelines, such as the NIST (National Institute for Standards in Technology) cybersecurity framework, take time, Mr. Mochinaga raises CISA (Cybersecurity Infrastructure Security Agency) as an example of how long the cybersecurity policymaking process would ideally take.

Despite the long timeline, international guidelines have separate uses. The NIST cybersecurity framework, which released proposed updates in January 2023[xxxix], provides clear definitions for the technology and capabilities referenced and is an international collaborative effort, making it a good source to reference when assessing capabilities or determining policy. Its influence is particularly strong in Japan, as can be seen from the fact that the Japanese Information Technology-Promotion Agency (IPA) was the first foreign entity to fully translate the NIST Cybersecurity Framework in 2014. This influence is not limited to NIST, with international influences seen in many aspects of Japanese cybersecurity policy. Japanese personal information privacy rules also reflected foreign influence, especially the personal data rules listed in the EU's GDPR regarding adequacy decisions. Data protection regulations for non-personal data are based on the decisions made during the Osaka Round. Japan's reliance on foreign pressure to implement major policy changes is a source of concern, as it can delay the already prolonged policymaking timeline. However, international cohesion in cybersecurity policy can also be advantageous to industries with overseas operations and streamlining intergovernmental cooperation. Reconsidering the policymaking process to address domestic cybersecurity issues in a timely manner and keep up with the continuously evolving cyber-attack tactics will be important for maintaining Japanese cybersecurity in the future.

Another major issue Professor Mochinaga pointed out was misunderstandings by international cybersecurity professionals regarding Japan's cybersecurity policy. This is due to much of that policy not being standalone legislation specifically pertaining to cybersecurity, as mentioned above, in an effort to circumvent the lengthy legislative process. Nor is the cybersecurity aspect always explicitly stated. Instead, much of the cybersecurity requirements and suggestions are implied within legislation, such as through the 'safety' clause in the infrastructure law. While it does not explicitly address cybersecurity, this clause is widely understood to include maintaining necessary cybersecurity measures as it is now essential to protect against cyberattacks to safely provide essential infrastructure to consumers. Despite the wishes of government officials and cybersecurity professionals in academia, private industry usually does not take the lead in implementing cybersecurity measures to counter and prevent potential threats. However, they are generally cooperative and have close coordination with the government as it can improve their reputation, increase preparedness and prevent large-scale incidents, and allows them to continue operations.

During our discussion, Professor Mochinaga pointed out three major areas within cybersecurity where new Japanese policy is needed, almost entirely focused on the government. First, in the defense sector, the budget will be increasing per the new security strategy starting in April, but the Defense Ministry is divided over how to utilize the new funds. While various ideas are being discussed, no detailed plan has been created, which is concerning considering the timeline. Second, the distribution of cybersecurity authority between MIC and the Ministry of Economy, Trade, and Industry (METI) has yet to be determined beyond the current scope. Finally, Japan needs more cybersecurity professionals, particularly younger people entering the workforce, and better training of veteran employees.

Cybersecurity is an area that is constantly evolving, so professionals are required to continue training in order to keep up with developments and maintain relevant skills. However, many veteran cybersecurity professionals are struggling to keep up. This issue is particularly prevalent in the Self Defense Forces (SDF). The SDF currently has a Cyber Defense Force, established in March 2014, which is a joint force monitoring and enhancing cyber capabilities for the land, air, and sea forces. It was reorganized to become the Cyber Defense Command in 2023 and currently has about 500 personnel, with a proposal to increase to 4000 to reflect the increased significance of cyber in the security sphere[xl]. Japan has a cap on how many SDF personnel it can have in total, so the increase will be due to transfers from other forces. While the majority of these transfers will be IT communication professionals from the Ground Self-Defense Force (GSDF) and will thus have IT communication-technology knowledge, many of the most skilled personnel will be in their fifties. This will likely complicate the reeducation and training process due to pride and unfamiliarity with the new area. While the Air SDF was recently renamed to become the Air and Space SDF as part of the new security strategy, this does not necessarily imply an increased focus on cyber in that force, the linkage between space and cyber being much weaker in Japan than in the United States for historical reasons.

Lack of Centralization

The Japanese government's difficulties regarding cybersecurity policy do not end there. If there is a cybersecurity emergency in Japan, NISC has asked that NTT and KDDI, the major IT communications companies in Japan, handle the issue. Under the TBA, major infrastructure companies are also required to handle cybersecurity emergencies that directly pertain to critical infrastructure. However, if the threat is not related to IT or critical infrastructure, there is currently no comprehensive action plan. One example of a scenario in which this would be an issue is if there is a cyberattack on a company supplying water to U.S. bases in Japan. In this case, as Japan does not have a resolution plan in place, the U.S. military would likely need to work with MOFA to resolve the issue, which would be a lengthy process that prolongs the threat.

Presently, there is no coordinated system to resolve a cyber threat spanning various industries. While the prime minister and chief cabinet secretary are authorized to appoint someone to coordinate cyberattack responses, they have yet to do so. Nor are there many qualified personnel who would be willing to shoulder that responsibility in the case of a large-scale cyber threat. However, based on cultural norms, it can be inferred that the local law enforcement authorities, NISC, Digital Ministry, and other relevant branches will all take responsibility in case of a large-scale incident. Assuming this is the case, the primary issue with the lack of centralized authority is the inability to efficiently and consistently coordinate interagency and industry efforts. If there is a large-scale cyberattack that involves industry outside of infrastructure, this lack of centralization would lead to a delayed analysis of and response to the situation. The Japanese government is aware of this issue, as can be seen from Deputy National Security Advisor Okano Masataka's remarks during the 2023 Shangri-La Dialogue special session on the security implications of cyber and technological competition. He mentioned that a "whole-of-government" approach is needed to "create an ecosystem" that ensures sustained cybersecurity[xli]. Greater centralization can be achieved by increasing the authority of the NISC, entrusting the Digital Ministry with greater security responsibilities, or establishing a new organization entirely.

Ongoing and Proposed Work

Training and Personnel

Of the issues raised above, Japan is actively tackling the personnel issue with the National Initiative for Cybersecurity Education (NICE) framework. Created by NIST in 2017, the NICE framework defines cybersecurity functions by category to help identify the right training and certifications and develop the right skills needed for a specific cybersecurity position[xlii]. The framework has since been updated. The Japan External Trade Organization (JETRO) is the primary entity creating training materials aligned with this framework[xliii], but the practices are reflected by company employers and school education. Japan, as of 2018, was inclined to use an international framework due to its high reliance on outsourcing cybersecurity talent[xliv]. While the reliance has since been reduced, outsourcing is still prevalent in the cybersecurity industry. Identifying and retaining talent and providing space for ongoing skill development all pose difficulties for employers, according to Matsubara Mihoko of NTT[xlv]. Thus, the issue of personnel will need to continue being addressed.

Matsubara also points out how the rotational job system, where company employees generally work at different departments throughout their careers, inhibits the growth of cybersecurity professionals as it impedes specialization and updating skills[xlvi]. One initiative tackling the issue of personnel has been the Cyber Defense Exercise with Recurrence (CYDER). This ongoing program aims to train government employees and critical infrastructure companies to prepare for a cyber incident. Japan has also pursued collaborative efforts with the United States to train cybersecurity personnel, as I will address later. The planned transfer of personnel within the JSDF to cybersecurity positions will increase the number of people with basic competency and alleviate personnel shortages in the area, although those employees may have insufficient experience and an inadequate level of competency.

Over the long run, the increased emphasis on cybersecurity in universities will likely lead to increases in relevant personnel, but continuous training will be required throughout their careers to keep skills current and address emerging threats. While AI may be effective to streamline and automate certain steps within the cybersecurity process, personnel are needed to develop and maintain such AI. AI use in cybersecurity could also lead to data protection concerns, which would need to be addressed by human professionals in the domain.

Active Cyber Defense

In his proposal regarding economic security, cybersecurity professional Osawa Jun discusses how the era of globalization is ending due to the rise of China. Within the context of U.S.-China competition, he suggests that protecting intellectual property from cyberattacks is the biggest priority. He points out that the primary targets of Chinese cyberattacks are aligned with Beijing's goals listed in its "Made in China 2025" strategy. Space and satellite data are included in the list of targets. Osawa suggests active cyber defense (ACD) as a potential counter to Chinese cyber threats[xlvii]. Currently implemented by the United States Department of Defense, ACD is an integrated and automated defense strategy that enables the government to utilize all available policy measures to respond to a cyber threat in real-time[xlviii]. Data collected as part of ACD can be reused for different purposes, such as situational awareness. The ACD process assumes that the final decision is made by a person, with automation mostly incorporated to shorten the timeline. To be successful, ACD requires a high degree of integration and coordination among government agencies, which may be difficult with the current lack of clear centralization in Japanese cybersecurity and difficulties collecting data for ACD due to current legislative restrictions.

Government Systems

Former SDF Major General Tanaka Tatsuhiro suggests that Tokyo establish a cyber ministry to address the growing role of cyber in national security[xlix]. Such a ministry would be able to circumvent the current divisions within the Japanese government and enable greater coordination. While there is domestic controversy regarding the prospects of strengthening Japanese security capabilities, General Tanaka stresses the potential ill effects a major cyber threat would have on critical infrastructure. He argues that cybersecurity is essential in the current age of information and digitization, and that any spending to increase preparedness against a potential major cyber threat should be regarded as an investment. The establishment of a cyber ministry would address Shibaura Institute of Technology Professor Mochizuki's concerns about NISC as it would have the authority to coordinate a response in case of a cyberattack. While there is a Digital Agency, its position within the Japanese government prevents it from having the necessary authority to coordinate horizontal collaboration.

Opportunities for Cooperation with the United States

The Mansfield Foundation has been playing an active role in considering opportunities for stronger cybersecurity collaboration between Japan and the United States. In December 2022, it held a public event on Building a Cyber Workforce Through the U.S.-Japan Alliance[l]. This event served as the concluding session to five virtual discussions held by the Mansfield Foundation to address the lack of cybersecurity personnel. The panelists reiterated that building human resources to shore up cyber defense capabilities is essential for both the United States and Japan in protecting national security and the Indo-Pacific. In January 2023, the foundation conducted a roundtable on U.S.-Japan cooperation in cybersecurity. During this roundtable, Dr. Benjamin Bartlett of Miami University highlighted three reasons why the United States and Japan would be good partners in cybersecurity and should thus collaborate more. First, he suggests that "Japan is uniquely qualified to assist the United States in filling the large demand for cybersecurity personnel"[li] due to its skill requirements being aligned with the United States through the NICE framework. Additionally, Japan is an active participant in NIST discussions, according to an international negotiation specialist at NIST, so there is an active channel for communication on cybersecurity requirements. Second, Dr. Bartlett stated that the human trust aspect is necessary for addressing cyber threats, and the strong human relation networks that have been cultivated over the years between the two countries through various programs such as JET and Operation Tomodachi. He additionally highlighted how even the major differences between the United States and Japan can lead to diverse solutions. He noted that a misconception that technical skills are required to be successful in cyber-related roles is prevalent in both nations. Further cooperative efforts can address this aspect, possibly by exploring collaborative cybersecurity measures within the security alliance through think tank and ministry-level discussions.

Conclusion and Recommendations

As can be seen above, Japan's cybersecurity system leaves much to be desired in terms of centralization, general cybersecurity threat response measures, and personnel deficiencies. The government, however, has been tackling these issues at home and abroad, and has added stringent data protection measures. It is important to recognize that some of the Japanese characteristics that hinder its cybersecurity policy development in certain respects aid it in others. For example, Japan's seeming reliance on foreign pressure can be reinterpreted as a strong desire to pursue collaborative efforts, as can be seen through how the respect for NIST frameworks is allowing for coordinated personnel training with the United States. Stringent data protection measures, while influenced by the European Union, benefit Japanese citizens. Japan's lack of centralization can be concerning at first glance, but is not necessarily a problem that must be addressed independently. Like other aspects of its digitization and security efforts, Japan's cybersecurity capacity is improving, and policy is actively being formulated.

Looking ahead, I have three policy suggestions. First, continue ongoing efforts to enhance cybersecurity policy, legislation, and capabilities within the current system. While a lack of centralization hinders the implementation of large-scale collaborative efforts and limits policy choices, these weaknesses can be countered by providing NISC with more authority within the government or establishing a new cybersecurity office and entrusting METI with industry cooperation. METI could then directly reach out to industry communities to share data on a voluntary basis. Both of these measures would lead to greater situational awareness of the Japanese government and a larger, though not comprehensive, database of potential threats. This would enable NISC, or the new cybersecurity office, to design a relatively coordinated response in advance of a large-scale cyberattack and provide it as a suggestion to relevant government and industry members. The use of such non-binding measures could improve Japanese threat readiness without majorly altering the current structures. This could also set the groundwork for comprehensive legislation on the use of cybersecurity tools to counter threats.

Second, Japan should continue and enhance ongoing collaborative efforts with the United States, especially through think tanks. American think tanks are well equipped to conduct discussions with Japanese cybersecurity professionals as they regularly hold simulations, speaker sessions, roundtables, and other sessions with academics that have the potential to influence policy and industry practices. Think tanks have access to translators, who could aid in explaining current policy and technical capabilities, reducing misunderstandings to enable smoother and more effective cooperation. U.S.-Japan collaboration for cybersecurity personnel training and education should also be encouraged as the technical skills and threats faced are similar in both nations. Through think tanks, intergovernmental collaboration, or personal exchanges, Japan and the United States can share best practices and improve and standardize training methods. Such bilateral measures can be implemented in conjunction with multilateral information-sharing and collaborative efforts with the Quad, G7, and International Counter Ransomware Initiative (CRI) member states. This is in line with Deputy National Security Advisor Okano Masataka's remarks at the Shangri-La Dialogue, where he expressed Japan's interest in further cybersecurity collaboration with partner countries[lii].

Finally, Japan can pursue intergovernmental cooperation with the United States to establish procedures in case of a crisis. This is not to say that the United States should intervene in Japan's cybersecurity policy. Instead, intergovernmental cooperation should focus on the treatment of U.S. military bases in Japan. Any large-scale cybersecurity threat to Japan will affect the U.S. bases and vice versa, so the response should be integrated to enable smooth action and prevent unnecessary confusion. One example of a situation where this would be useful in the case of a Taiwan contingency. In such a case, a cyberattack may target American bases in Japan to delay mobilization and prevent an immediate American military response. If the United States military were to respond independently, it may be inefficient due to a lack of support or understanding from the local government and industry. However, if the military is able to contact the Japanese government, local governments and industry may be more inclined to cooperate. Additionally, prior government coordination would cut out the step of the American government needing to contemplate which Japanese ministry to contact, improving response speed. Such a coordination mechanism could be useful for protecting other international digital assets based in Japan.

Japan has been pursuing digitalization and has been particularly successful in recent years. We can expect a similar improvement in cybersecurity measures and necessary policy to protect these new digital assets. As the cyber realm knows no borders, international cooperation can be very effective, but it is important to acknowledge individual improvements and allow a degree of autonomy to have truly effective measures domestically. Japanese efforts are seen not only domestically but also internationally, as can be seen by its leading role in DFFT and the G7 Hiroshima Summit. Maintaining its strengths, Japan can improve its current capabilities and work with international partners, not to cover for its weaknesses, but to be a global leader and contribute to enhanced cybersecurity, domestically and globally.

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Assessing the Impact of Multilateral Trade Agreements on Japan's Economy

By Amanda Zakowich

Introduction

This paper aims to understand the effects of Japan's current multilateral trade agreements on its economy and domestic attitudes toward such trade deals. It also examines the geopolitical factors shaping Japan's involvement in the Regional Comprehensive Economic Partnership (RCEP), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the Indo-Pacific Economic Framework (IPEF). The recent COVID-19 pandemic, the Russian invasion of Ukraine, and U.S.-China tensions disrupted supply chains across the world and affected the flow of international trade. Japan found itself buffeted by these far-reaching crises, forcing the government to think about how it can reshape its global trade structure and stay competitive in this post-Covid world. This paper will also explore the factors influencing future trade agreements and potential responses to them, and propose several future trade strategies.

The global trade environment is continuously changing, and is different today from when previous trade agreements such as the RCEP and the CPTPP were negotiated. China's challenge to the international order is one major change since those trade agreements were negotiated. The pandemic and war in Ukraine have led Japan to restructure its supply chains. The vulnerability of international trade flows has led to serious discussions of trade as a national security priority and trading with like-minded countries. China, however, remains Japan's major trading partner, despite the fear that it might use trade as a weapon. This paper examines what Japan may want to do diplomatically to protect its trade, economic security and help bolster the international order.

Background

Japan is a highly developed market economy and the world's third-largest economy measured in gross domestic product. Japan's advanced economy is a successful case of economic development, as it grew quickly from the ashes of World War II to become one of the world's largest economies and a member of the G7. Japan's postwar economic growth was fueled by its automobile and consumer electronics industries, and by increased international trade, increased quantity and quality of labor, technological change, and the accumulation of capital.[i] Today, Japan is the fourth largest trading country in the world, following China, the United States, and Germany, and is one of the largest investors in the world.

Postwar Development

Japan's Economic Miracle, the period between the end of World War II and the end of the Cold War, saw rapid economic growth and an economy that grew at twice the rate of the prewar years. Exports rapidly increased after World War II because of industrial policy incentives, high-quality products, and low prices. Japan changed its export structure based on demand abroad, giving it an advantage in the international market. In the 1950s and early 1960s, Japan exported textiles, machinery, and metals. Today, Japan is the world's fourth-largest exporter, with such superior products as motor vehicles and integrated circuits.[ii]

Japan's postwar economy was shaped by its commitment to rebuild its economy quickly to catch up with nations of the West and make up for its lack of natural resources and raw materials by exporting value-added products. Japan based its postwar economic development on manufacturing and exporting consumer electronics and motor vehicles. Japan soon was famous for its global auto industry, surpassing Germany as the largest manufacturer of cars. Starting in the 1950s, however, Japan restricted automobile imports to protect its domestic auto industry, raising international cries of protectionism. The auto industry continued to grow, and by the 1970s, Japan was flooding foreign markets with its automobiles. Starting in the 1980s, though, Japanese automakers began to open auto assembly plants in the U.S. and other countries in order to get around newly erected import barriers there.

In the past, the largest challenge in Japan's trade policy was export promotion, as Japan needed to do so as part of its objective to be a processing nation, one that imports raw materials but adds value and exports finished products. This was one way for Japan to move up the economic ladder and rebuild its devastated economy after World War II. Japan was successful in exporting large numbers of automobiles in the 1960s and 1970s, with about half of the automobiles produced exported. In 1960, Japan's exports grew at an average annual rate of 16.9% and increased to an annual rate of 21% by the 1970s. Export growth slowed during the 1980s, averaging 11.3% annually, and by 1990, Japan's exports reached a high of $286.9 billion. There were both push and pull factors for the increase in Japan's exports during this period. This came from the increase in demand for Japanese exports as other markets grew and developed, and trade barriers in other markets were reduced, increasing the attractiveness and competitiveness of Japanese goods. In the 1970s, Japanese steel, ships, automobiles, semiconductors, and consumer electronics had a reputation for being high-quality and well-designed.

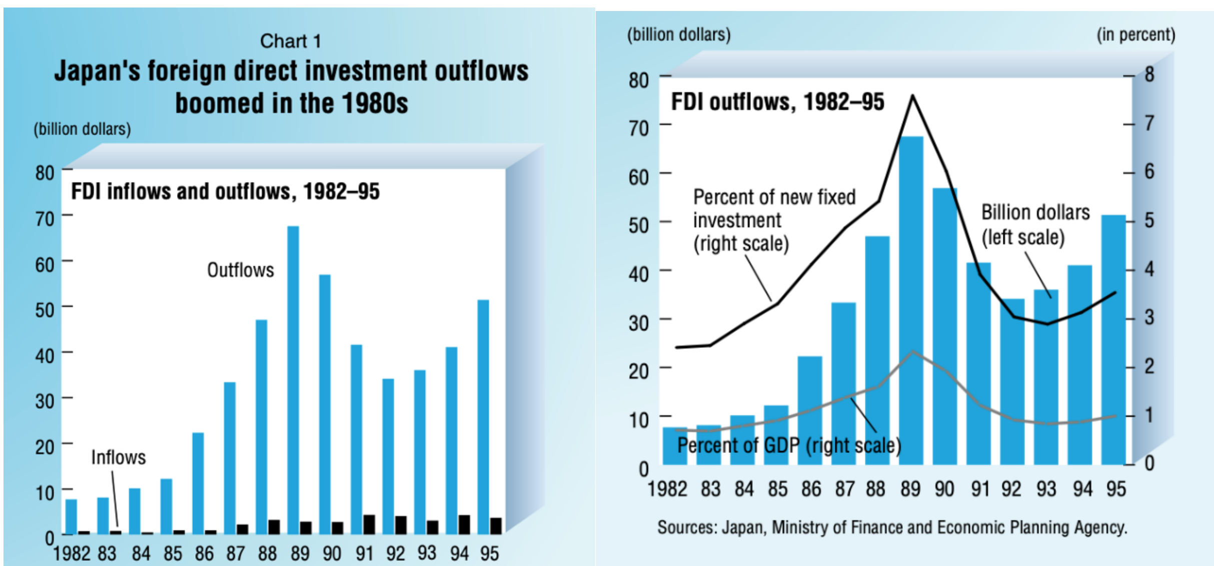
Figure 1. Growth of Japan's Exports and GDP

(Source: Financial Times April 3, 2014)

Foreign Direct Investment

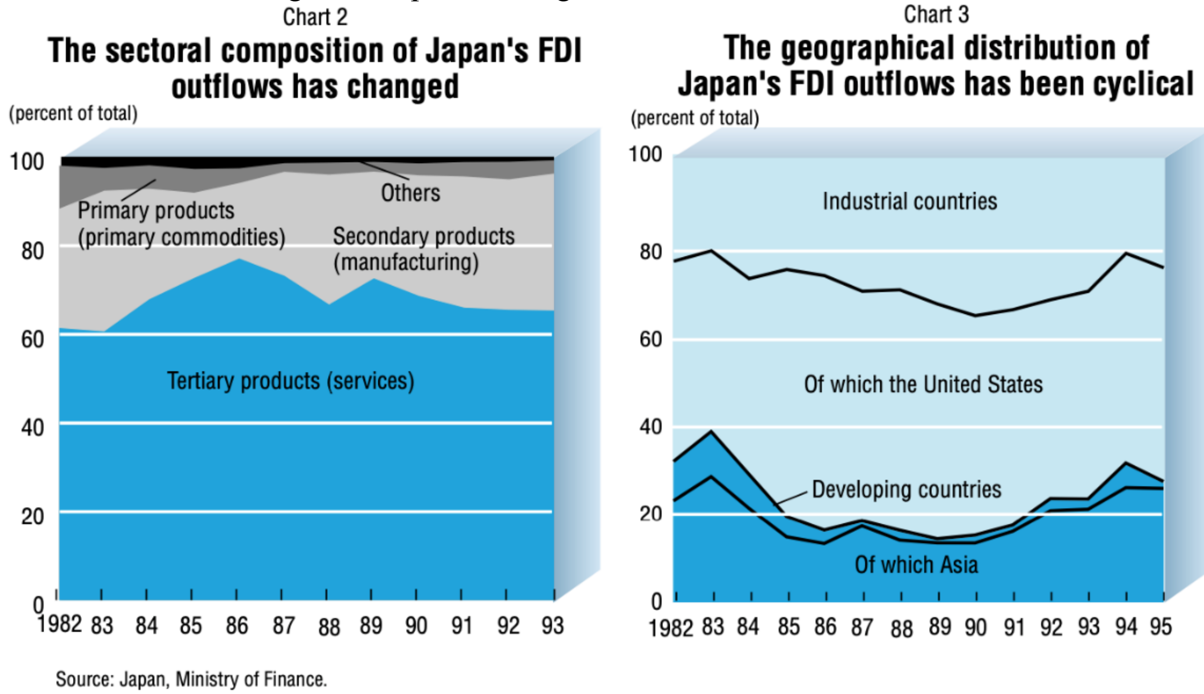
From the early 1980s, Japan began to invest heavily in companies abroad, and foreign direct investment flowing out of Japan into other countries was much greater than investment flowing from other countries into Japan. This raised concerns that too much investment and manufacturing capability was leaving Japan, which was having long-term repercussions on domestic growth, employment, and productivity. Japan's outbound foreign direct investment flows were initially driven to access and enter foreign markets, exploit economies of scale, and provide returns on investments that benefited the country.[iii] Investment overseas helped secure access to raw materials needed for Japan's domestic manufacturing and expand the research and development capabilities of Japan's corporate sector. Japan's foreign direct investment into Southeast Asia also created platforms for Southeast Asian businesses to export to the United States and other markets.

Figure 2. Japan's Foreign Direct Investment Outflows



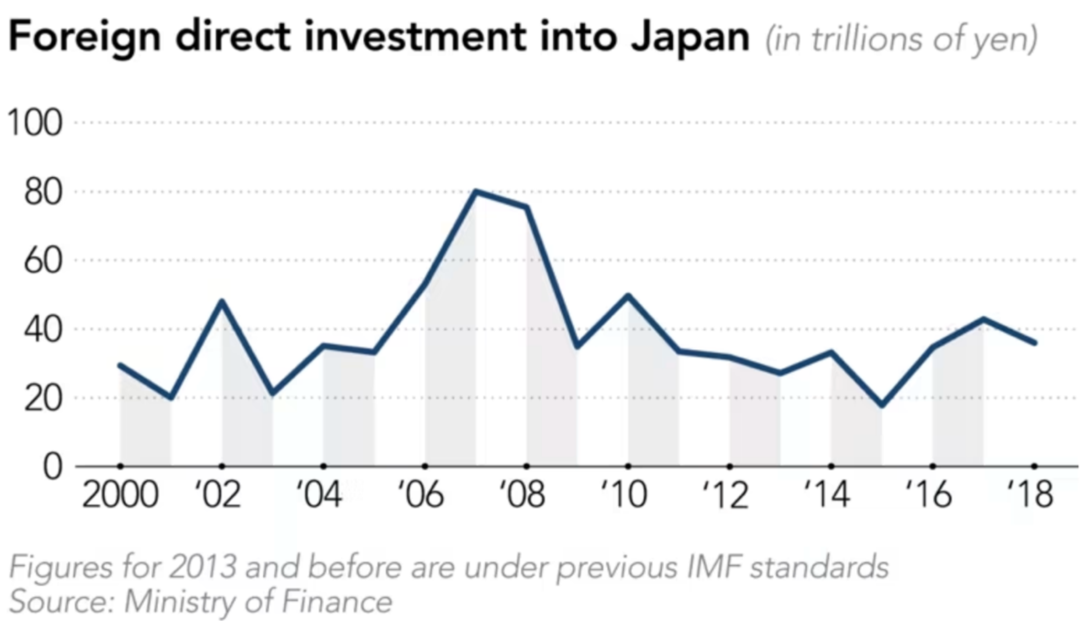
(Source: International Monetary Fund)

Figure 3. Japan's Foreign Direct Investment Distribution



(Source: International Monetary Fund)

Figure 4. Foreign Direct Investment into Japan



(Source: Nikkei Asia)

In addition to engaging with the world through global trade, The administration of Prime Minister Suga Yoshihide (2020-2021) developed a plan to attract foreign direct investment from around the world as part of the government's strategy to revitalize the economy, which was weakened by the declining birth rate, rapidly aging population, and resulting labor shortage. Japan needs to attract highly skilled workers, advanced technologies, and large amounts of capital and resources from abroad to revitalize its economy and achieve economic growth to offset these demographic factors. One initiative it has taken to increase foreign direct investment is to make Japan into a new Asian business center through the Japan Innovation Bridge (J-Bridge), which is a business platform to increase collaboration between Japanese and overseas businesses.[iv] On February 18, 2021, the Ministry of Economy, Trade and Industry (METI) inaugurated a business platform called "Japan Innovation Bridge (commonly called "J-Bridge") under the Japan External Trade Organization (JETRO), aiming to support Japanese companies in collaborating and advancing M&A with overseas companies based mainly in Asia, including startups, through open innovation.

What Factors are Influencing the Future Trade Agreements of Japan?

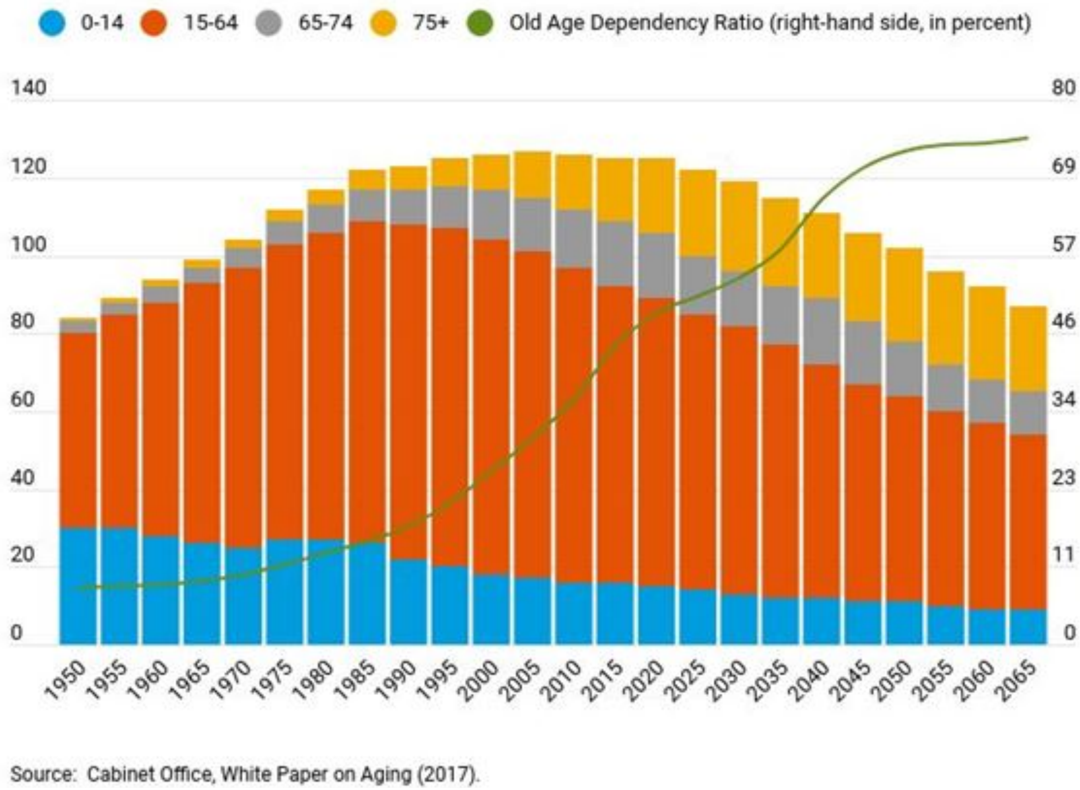
Currently, many factors are influencing Japan's participation in both bilateral and multilateral trade agreements. Japan is a densely populated country with limited land to produce food for its population. Japan, therefore, imports most of its food supply. Japan also lacks raw materials and energy resources, such as oil, wood, aluminum, coal, and iron. Japan has remained one of the United States' most important trading partners, and is the largest foreign direct investor in the United States. The two economies have become highly interdependent.

The international trade environment has changed considerably in the aftermath of CPTPP and RCEP negotiations. International trade flows were also negatively impacted by the Covid-19 pandemic. But over the long term, Japan must deal with other trends and restructure its trade priorities and strategies accordingly. In particular, Japan faces China's growing economic influence in Asia, its growing aggressiveness in the region around Japan, and increased tensions between the U.S. and China. Digital transformation and climate change are also changing the patterns of global trade, requiring Japan to reassess and strengthen its economic security. Many international businesses have already begun to nearshore and restructure their supply chains for the post-pandemic world. In this context, Japan is discarding its earlier preference for bilateral trade agreements in favor of multilateral trade deals.

Japan's Declining Population

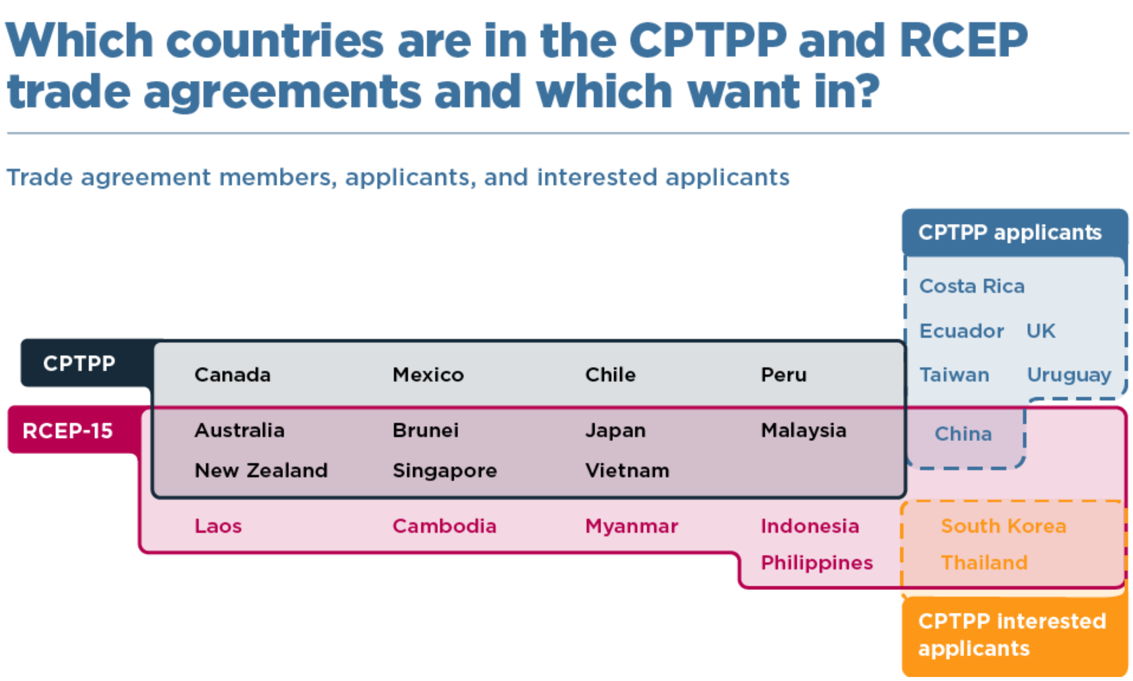
Over the last decade, Japan has switched from negotiating bilateral free trade agreements and economic partnership agreements, which protected such vulnerable sectors as agriculture, to negotiating multilateral trade deals. These multilateral trade agreements have further integrated Japan into the international trade arena. Such trade deals can help Japan's growing demographic crisis. Japan has one of the oldest populations in the world, and its population is shrinking. Although Japan has seen an increase in women joining the labor force recently, the shrinking population means there will be a surplus of older workers in the coming decades, suppressing economic growth and productivity. This will shrink public finance, undermine housing prices, and aggravate the financial health of banks. Japan has so far relied on Abenomics, the signature economic policy mix introduced by Prime Minister Abe Shinzo that includes monetary easing and labor market reforms. Japan also needs to continue to further liberalize trade and promote foreign direct investment into the country to stimulate economic growth and productivity. Further use of automation and attracting more highly skilled foreign workers will also help offset the economic impact of Japan's declining population.

Figure 5. Japan's Declining Population



(Source: International Monetary Fund)

Figure 6. Countries in the CPTPP and RCEP



(Source: Peterson Institute for International Economics)

Evaluating the Economic Impact of the CPTPP

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is a multilateral trade agreement that was signed on March 8, 2018, in Santiago, Chile. It was signed by Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. The CPTPP is one of the largest multilateral free trade agreements, covering 13.5% of the world economy.[v] The CPTPP is universally regarded as a high-standard free trade agreement, and the Peterson Institute of International Economics estimated that it will contribute an additional $147 billion to the global economy.[vi] CPTPP features chapters on the protection of the environment and labor rights, which are enforceable by dispute settlement, to ensure that CPTPP members do not derogate from their commitments in these areas to increase trade or investment.

Moreover, the CPTPP encourages good regulatory practices within member countries, aims to promote economic integration, employment, and supply chains regionally, as well as promote investment and trade in new technologies and innovations. It also aims to ensure a competitive business environment across member regions, reduce tariffs, and allow for greater market access.

CPTPP is highly important to Japanese businesses because it strengthens the rules-based trading environment and allows for greater market access. Japanese businesses can expect tariff reductions and improved market access in member countries. Reduced tariffs enlarge market opportunities and make Japanese goods and services more competitive. The CPTPP has high-standard rules in such areas as intellectual property, e-commerce, and data localization. Improved protection of intellectual property will benefit innovative industries in Japan, particularly technology and pharmaceuticals.

Under the rules negotiated for the CPTPP agreement, such service sectors as telecommunications and finance are expected to benefit greatly in regional markets. Because the CPTPP came into effect in 2018, followed by the onslaught of the COVID-19 pandemic, there is little data to show the effect the agreement has had on various industries and businesses in Japan. Although not measurable, companies are reporting that the tariff reductions on automobiles will increase such exports to Canada. In addition, after Malaysia ratified the CPTPP in late 2022, Japan is expecting tariff reductions on steel, followed by increased exports to Malaysia.

Evaluating Economic Impacts from RCEP

The Regional Comprehensive Economic Partnership (RCEP), the largest free trade agreement ever created, was signed on November 15, 2020, by the ten ASEAN countries, Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam, and five regional partners that include China and Japan. In terms of economic significance, it is expected to connect 30% of the global population and economic output and add $500 billion to global trade by the year 2030.[vii] RCEP could strengthen the economies of the participating countries by connecting their technology, agriculture, and manufacturing sectors. Southeast Asia is expected to benefit greatly from RCEP, and because China is part of RCEP, the agreement will enhance market access to China by strengthening transportation and energy networks.

There is not much data or statistics available for RCEP because of the negative effects of the Covid-19 pandemic. However, Japan anticipates increased market access, particularly between Japan and China, and between Japan and Korea. Reductions and eliminating tariffs on certain goods could increase Japanese competitiveness and expand access to a larger customer market. RCEP is also expected to strengthen supply chains and trade flows for Japan as it promotes regional economic cooperation and integration. The manufacturing and assembly sectors could benefit from newly created regional supply chains and have greater access to intermediate products. RCEP could also attract more foreign direct investment to Japan as it has provisions for investment protection.

RCEP is very important for Japan because China and Korea are not in the CPTPP, and RCEP satisfies Japan's desire for a multilateral trade agreement with those countries. Since there are tariff reductions on automotive components in RCEP, exports of such to China are expected to grow from 5 trillion yen in 2019, according to METI data. For Korea, non-tariff goods are expected to increase by over 90 percent under the agreement. [viii] Since China is a member of RCEP, Japan requires all members to implement all the rules to achieve the maximum economic benefit.

How Have Multilateral Trade Agreements Shaped and Affected Japan?

A major difference between RCEP and CPTPP is that the RCEP does not specifically protect intellectual property, labor, or certain other areas found in the latter agreement. While multilateral trade agreements are seen by the business community as beneficial to Japan, the agricultural sector has traditionally been opposed to agreements that open the economy. Farmers in Japan see international trade as hurting their vulnerable sector and continue to demand protection.

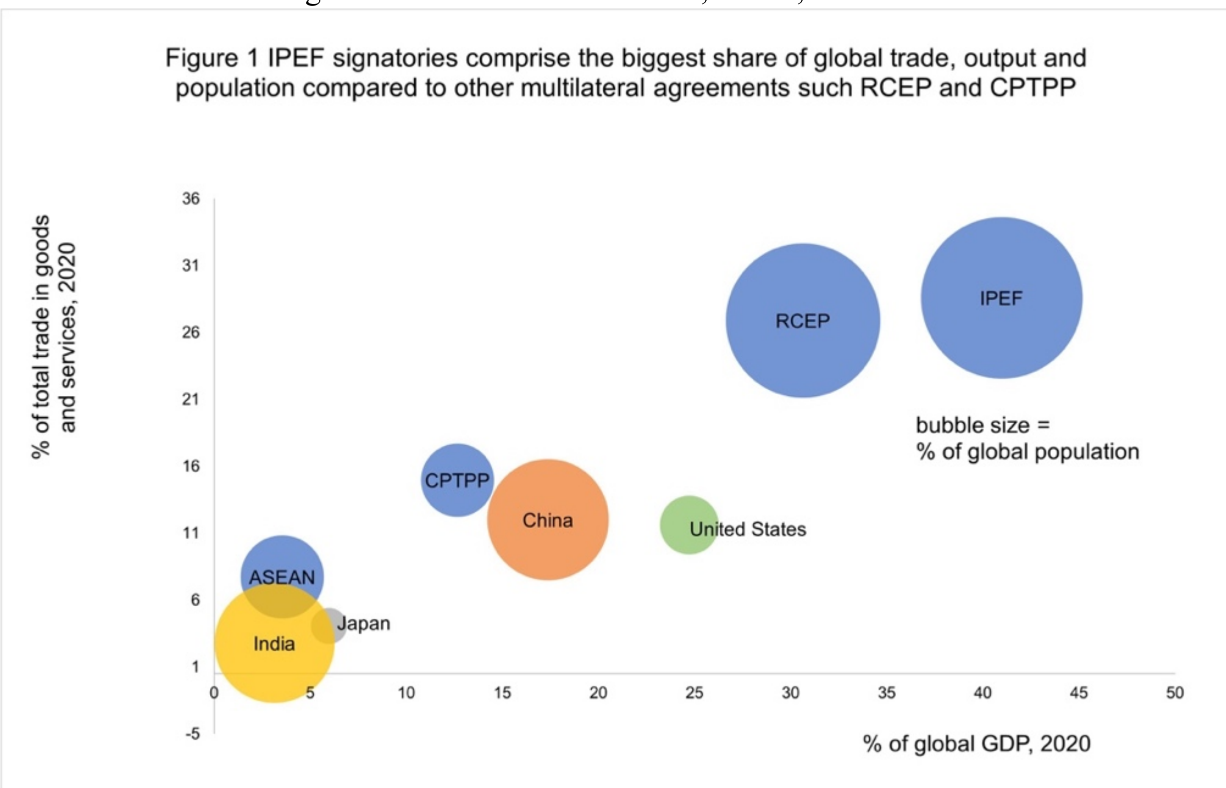
In the words of economist Suzuki Hiroshi, Japan's economic diplomacy has three components: Japan and the United States, Japan and China and Asia, and Toyota. This analogy is supposed to illustrate that Japan's economy is highly attuned to its economic relationships with the United States, China, and other Asian countries.[ix] Japan is dependent on the United States and Asia for trade and its auto industry is its largest export. In 2022, Japan exported $747.3 billion worth of goods, up from $738.2 billion in 2018. [x] In 2022, Japan's biggest exports were automobiles, integrated circuits, semiconductor-making machinery, auto parts, and heavy machinery.[xi] These five categories of exports accounted for about 25% of total Japanese exports.

In connection with RCEP, it was pivotal for Japan to enter a trade agreement with China, which is a member. Japan took a leadership role in RCEP negotiations, the aim being to protect Japanese business interests, and keep Japan's regional influence, particularly among ASEAN countries.[xii] Although RCEP does not have the high quality of CPTPP as a multilateral trade agreement, Japan will gain significant economic benefits. The trade deal also propels regional economic integration in the Asia Pacific. While Japan needed to promote a new rules-based order – CPTPP – following the United States' withdrawal from TPP, RCEP will boost trade among the member countries due to the reduction of trade and investment barriers.

Agricultural Sector

Until Japan negotiated the TPP agreement with the U.S., the agricultural sector had long been the most protected part of the economy from certain food imports. Beef, rice, and milk, for example, have long been protected from trade inroads. The CPTPP has made inroads into the protected parts of the agricultural sector due to the reduction and elimination of tariffs and trade barriers. Such increased market access increased the competitiveness of farm products from member countries Australia, New Zealand, and Canada. Liberalization of the farm market in Japan through CPTPP could force Japanese farmers to change their production methods and introduce new technologies to stay competitive, requiring significant initial costs and challenges.

Figure 7. Share of Trade of IPEF, RCEP, and CPTPP



(Source: ODI Global Advisory)

Expected Economic Impact of the Indo-Pacific Economic Framework (IPEF)

The Indo-Pacific Economic Framework for Prosperity (IPEF) was launched in May 2022 as part of the Biden Administration's commitment to strengthening ties in the Indo-Pacific to tackle the economic challenges of the post-Covid world. IPEF aims to advance economic growth, financial inclusion, environmental sustainability, fairness, cooperation, and competitiveness across the fourteen participating economies. IPEF participants have been intensely discussing supply chain stability, digital trade, clean economy (cooperation on research, development, commercialization, availability, accessibility, and deployment of clean energy and climate-friendly technologies, and facilitating investment towards climate-related projects in the region) and fair economy (strengthen implementation of effective anti-corruption and tax measures to boost commerce, trade, and investment among IPEF economies). The 14 member countries are the

United States, Australia, Brunei, Fiji, India, Indonesia, Japan, The Republic of Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, and Vietnam. These partners have diverse economies that account for 40% of global GDP. The United States invests greatly in the Indo-Pacific region and its foreign direct investment in the Indo-Pacific was more than $969 billion in 2020.[xiii] Trade with this region supports 3 million jobs in the United States, and stronger economic cooperation with the Indo-Pacific will increase growth and productivity in the United States and improve standards of living in the Indo-Pacific region. The Indo-Pacific Economic Framework meets the challenges and needs of today's global economy and is a strong partnership because participating countries are like-minded and cooperate to solve similar challenges. Among all the participating countries, Japan is a major partner of IPEF, and thus expected to strengthen its economic relations with the United States during the negotiations.

IPEF is still under negotiation, but market access is not on the agenda. Japan has proposed that the United States make sure IPEF rules are of high standard and promote the goal of cooperation, including sharing best practices for artificial intelligence development and digital transformation. The goal includes engaging ASEAN countries in dialogues on cybersecurity. According to Japanese trade policy officials, there needs to be more focus on IPEF discussion to link to other trade agreements like the CPTPP and RCEP.[xiv] The expectation of IPEF is that the steel and automobile industries will increase exports. The new rules of the IPEF will benefit Japan and ASEAN countries by increasing economic integration, supply chain resiliency, strategic partnerships, and regional stability. Because the United States is not in CPTPP or RCEP, IPEF remains the only multilateral venue for Japan and U.S. to cooperate on regional and bilateral trade and investment issues.

Figure 8. IPEF Countries and GDP

IPEF Countries	Revised GDP PPP Int$, Billions	CAGR 10 Year Rate %, 2012-2022	Share of Global GDP %	Share of Global GDP Growth %, 2012-2022	Revised GDP Per Capita Int$	Government Debt to Revised GDP %
Australia	1,457.2	2.2%	0.9%	0.6%	55,897	51.6%
Brunei Darussalam	39.1	-0.4%	0.0%	0.0%	87,692	1.3%
India	15,820.4	5.5%	9.3%	14.6%	11,247	52.3%
Indonesia	4,810.9	4.2%	2.8%	3.6%	17,235	29.1%
Japan	5,679.7	0.6%	3.3%	0.8%	45,226	240.7%
Korea, Rep.	2,880.0	2.6%	1.7%	1.5%	56,108	44.1%
Malaysia	1,305.3	4.1%	0.8%	1.0%	39,339	51.2%
New Zealand	247.8	2.9%	0.1%	0.1%	50,590	51.4%
Philippines	1,389.6	4.9%	0.8%	1.2%	12,351	42.3%
Singapore	661.5	3.1%	0.4%	0.4%	111,301	127.8%
Thailand	1,835.4	1.8%	1.1%	0.7%	26,190	42.0%
United States	23,141.8	2.1%	13.6%	9.7%	69,120	113.8%
Vietnam	1,535.2	8.6%	0.9%	1.9%	15,514	29.0%
IPEF Totals / Averages:	60,803.8	N/A	35.6%	36.1%	45,985*	67.4%*

(Source: World Economics)

Figure 9. IPEF Countries' Trade in Goods

IPEF COUNTRIES' TRADE IN GOODS (USD million)							
COUNTRIES	TRADE	W/UNITED STATES	PERCENTAGE	RANK	W/CHINA	PERCENTAGE	RANK
AUSTRALIA	603,622	37,637	6.2%	3	189,677	31.4%	1
BRUNEI	19,633	230	1.2%	13	2,798	14.3%	2
FIJI	2,931	390	13.3%	3	364	12.4%	5
INDIA	965,216	112,897	11.7%	1	110,572	11.5%	2
INDONESIA	427,712	37,129	8.7%	2	110,009	25.7%	1
JAPAN	1,529,342	221,942	14.5%	2	349,524	22.9%	1
KOREA	1,259,425	169,115	13.4%	2	301,541	23.9%	1
MALAYSIA	537,480	52,446	9.8%	3	101,622	18.9%	1
NEW ZEALAND	123,248	12,148	9.9%	3	34,672	28.1%	1
PHILIPPINES	199,010	20,137	10.1%	3	39,741	20.0%	1
SINGAPORE	1,159,963	107,245	9.2%	3	164,253	14.2%	1
THAILAND	534,880	55,801	10.4%	3	103,004	19.3%	1
VIETNAM	666,545	111,507	16.7%	2	165,774	24.9%	1

(Source: Asia Society)

What's Next for Japan in Multilateral Trade Agreements?

What is next for Japan in international trade? Many geopolitical factors have led to the decline of the postwar international liberal trade order, and Japan needs to consider how to restructure its trade system to retain its place as a leader in the Asia Pacific as it responds to the changing international environment. Japan's priority should be to trade with countries that are like-minded and have similar rules and laws.[xv] The safeguarding and restructuring of global supply chains should also be a priority for Japan, as the global economy grows more unstable from the Covid-19 pandemic, the Russian invasion of Ukraine, and competition with authoritarian states like China. The new high-standard trade agreements with like-minded countries could help Japanese businesses lower production costs, expand into new markets, and promote domestic investment. Diversifying supply chains can help Japan decrease the risks from economic shocks such as pandemics, international crises, and natural disasters.

Another main focus for Japan is to strengthen its economic partnership with the United States, centering on trade in the Indo-Pacific, and the Indo-Pacific Economic Framework may be Japan's opportunity to do this. IPEF renews the United States' economic interest and commitment to the Indo-Pacific region and can serve as a platform for growth, productivity, and integration. Japan needs to strengthen its economic relationship with the United States to compensate for its withdrawal from the Trans-Pacific Partnership in 2017. IPEF holds great strategic significance for Japan.

Japan also should strengthen its domestic industries by promoting innovation, competitiveness and investing in education and professional skills development. According to the International Monetary Fund, Japan's economy is expected to grow by 2.4% in 2023, and digital transformation is expected to boost growth and productivity. xvi Japan also should focus on exporting high-value sustainable products to leverage its strengths in advanced technology, high-quality manufacturing, and precision engineering. Investing in research and development can also position Japan to be a leader in areas such as robotics, artificial intelligence, clean energy, and advanced manufacturing.

Japan's trade with the United States is increasingly centered on high-technology products. Japan's trade with the United States exceeds the cumulative total of its trade with the fourteen RCEP countries. IPEF is promising to Japan and the region because of its potential to enhance supply-chain resiliency, as well as boost production and trade in advanced semiconductors and next-generation batteries. Japan should launch two supply chains to ensure supply chain resiliency, one with the Western world, and another centered on China.

Japan should continue to participate in multilateral trade partnerships to promote global trade rules and solve global challenges. Cooperating with like-minded countries in mega trade deals that advocate for fairer and more transparent rules can protect Japan's interests and contribute to a stable international trade order. Japan should strengthen its regional partnerships in Asia given its geographical location and enhance economic integration in Southeast Asia among ASEAN countries. Japan should also diversify its trading partners to reduce dependency on important markets. Exploring emerging markets in Asia and Africa with growing consumer demands could open opportunities and mitigate risks of over-dependency or reliance on specific regions or countries.

Conclusion

As the global trade environment of the 21st century continues to change, Japan must consider how to maintain its leadership in the Indo-Pacific by prioritizing multilateral trade agreements and increasing trade with like-minded countries. The recent pandemic, the Russian invasion of Ukraine, and US-China tensions have impacted supply chains across the world and slowed international trade. Japan has found itself buffeted by these major shifts in the international environment, and it must reshape its global trade strategy to stay competitive. Japan's participation in RCEP, CPTPP, and IPEF will play a significant role in restructuring the Japanese economy, promoting cooperative relations with its trading partners, and speeding up regional economic integration. Through such agreements, Japan has gained access to new markets and strengthened ties with older markets. These trade agreements have facilitated the exchange of technologies, ideas, and sustainable development, and have enhanced regional stability and cooperation. Japan's commitment to multilateralism shows its determination to promote a rules-based international order and boost growth and productivity in the region.

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The Farm Lobby's Stranglehold on Japanese Politics Chokes Reform Agenda

By Zhuoran Li

Introduction

Japan Agricultural Cooperatives Group (JA) is one of the most powerful actors in Japanese politics, having developed a symbiotic relationship with the Liberal Democratic Party (LDP). JA gathers votes for LDP politicians in elections, and in return, LDP Diet members lobby for pro-agriculture policies, such as handsome subsidies, high rice prices, and protection from agricultural imports for certain commodities like rice. These policies, however, have had a detrimental effect on the national competitiveness of Japanese agriculture, and the farm sector has become a dying industry. The Japanese government, therefore, started a long reform process in the 1990s to weaken the agriculture establishment and boost Japanese agriculture efficiency. Prime Minister Abe Shinzo also viewed agricultural reform as a pillar of his structural reform agenda.

Abe viewed "putting Japanese agriculture on offense," which aimed to make the agricultural sector profitable and globally competitive, as a vital pillar of his structural reform. The reform agenda included both domestic and international components. The domestic reform aimed to reduce the agriculture establishment: the iron triangle of JA, agriculture "tribe" Diet members, and the Ministry of Agriculture, Forestry, and Fisheries (MAFF). JA is one of the most powerful political interest groups in Japan. For a long time, its ability to mobilize votes and support LDP candidates in national and local elections was crucial for the LDP's dominance in Japanese politics. In return, it lobbies for pro-farmer policies, such as handsome agriculture subsidies and protectionist policies. Therefore, Abe aimed to weaken JA's political foundation through institutional reform, so it could not stand in the way of Abe's agriculture reform.

The international component of agricultural reform involved both "coming in" and "going out": opening the Japanese market to foreign competition while internationalizing Japanese agricultural products. Japan's agriculture trade regime aims to protect Japanese agricultural products against foreign competition in the domestic market through high tariffs, domestic subsidies, special safeguards, and non-tariff trade barriers. During the GATT Uruguay Round (UR) negotiations on agricultural trade, Japan opposed the complete elimination of non-tariff measures and the conversion to a tariff-based system. Instead, Japan agreed to a compromise that allowed for certain special treatment, particularly concerning rice, which holds significant importance in Japanese agricultural politics[i]. This special treatment involved the establishment of larger tariff quotas for rice, ensuring protection for this crucial product. In the subsequent WTO Doha Round negotiations, Japan took a strong stance against imposing 100 percent tariff caps. It sought to designate numerous products as "sensitive items" to safeguard them from substantial tariff reductions. Japan aimed to negotiate exemptions for these sensitive items, permitting them to be subject to milder tariff cuts in exchange for higher tariff quota volumes[ii]. For Abe, the then-new Trans-Pacific Partnership (TPP) negotiations were a significant opportunity to make the agriculture sector globally competitive through internationalization. Abe also tried to seize the chance to defeat the agricultural establishment and push through his structural reform agenda by "external pressure (gaiatsu) from the United States."

This article hypothesizes that the Abe administration would successfully implement agriculture reform by overcoming political pressure. It proposes three modest hypotheses for falsifiability. First, the final Agriculture Reform Bill should not deviate from the original proposal from Abe's cabinet. Second, pro-agriculture politicians should not water down the reform agenda. Third, the administration did not need to compensate the agriculture sector. The study found that all three small hypotheses were nullified. Therefore, despite changes weakening the agriculture establishment and centralized power under the Prime Minister, the Abe administration could not successfully implement its agenda. There were several reasons behind Abe's failure. First, Abe's attempt to separate farmers from JA did not achieve its intended goal. Second, the single-district voting system augmented JA's political significance in elections. Third, the Ministry of Agriculture, Forestry, and Fishery did not fully support Abe's reform agenda.

Social Organizations, Networks, and Reform

The key to a successful social movement influencing policymaking outcomes is mobilizing popular participation for a common goal. For example, Chong emphasizes the importance of mobilizing resources, building coalitions, and creating a shared identity among movement participants as keys to the success of the Civil Rights Movement.[iii] However, overcoming what Olson defines as the "collective action problem" became vital to social movements. Since individuals have a natural tendency to pursue their self-interest, they have little incentive to contribute to the provision of public goods because they can enjoy the benefits of these goods without contributing to their provision.[iv] This free-rider problem creates a prisoner's dilemma among social movement participants: without knowing other people's intentions, individuals maximize self-interest by choosing non-cooperation.

Social movements do not happen in a vacuum; they often intersect with pre-existing societal structures and groups. Diani argues that social movements are not isolated entities but are instead embedded in broader social networks that shape their goals, strategies, and outcomes.[v] Similarly, Chwe argues that collective action is not simply the result of individuals' preferences and beliefs but is also influenced by the social structure in which individuals are embedded.[vi] He proposes a framework for understanding collective action that considers both the strategic incentives of individual actors and the social structure in which they operate.

As a result, social movements can utilize these social networks to establish institutionalized organizations. The goal of a social organization is to move out of the Nash Equilibrium1 by facilitating collective action among its members. In this case, social organizations can utilize pre-existing social structures, such as bloodlines, religious institutions, and social clubs, to mobilize participants and compel them into cooperation. These groups often have strict internal rules and expectations that compel members to act collectively, overcoming the "collective action problem." Sharing reliable information about members' intentions within the group also helps to break the prisoner's dilemma. For example, Broadbent argues that thick social networks, characterized by dense and overlapping connections between individuals and groups, play a vital role in shaping environmental movements in Japan.[vii] These networks facilitate the sharing of information, mobilization of resources, and development of collective identity and solidarity among protesters.

[1] Nash equilibrium is a concept in game theory that describes a stable state in a game where no player has an incentive to unilaterally change their strategy.

Elizabeth Perry's work on the worker's movement in the Anyuan coal mine also demonstrates that the Chinese Communist Party utilized the Elder Brother Society, a secret society that had strict internal rules, to mobilize workers for a strike.[viii]

These social organizations can become a catalyst for social changes and reforms. Scholars understand political reform as an outcome of changing power distribution in elite politics. Susan Shirk argues that China's post-Mao economic reform was only possible because Deng Xiaoping created a pro-reform coalition and wrestled power away from the conservatives.[ix] The interaction between social groups and the government is vital in policymaking. Social organizations' ability to convey their ideas to and bargain with the administration leads to policy changes. Protests organized by social organizations can also influence elite power dynamics, allowing reform-mind leaders to weaken the opposition and seek mandates for new policies. For example, Gorbachev appealed to pro-liberal organizations to weaken his anti-reform opposition within the Communist Party.[x] Similarly, mass protests in Moscow following the military coup in August 1991 granted Yeltsin mandates and legitimacy to pursue his goal of breaking down the Soviet Union.[xi]

Existing social structures can hinder social movements, however. In authoritarian states, social organizations usually become the extension of the regime, and they use social rules and connections to suppress dissidents and enforce compliance. As Carolyn Hsu argues, social groups are often "in bed" with government agencies to seek legitimacy and protection.[xii] As a result, the government can cultivate social groups for repression. O'Brien and Deng illustrate the role of "relational repression" in demobilizing protestors.[xiii] Chinese officials weaponize activists' social ties by pressuring activists' relatives and friends to stop activists from protesting. If activists refuse to stop, people in their social groups might receive punishments, such as losing jobs. Therefore, family and relatives play a significant role in checking dissidents, and activists often face the danger of becoming outcasts within their social groups if they continue their protests. Mattingly's study shows that local governments in China cultivate local social groups, such as family lineage associations and folk religion groups, as a hidden but effective tool to exercise informal control and suppress protesters.[xiv] Similarly, Ong's study finds that Chinese states outsource repression and coercion to civil society leaders.[xv]

The case of Japan presents a unique opportunity to study the role of social organizations. On the one hand, Japan is a liberal democracy with guaranteed civil rights and liberties for its citizens. On the other hand, Japan for most of the postwar period has been a one-party state. Under the 1955 system, following the merger between Liberal Party and the Democratic Party to form the Liberal Democratic Party (LDP) in 1955, the LDP enjoyed 40 years of political monopoly. As a result, Japanese observers describe the LDP as "neither liberal nor democratic nor a party."[xvi] Even after the various political reform attempts, LDP's political power seems unchallenged except for three brief years (2009-2012) when the Democratic Party of Japan (DPJ) gained power, which led to the discredit of and collapse of a unified opposition party altogether. As a result, Japan has the characteristics of both democratic and authoritarian systems, and the role of social groups in Japan reflects this dichotomy.

Many scholars claim that Japanese ruling elites from the LDP and social groups enjoy a symbiotic relationship. Van Wolferen's controversial study claims that social organizations are an extension of the Japanese state's control over society.[xvii] Even though social groups could express their dissent toward national policy, they are expected to fill the role of a controlled opposition and could not go beyond certain limits. Krauss and Pekkanen highlight the role of social groups as extensions of the LDP. The LDP does not have the penetration and control of a Leninist party, which possesses a party organization extending from the national leadership to the grassroots society level.[xviii] Therefore, the LDP must rely on social groups, particularly the local support group (Koenkai) of each politician, to mobilize votes in elections. In exchange, the LDP allows its Diet members to award lucrative special interests to members of its Koenkai in the policy-making process. This participation-for-interests exchange is vital for the lobbyist role of Japanese social groups. Curtis believes that such social groups are lobbyists in national politics.[xix] They mobilize citizens to bargain with political elites in a fashion that is similar to collective bargaining among labor unions. Similarly, Kent Calder believes that social groups facilitated compensation to vulnerable members of Japanese society and ensured that no one got left behind in the modernization process.[xx] These observations are not mutually exclusive; they often co-exist in politics at the same time.

Using JA as an example, this article evaluates how shifting social structures might lead to the changing nature of social organizations and their relationships with the government. It makes several contributions. This study dives into the dual responsibility of a social organization and illustrates that it can be both an interest group and a control group. JA acts as a bottom-up farmer association aiming to lobby for pro-farmer policies and a top-down extension of the LDP's policy implementation and mass mobilization arm. As the political dynamic changes, JA's dual roles come into contradiction. As a result, this study shows how JA manages its changing roles and finds an equilibrium that maximizes its interests. While studies focus on the role of social organizations and movements in facilitating social changes and reforms, the example of JA demonstrates how social organizations could mobilize their networks to resist reform. Despite Abe's attempt to tip the balance of power among elites toward favoring agriculture reform, JA successfully mobilized its social and political capital to delay and water down Abe's reform agenda.

What is JA?

The origin of JA can be traced to the traditional cooperative movements prevalent in farming communities during the Tokugawa period. Over the centuries, cooperative movements created and enforced rules on land use, irrigation, cooperation, and other domains of rural social life.[xxi] Following the Meiji Restoration, the new government abolished feudal rule and reorganized these traditional cooperative movements following the Prussian Raiffeisen model[xxii]. The result was the Agriculture Association (農業会) and the Farmers' Associations (農会) during the pre-WWII era. Landowners organized Farmers' Associations as a control group to influence small farmers through technical supervision, buying agricultural products, selling fertilizer, and providing financial services. The imperial government also faced significant social stability challenges from fluctuating rice prices. The sharp increase in rice prices following Japan's decision to send soldiers to Siberia led to the 1918 Rice Riot. During the 1930s, the sharp fall in rice prices led to the collapse of the rural economy; many rural households sold their daughters into prostitution as an emergency income source[xxiii]. As a result, the national government recognized the importance of maintaining stable rice prices by exerting control over the supply of rice in the market. During the 1930s, the Ministry of Agriculture set forcing all small farmers to join the Farmers' Associations as a top policy priority[xxiv]. After Japan invaded Asia, the government centralized food production to support the war effort by passing the Food Control Law of 1942. As a result, the central government reorganized local Farmers' Associations into a centralized Agriculture Association to centralize food production and enforce rations.

After Japan's defeat in WWII, the General Headquarters (GHQ) of the Supreme Commander for the Allied Powers (SCAP) carried out land reform in Japan, which broke up the holdings of large landowners in rural areas and distributed their farmland to tenants. However, GHQ did not touch two pillars of agricultural policies in the pre-war Japan period. First, it did not abolish the 1942 Food Control Law, which allowed centralized control of rice production and distribution. Second, it continued cooperative farming in rural Japan. The land reform abolished the Agriculture Association as a symbol of rural exploitation of wealthy landowners and allowed the establishment of Japanese Agriculture Cooperative (JA) as a replacement. In theory, unlike the landlord-controlled Agriculture Association, the JA is a voluntary group of independent small farmers. However, the JA inherited facilities, resources, and members from the pre-war Agriculture Association. In many places, the new JA branches used the same office, only replacing the name of signs from Agriculture Association to JA.[xxv] During the years of food storage following the end of WWII, the GHQ utilized JA to forcefully collect food crops from farmers and crack down on black markets. As a result, JA monopolized the distribution of rice and other foodstuff; it already handled 90% of staple foods by 1950.[xxvi] In addition, the GHQ allowed JA to continue its financial operations to facilitate the government rice purchase. The cooperation between JA and the GHQ further cemented the JA's top-down "control group" structure[xxvii].

JA has four primary functions. The Central Union of Agricultural Cooperatives (Zenchu) is JA's political lobby arm and the most prominent political action committee in Japanese politics. Through its power to issue "guidance" and audit local JA branches, it exercised control and collected annual membership fees from local JA branches. As a result, Zenchu used the annual membership fee collection to support politicians during elections. It was also involved in the Ministry of Agriculture, Forestry, and Fishery's (MAFF) advisory council and issued proposals to MAFF regarding JA matters[xxviii]. The National Federation of Agricultural Cooperative Associations (Zennoh)'s main role is collecting rice and other agricultural products from farmers, supplying agricultural products to the national market, and selling agricultural inputs, such as fertilizers and machine tools, to farmers. Zennoh enjoyed a monopoly on many agricultural products. In 1985, Zennoh accounted for more than 95% of the domestic rice market[xxix]. In the 1990s, it also supplied 94.5% of fertilizers and 70% of agrochemicals[xxx]. The National Mutual Insurance Federation of Agricultural Cooperatives (Zenkyoren) provides various types of insurance to farmers. The JA Bank provides savings and credit services to farmers, accounting for 81% of agricultural-related loans in Japan in 2008[xxxi]. Based on the amount of savings, JA Bank was the second largest bank in Japan, following the Japan Post Bank. As Zennoh's retail services gradually lost profit and became loss-incurring, JA financial services became its money-making machine. The overall profitability of JA is solely derived from JA's finance services[xxxii].

JA has a three-tier hierarchical structure at the local, prefectural, and national levels. The local level JA covers each village, town, and city and provides services to local members within its jurisdictions. Due to Zennoh's monopoly power and social pressure in rural communities, joining JA was de facto "semi-compulsory."[xxxiii] By 1970, virtually all farming households had joined JA[xxxiv]. Local farmers join local JA branches by paying membership fees every year.

Members can participate in the decision-making process, vote for local JA leaders, and enjoy pork-barrel benefits from local LDP politicians[xxxv]. Local non-farmer residents can become associate members by paying yearly membership fees; they are entitled to JA services but cannot participate in decision-making and enjoy pork-barrel benefits. The prefectural JA supervises local JA branches and lobbies local politicians. In addition, it markets local products to the national market. The national level JA makes important national JA policies, organizes political activities, and oversees all production and finance processes.

JA's Political Activism and Japanese Agriculture Policy

JA plays "top-down" and "bottom-up" roles in organizing Japanese farmers. The "bottom-up" function is JA's role as a political lobby group representing the interests of farmers, especially small-scale farmers. The "top-down" function refers to JA's role as LDP's vote mobilization machine in rural Japan. The design of JA was to coordinate with Japanese conservatives and create a "democratic and conservative" farm population that would serve as the rural foundation of an anti-Communist postwar democracy.[xxxvi] The institutional design of the Japanese election also granted rural votes more value than urban votes because rural districts have fewer voters.[xxxvii] Therefore, securing rural votes became critical to the LDP's campaign strategy following the rise of the "floating voter" phenomenon in cities, where urban residents increasingly identify as independent voters. In other words, JA's ability to mobilize rural votes by issuing recommendations supporting LDP candidates to its members has been the foundation of LDP's one-party monopoly. In addition, JA helped to enforce agriculture laws and Ministry of Agriculture, Forestry, and Fishery (MAFF) policies and regulations. Local JA branches served as local executive agents of agriculture policies and developed close relations with local authorities.[xxxviii] For example, local JA branches played an active role in regulating the use, transfer, and conversion of local farmland. These two roles are closely connected. JA mobilized its members during elections and helped to elect important pro-agriculture politicians to the National Diet. These Diet members, referred to as the "agricultural tribe" (Norin Zoku), lobby for pro-JA national policies and generous subsidies for farmers.

One of the most long-lasting pro-agriculture policies was the rice price "dual-track" system under the Food Control Law. Essentially, the rice price "dual-track" system was a reversed price scissors under Communist systems such as China and the Soviet Union, which allowed the central government to extract wealth from farmers by buying foods below the market price and selling them at a higher price to urban residents. Under the rice price "dual-track" system, the Japanese government bought rice artificially high from farmers and sold it at a stable and low "market price" to urban residents. As a result, during the latter half of the 1970s, the Japanese government spent over 700 billion yen every year to maintain the rice price "dual-track" system.

Another subsidy was the acreage reduction (gentan) policy. Since the 1960s, the rise in rice production and decreased rice consumption have led to overproduction. However, the JA continued the wholesale rice purchase policy from farmers. Over-purchased and over-stock rice was wasted as livestock feeders. During the 1970s, the national government introduced the gentan policy to reduce rice production. The government assigned a rice production ceiling to each prefecture every year and subsidized farmers who voluntarily converted from rice paddy to low-supply items such as wheat and soybeans.[xxxix] This policy successfully reduced rice production in

Japan. However, to maintain this policy, the government offered generous subsidies to farmers. Subsidies of up to 1.05 million yen (US$7,250) per hectare in the fiscal year 2016 disincentivized rice farmers from properly managing their fields, increasing productivity, and developing crop strategies.[xl]

These policies led to the preservation of small and ineffective part-time farming in Japan. The GHQ land reform to eliminate tenant farmers. Reflecting the spirit of the land reform, the 1952 Agricultural Land Law cemented the "owner-cultivator principle" as the premise for the Japanese agricultural sector.[xli] The law also strictly controlled selling, leasing, and converting farmland to prevent the rise of landlords.[xlii] As a result, farms in Japan are remarkably small, about 1.6 hectares on average, excluding Hokkaido. Traditionally, small-scale farming is labor-intensive. During the 1950s and 1960s, agricultural mechanization and large-scale farmland improvement projects led to increasing efficiency and decreasing labor input to maintain small farms. At the same time, farming households explored the increasing employment opportunities in nearby factories.[xliii] Therefore, farming, especially rice farming, became a part-time activity during weekends rather than a full-time job, and non-farming income accounts for most of the farmer's income[xliv.] By 1975, more than 62% of farming households were part-time.[xlv] Rather than selling the farmland to other full-time farmers, most part-time farmers chose to keep their land to receive handsome state subsidies. At the height of the agriculture subsidies during the 1980s, the agricultural Producer Support Estimate (PSE) was nearly 60%. The PSE is the sum of social burdens from taxpayers and government budgets to maintain farmers' income. In other words, 60% of Japanese farmers' income came from direct and indirect subsidies. Therefore, Hanno Jentzsch describes Japanese part-time farmers continued agriculture not to sell products but to "harvest state support."[xlvi]

JA and Japanese Agriculture Protectionism

As the Cold War began, the United States reversed the previous plan to permanently weaken Japan after World War II and decided to build up the Japanese economic system to prevent a Communist takeover. After the fall of the Nationalist government in China in 1949, the United States agreed to unilaterally open its market to Japanese goods to compensate for Japan's loss of the China market and prevent Japan from trading with the new communist regime. However, starting in the mid-1950s, trade disputes between the US and Japan over textiles started after a surge of Japanese exports to the US.[xlvii] As a result, the US turned to protectionism in response to complaints from the textile industry and labor unions. Intense trade negotiations led to Japan setting up voluntary export restraints (VERs). Most VERs were unofficial; Japanese exporters "voluntarily" limited exports to the US market without any formal governmental agreement. These informal arrangements applied not only to major Japanese exports and backbones of Japanese industries, such as textiles, steel, color televisions, machine tools, automobiles, and semiconductors, but also to minor products such as pottery, porcelain, and cutlery.[xlviii]

Since the 1980s, the focus of US-Japan trade talks shifted to market access, and agriculture became an important topic during negotiations. Japan served as a massive opportunity for American farmers. It was the second-largest economy that rapidly raised the standard of living of 100 million people. In addition, Japan was destined to become a large food importer due to its lack of arable land. The market access negotiations started when the US demanded that Japan open the beef market in the late 1970s.[xlix] During the GATT Uruguay Round negotiations, the farm sector in Japan strongly opposed the tariff reduction scheme. Instead, it supported a special quota system to protect the domestic market share of Japanese agriculture products, especially rice. The primary anti-liberalization vested interest was the small-scale production system dominated by part-time rice farmers who relied heavily on state subsidies. Despite the potential benefits of extensive trade liberalization for the Japanese economy and the struggling agricultural sector, this complex network of vested interests has impeded progress in this area.[l] The center of this vested interest network is JA, which lobbied to protect inefficient part-time farmers.[li] The LDP also supported small farmers since they were the foundation of LDP election victories. Agriculture liberalization would disrupt the small-scale production system and drive part-time farmers out of business. Therefore, JA lobbied the LDP to oppose agricultural liberalization.

However, liberal-leaning Japanese leaders tried to use the US-Japan trade dispute as a form of external pressure to force the Japanese bureaucracy to adopt economic reform plans. During the 1980s, Prime Minister Nakasone Yasuhiro aimed to employ trade negotiations with the US to stimulate structural reform and liberalize the Japanese economy. The 1985 Plaza Accord, which resulted in the rapid appreciation of the yen, served as the necessary Gaiatsu to force structural reform. Nakasone delegated his private brain trust, led by former Governor of Bank of Japan Maekawa Haruo, to study the transition of the Japanese economy following the Plaza Accord. The Maekawa Report proposed strategies to rebalance the Japanese economy from an export-oriented, investment-led growth model to a domestic consumption-centered economy. These strategies addressed concerns such as reducing trade surplus friction with the US, stimulating domestic demand, implementing a low-interest-rate policy, and undertaking structural adjustment measures like land deregulation and abolishing the Large-scale Store Law (that protected small retailers). As a result of bilateral trade talks in the late 1980s, Japan opened its distribution sector to foreign merchandisers and their goods. Such American retailers as Toys“R”Us entered the Japanese market and the Large Store Law was eased. Japanese companies, taking advantage of the strong yen, invested in foreign countries, especially the US, Southeast Asia, and China. Some of these liberalization policies, such as opening markets for foreign products and land deregulation, had significant implications for agricultural reform.[lii]

During his second time as prime minister (2012-2020), Abe Shinzo aimed to make Japanese agriculture internationally competitive and independent from state support. He viewed the Transpacific Partnership (TPP) negotiations as a necessary lever – Gaiatsu -- to overcome domestic opposition and initiate structural reform of the Japanese economic system. Japan had become one of the most important markets for American agricultural products. The total value of the Japanese food market was around $600 billion, with tremendous demand for US foods as a critical component of Japanese food security.[liii] Therefore, the Japanese food market supported over 100,000 full-time jobs in the US.[liv] As a result, the US took a hard stance in the TPP negotiations to tear down Japanese agriculture protectionist barriers. Abe counted on a successful TPP agreement as a means to open the domestic agricultural market. The impact of foreign food products would shake the foundation of the Japanese agriculture system, such as driving part-time farmers out of business and forcing JA to adopt structural reforms. These structural changes in Japanese agriculture would weaken JA’s political power and reduce its opposition to Abe’s reform agenda.

Hypothesis

In recent years, the political base of JA has been declining due to gradual political and social changes. One of the most important reasons is depopulation in rural Japan. The demographic decline – a rapidly aging society with fewer babies born – has contributed to the waning of JA's rural political-mobilizing power. Ozawa Ichiro, one of the most brilliant masterminds in Japanese politics, delivered another significant blow to JA's voting mobilization power. During the 2009 Lower House election campaign, Ozawa, having left the LDP to join the Democratic Party of Japan (DPJ), crafted a strategy to bypass JA and win over farmers directly by promising a direct income-support scheme for all commercial rice farmers. Following the DPJ's three-year rule, the LDP started to decrease its reliance on JA's vote mobilization in rural areas by rallying rural voters directly. In addition, the LDP crafted a strategy to reduce its dependence on rural votes and increase its appeal among urban floating voters. In a 2017 snap election, the LDP displayed a more balanced electoral appeal between rural and urban voters.[lv]

In addition, gradual advances toward economies of scale reduced JA's traditional control of agricultural product distribution. In 1995, the Japanese government ended the Food Control Law. Under the New Agricultural Basic Law, passed in 2000, the state started to support a group of larger, more business-oriented, and potentially more efficient "bearer farmers."[lvi] This new policy encouraged the move toward an economy of scale by allowing small farmers to pool their land together for collective farming. It also deregulated farmland transfers, allowing farmers and non-agricultural corporations to purchase farmland and consolidate large-scale farming. These changes produced mixed effects. They led to the rise of large-scale farming among professional farmers. However, small-scale farmers also formed collectives to continue receiving state subsidies. As a result of these changes, many larger farms started to bypass JA in selling their agriculture products and purchasing agriculture inputs. This new trend was a major blow to Zennoh's monopolistic power and control over farmers.

In contrast to JA's waning power base, political changes in the 2000s increased the power of the Prime Minister significantly. Postal Reform under the Koizumi Junichiro administration privatized the postal system that had been used by the LDP to gather votes. Such reform demonstrated that a strong Prime Minister with a cleverly crafted political reform strategy could defeat a longstanding political establishment. Running on an anti-establishment agenda, the Democratic Party of Japan (DPJ) launched assaults on the Japanese political establishment and tried to centralize political power in the hands of the Prime Minister after the party's victory in 2009. In agriculture, the DPJ launched several attacks on the agricultural establishment. First, the DPJ fulfilled Ozawa's promise and installed his reform scheme in 2010. Second, the DPJ tried to block JA from direct access to policymaking.[lvii] Third, the DPJ tried to reduce farmland improvement subsidies, an important source of pork-barrel politics for MAFF, agricultural "tribe" policymakers in the Diet, and JA. These attacks successfully weakened the agriculture establishment and provided a blueprint for Abe's agriculture reform.

The power of the Prime Minister reached a new height under Abe Shinzo, who became the longest-serving prime minister in the history of Japan. During his tenure, he never faced significant intra-party challenges, the party giving him an almost free hand to tackle his reform agenda. He centralized power under his control through a National Security Secretariat. He also commanded the largest faction within the LDP. His success in overcoming domestic pressures to reinterpret the Constitution (allowing Japan the right to use limited collective security) and pass significant security legislation in 2015 demonstrated his ability to defy opposition to difficult reforms. In addition, as a reformer, Abe was determined to transform the LDP from a clientelistic party to a Westminster party.[lviii] In that context, JA reform was an integral effort to defeat clientelism within the LDP and centralize party leadership.[lix] Furthermore, Abe's long-time chief cabinet secretary Suga Yoshihide also played an important role in promoting agricultural reform. Suga's father was a strawberry farmer in northern Akita Prefecture who feuded with the local JA. Since his youth, Suga understood JA's institutional weakness and the urgency of reform.[lx] Thus, Suga played an active role in shaping and implementing the farm reform agenda.

This paper aims to explore how these changes since the 1990s affect the balance between JA's top-down and balance functions. In theory, a strengthening of the Kantei (Prime Minister's Office) and the weakening of JA's foundation should make JA more top-down rather than bottom-up. Thus, JA should become more reactive to demands from the administration than the farmers; its role as a government and LDP extension should outweigh its role as a lobbyist group. These changes weakened JA's political foundation and strengthened the national government, especially the Prime Minister's political power. Therefore, this shift in power balance provided Prime Minister Abe with a golden opportunity to defy political pressures and reform the agricultural sector. This paper hypothesizes that the Abe administration could successfully implement its reform plan due to the changing power balance in the farm sector.

However, "successful" is a rather subjective term in politics; politicians coin their agenda as "successful" not as a reflection of reality but as a political statement to demonstrate achievement. The evaluation of "success" can also be subjective based on different criteria. While some scholars focus on the shortcomings of Abe's agriculture reform, others center on its achievements against domestic pressure. The Abe administration aimed to use the reforms to weaken the "resistance force" against market and trade liberalization.[lxi] Therefore, this article defines a "successful" reform as the administration's capability to overcome organized resistance and impose its policy without compromise. This paper proposes three modest hypotheses to evaluate Abe's reform:

H1: The final Agriculture Reform Bill should not deviate from the original proposal from the Kantei.
H2: "Agriculture tribe" members of the Diet should not exert significant influence on agriculture reform.
H3: The government did not need to distribute significant compensation to the agriculture sector.

Results

This section examines the hypothesis by evaluating the validity of H1, H2, and H3. The result shows that H1 is nullified; the final agriculture reform plan deviated significantly from Kantei's original proposal. H2 is also nullified; agriculture tribe leaders were well represented in the agriculture reform negotiations. Furthermore, H3 is nullified; the government distributed significant compensations to farmers following the agriculture reform. Since all three small hypotheses are invalid, the hypothesis is also invalid. Changes that weakened the JA and strengthened the Prime Minister's cabinet did not lead to Abe's ability to push through its reform agenda over the agriculture establishment without resistance.

H1

H1 stated that the final Agriculture Reform Bill should not deviate from the original proposal from the Kantei. However, a detailed analysis shows that the final bill did not reflect the Kantei's reform intentions. In fact, the final bill was based on the LDP's reform agenda, which aimed to delay and water down the Kantei's reform proposal. Hence, H1 is nullified.

The Abe Kantei established the Agriculture Working Group (AWG) as part of its Regulatory Reform Council (RRC) to take the lead in drafting an agriculture reform proposal[lxii]. After intense policy research, the AWG drafted a radical reform plan that reduce JA's political and economic influence. The Abe administration's reform proposal has three major pillars. First, the reform proposal planned to remove Zenchu from Agriculture Cooperative Law and abolish prefectural JAs.[lxiii] This proposal would liberate local JA branches from Zenchu control by eliminating Zenchu's guidance and audit powers over local JA[lxiv]. In addition, Zenchu could not collect annual membership fees from local branches, which would destroy Zenchu's political lobbying capabilities. Second, the proposal would corporatize Zenchu into a regular stock company, which would raise Zenchu's tax rate from 19% to the regular corporate tax rate of 25.5% and eliminate Zenchu's real estate tax break.[lxv] In addition, Zenchu's was exempted from anti-monopoly law under the pre-reformed system.[lxvi] The reform would allow the government to apply anti-monopoly law on the corporatized Zenchu and break its monopoly over the distribution of food and agricultural inputs.[lxvii] Third, the proposal requested the JA to keep the number of "associate members" under 50% of the regular members. Currently, there are 5.3 million associate members and only 4.6 million regular members.[lxviii] By limiting the non-rural associate members, the proposal aimed to shape JA into an organization exclusively serving farmers.[lxix]

Both agriculture tribe Diet members and JA opposed the reform proposal. To prevent the AWG from seizing the reform initiative, the LDP established its own policy working group on agriculture reform. The most important role of this group is to provide an alternative, mild reform plan and block AWG's policy proposal. Following the announcement of AWG's reform proposal, the LDP's Agriculture and Forestry Division announced its own reform plan, which aimed to delay and water down any serious JA reform attempts. In the plan, the Zenchu would enjoy a grace period to shift towards the new system, and its power to guide and audit local branches would be reviewed. Intensive JA reforms would be set aside for five years, and JA would determine its own post-reform organizational structure. Zennoh would transform into a joint-stock corporation unless there were further complications.[lxx] After its release, the LDP gained approval from Komeito, LDP's junior ruling partner, and submitted it to MAFF. The result was the "Ruling Party Report," the official counterproposal of AWG's reform proposal. The "Ruling Party Report" proposed introducing rules limiting the use of JA businesses by associate members and centralizing JA financial services under JA banks.

Facing LDP pressure, the RRC was forced to accept the "Ruling Party Report" in the second reform proposal and submit it to the Prime Minister for approval. After intense negotiations, the Prime Minister approved the formal agriculture plan. The formal plan removed Zenchu from under the Agriculture Cooperative Law and turned it into a general incorporated association, like the big-business association Keidanren, but it kept the status of prefectural-level JA. In addition, Zenchu's National Audit Body was converted into a third-party corporation, and local JA branches could be audited by JA or independent firms. Furthermore, Zennoh itself would decide whether it wanted to become a joint-stock corporation. Finally, limitations on associate members were delayed.[lxxi] This plan left the JA nearly unscratched following the reform; LDP's plan to water down and delay radical reform proposals was a success. Zennoh would retain its current status to retain its benefits and would not voluntarily become a joint-stock corporation. It also put reforms regarding associate members on hold without a concrete timeline. Perhaps the most significant change was removing Zenchu from being under the Agriculture Cooperative Law. However, Zenchu could continue to collect membership fees and issue guidance through prefectural JA branches, which are Zenchu members.[lxxii] The continuing flow of membership fees would allow Zenchu to fulfill its political role and continue its support of LDP agriculture tribe Diet members in elections.

H2

H2 states that agriculture tribe members could not significantly influence agricultural reform. The centralization of power under the Kantei should have allowed Abe to push through his reform agenda, disregarding opposition within the LDP. However, analysis shows that agriculture tribe members exerted significant political influence while drafting the JA reform and during TPP negotiations. As a result, the agriculture establishments delayed and watered down major reform attempts in the JA reform bill and prevented tariff elimination during the TPP negotiations. Therefore, H2 is nullified.

During the agriculture reform negotiations, senior agriculture tribe members played a vital role in shaping the reform agenda. The two most significant agriculture tribe members were Nikai Toshihiro and Moriyama Hiroshi. Nikai was the LDP Secretary-General, one of the most powerful posts within the party since it oversees party organization and information. Nikai thus had the final say on candidate nominations and the distribution of funds, two sources of power that enabled him to do favors for and punish party members.[lxxiii] In addition, Nikai led a faction with 32 members, a mid-sized faction in the LDP. Nikai was the head of the National Agricultural Land Improvement Political Alliance, which supports the government in continuing to distribute handsome subsidies for farmland improvement projects. He also was a vocal opponent of Abe's agriculture reform. During the JA reform negotiations, he stated that "We should spend as much time as we should to discuss this matter carefully."[lxxiv] Following the AWG's first reform plan, Nikai facilitated meetings between agriculture tribe Diet members, MAFF officials, and JA leaders to draft the LDP's counter-proposal. Therefore, he was critical in delaying and watering down Kantei's JA reform proposal.

Moriyama was a heavyweight in the Japanese agriculture establishment and a close collaborator with the Japanese livestock industry. He was the head of the Diet Agriculture Committee, overseeing agriculture policymaking in the Diet. In addition, he was one of the most powerful anti-TPP Diet members within the LDP. He was the leader of the LDP's TPP Policy Committee, a position that gave him veto power over TPP-related policies. The LDP changed its party rules in the 1960s to require government bills to be approved by the LDP Policy Affairs Research Council (PARC) before being submitted to the Diet. Moriyama, therefore, was in charge of approving all TPP bills before they could become laws. He was also the founder and the first president of the TPP Application Withdrawal Conference, which later became the TPP Negotiation and National Interests Protection Conference, a national anti-TPP movement.

Moriyama played a significant role in the TPP negotiations. Under his leadership, the Diet agricultural committee adopted resolutions urging the government to exempt Japan's rice, wheat, beef and pork, dairy products, and sugar, the so-called “five priority items,” from tariff elimination under the TPP agreement.[lxxv] This demand should be treated as a top priority in the negotiations, meaning Japan should leave the negotiating table if it could not be met.[lxxvi] The Japanese TPP negotiation team adopted this protectionist position. The negotiation did not eliminate tariffs on these "five priority items." Among these five items, the current tariff rates would be maintained for rice, wheat, and sugar; the import quota would be expanded for American rice and wheat; and tariff rates would be reduced on beef, pork, and dairy products.[lxxvii]

H3

Calder argues that the LDP compensates peripheral members of Japanese society to weaken their opposition to government policy and the LDP’s regime.[lxxviii] However, the strengthening of Kantei control and the weakening agriculture establishment should have given Abe enough political capital to overcome opposition, so political compensation should have become unnecessary. H3 thus argues that the Abe administration did not need to distribute significant compensation to the agriculture sector to push its reform agenda. However, analysis shows that Abe compensated the agriculture sector to weaken their opposition. Thus, H3 is nullified.

The Abe administration distributed many subsidies to pay off potential resistance. Abe decided to bypass JA and reach out to farmers directly, copying Ozawa’s successful campaign strategy before the 2009 election. It was a crucial move to reduce organized resistance to agriculture reform by separating the interests of farmers from the interests of JA. In May 2013, Abe declared a new program to double rural household income in a decade.[lxxix] The plan was designed to win support from farmers on structural reform, which would put Japanese agriculture “on offense.”[lxxx] Besides, scholars criticized Abe’s plan as “impossible to achieve.”[lxxxi] In addition, scholars questioned the utility of this program because most farmers in Japan are not poor. Since the mid-1960s, the income of farmers has been higher than the income of salary workers.[lxxxii] Rice farmers, the least rich among all farmers, earn about the same as the national average income. Pig farmers earn a net income of 15 million yen a year, almost four times as high as the national average.[lxxxiii] The goal of this program was entirely political; it won over farmers’ support by compensating farmers for agriculture reform programs.

The Abe administration eliminated the acreage reduction policy in 2018, which symbolized the end of government control over annual total rice production.[lxxxiv] However, the concern about low rice prices due to overproduction did not end. The Abe administration provided 150 billion yen in direct payment subsidies to dampen the effect of decreasing rice prices. In 2019, the government further compensated farmers for income loss by introducing an insurance scheme. The policy established a price floor and would make up for a drop in farmers’ revenue due to falling prices or natural disasters.[lxxxv] The Abe administration also replaced the acreage reduction with rice feed subsidies. The government tried to reduce the rice supply to the market by persuading farmers to sell rice as livestock feed. Since feed price is lower than rice price, the government distributed a 75000 yen per hectare compensation, which equated to 100 billion yen in 2016[lxxxvi]. In general, acreage reduction elimination was "fake news;" the Abe administration replaced the acreage reduction subsidies with new subsidy programs[lxxxvii]. Even though the official acreage reduction program ended, the new program continued to reduce rice production because it became more profitable to grow rice for consumption by cows and pigs rather than by the people[lxxxviii]. Therefore, the new subsidies did not move Japanese agriculture toward large-scale farming; they protected part-time farmers against market competition and allowed them to stay in agriculture and harvest state subsidies rather than leaving agriculture and selling their land to full-time farmers. These compensations aimed to defuse resistance from rice farmers who benefited from the acreage reduction policy for decades.

Another example is beef subsidies following Japan's entrance into the TPP agreement, which reduced beef tariffs from 38.5% to 9 %.[lxxxix] Despite the significant tariff reduction, the TPP agreement did not reduce Japanese beef prices significantly and hurt beef production.[xc] Wagyu, which occupies the biggest share of Japanese beef production, was exempted from the tariff reduction.[xci] In addition, the TPP negotiations established a beef import safeguard, which allowed Japan to raise tariffs if it imports too much beef from the US.[xcii] The effects of tariff reduction were further reduced due to the weak yen compared to the dollar.[xciii] The Abe administration, however, provided a 300-billion-yen compensation to livestock farmers after joining the TPP and lowering the livestock-related tariffs. This subsidy was facilitated by Moriyama, the biggest protector of the beef industry, as a condition for the TPP agreement approval.[xciv] When the U.S. pulled out of TPP and its agreement with Japan on farm trade, Abe's plan for further structural reform also collapsed.

Reasons for Failure

There are three reasons why the Abe administration could not push through with its agriculture reform proposal, despite favorable changes that tipped the balance of power toward the Kantei. First, JA maintained its ability to decide local and national election results because the single-winner electoral system augments its local political importance. Thus, it could still mobilize diet members to oppose agriculture reform. Second, Abe's attempt to rally rural households directly fell short because the Kantei failed to recognize the different interests among farmers. Many farmers, especially part-time farmers, still supported JA. Third, the MAFF split over Abe's reform agenda. Many MAFF bureaucrats aligned with the LDP and undermined Abe's reform proposal.

Despite its weakening political base, JA's vote mobilization capability could still determine election outcomes. In 2012, it had 4.6 million members (and 5.3 million associate members) and about 220,000 employees throughout the nation. It accounted for about 9.6 percent of the total registered voters in Japan.[xcv] Under the single-winner electoral system following the 1994 electoral system reform, a slight margin could determine the outcome. Therefore, JA's political machine could play the role of the tiebreaker, augmenting its political significance. JA warned the LDP that it would support the candidates of other parties in future elections and has already done so in some elections. The LDP-backed candidate lost the Saga Prefectural governor election due to JA vote defection to the non-LDP candidate.[xcvi] Using JA votes as leverage, JA forced rural-based LDP Diet members and rural politicians to oppose Abe's agriculture reform proposal. During the December 2014 Lower House election, JA pressured LDP candidates to promise not to support the government's reform plan and to sign a policy agreement in exchange for its endorsement. The JA also refused to provide electoral assistance to some LDP candidates who were known supporters of the JA reform plan.[xcvii] As a result, despite power centralization under the Kantei, JA could still mobilize LDP Diet members to oppose Abe's reform proposal through its tiebreaker role in Japanese politics.

More importantly, Abe's attempt to undermine JA's resistance by separating farmers from JA did not achieve its desired political outcome. It is a fundamental reason that JA could still effectively mobilize votes. While the Abe administration tried to reach farmers directly, bypassing JA, it failed to realize that the interests of farmers were not monolithic. According to a Japanese agriculture expert, while some farmers support policies that promote market competition concerning agricultural cooperatives, many believe that if competition policies are intensified across the entire agricultural sector, it would be disadvantageous to their own agricultural management.[xcviii] There are also many small-scale operators whose businesses are sustained by entrusting JA with the sale of their own agricultural products.[xcix] Therefore, their interests align with the survival of JA. In addition, farmers' attitude toward JA varies significantly depending on the region or individual cooperatives. JA maintains strong political and social influence in regions such as Hokkaido, where its local branches are striving as economic enterprises.[c]

The MAFF also played a significant role in undermining the reform agenda. The ministry has a closer relationship with the Kantei than the LDP and JA, and it caused friction, even open splits of the iron triangle. Recognizing the dire future of Japanese agriculture, the MAFF demanded changes, which alienated JA.[ci] However, the MAFF was not completely submissive to the Kantei. Instead, there were splits within the MAFF on how far Abe's reform agenda should go. Many MAFF officials attended meetings with LDP officials and JA executives following the AWG's reform proposal to draft a counterproposal, which aimed to "leave a way to allow JA-Zenchu to survive."[cii] In addition, many MAFF offices benefited from the current system. The MAFF has around 100 divisions, each responsible for many programs, largely involving extremely small subsidies.[ciii] Therefore, MAFF divisions also have bureaucratic interests in sustaining subsidy programs to maintain their funding and personnel.[civ] For individual bureaucrats, generous subsidies would increase opportunities for Amakudari, receiving appointments for high-paying jobs in the agriculture and construction (for farmland improvement projects) industries in private and semi-official companies after retiring from bureaucracy.[cv]

Conclusion

Prime Minister Abe viewed revitalizing the Japanese agriculture sector as one of the key pillars of his structural reform agenda – the third arrow of Abenomics. He, therefore, aimed to introduce competition, weaken JA's power, and liberalize agricultural trade. This article hypothesized that the Abe administration would successfully implement agricultural reform while defining success as overcoming political resistance to enforcing reform. To test this hypothesis, the article presented three smaller hypotheses. First, the final Agriculture Reform Bill should align with the original proposal put forth by Abe's cabinet. Secondly, agriculture tribe politicians should not dilute the reform agenda. Lastly, the administration should not have been required to provide compensation to the agricultural sector. The study discovered that all three smaller hypotheses were invalidated. As a result, despite introducing changes that weakened the agricultural establishment and centralized power under the Prime Minister, the Abe administration could not implement its agricultural reform agenda successfully. Several factors contributed to Abe's failure. First, Abe's efforts to appeal to rural voters directly did not achieve the intended outcome due to the diverse interests of farmers. Second, the single-district voting system amplified JA's political influence in elections. Third, the Ministry of Agriculture, Forestry, and Fishery did not fully support Abe's reform agenda.

The effort to reform JA ceased as Abe left the Prime Minister's Office in 2020, and the future of a successful agricultural structural reform remains dim. Abe's successors could not maintain Abe's political influence and power. As a result, the balance of power is gradually shifting back, favoring the LDP agriculture tribe and JA. In addition, agriculture is not a major theme of Prime Minister Kishida's New Capitalism formula. The Grand Design and Action Plan for a New Form of Capitalism barely mentions agriculture, and it does not indicate future agricultural structural reform.[cvi] Kishida himself is not from the biggest faction within the LDP and could not reign over the Party like Abe. He must spend his political capital on his policy priorities, such as security policy reform and the New Capitalism agenda. It is unwise for him to alienate powerbrokers within the LDP on agricultural issues. In addition, Gaiatsu or foreign pressure was not active to force Japan to adopt structural agriculture reform. A senior US official admitted that the US tries to keep trade disputes "under the rug" so it would not jeopardize US-Japan security cooperation in the Indo-Pacific, which the Biden administration considers a top strategic priority.[cvii] In general, there is no motivation within or outside of Japan to continue the agriculture reform initiative. Japan's farm sector continues to be a declining industry.

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Tapping on the Glass Ceiling: Japan's Ongoing Struggle to Address Gender Inequality

Okung Obang

For most nations, addressing social issues is a multi-faceted challenge since such issues evolve due to underlying economic and political factors. Gender inequality, in particular, remains a difficult social issue to resolve for both developed and developing nations due to the influence that political, economic, and social forces exert. Generally, however, gender equality standards for developed nations tend to be higher than for developing nations. In the case of Japan, though, this happens to not be the case.

Japan, an economically and politically important country within the international order, lags behind its developed and democratic peers, especially on such human rights issues as immigration, same-sex marriage, and gender equality. In the World Economic Forum's most recent Gender Gap Index report for 2022, Japan ranked 116th of 146 indexed nations, falling once again in its rankings due to the lack of improvement in the political and economic empowerment of women. [i]It is important to note, though, that Japan is distinct in that it is one of the few countries in the world to codify women's rights within its constitution. Additionally, Japan has implemented various labor laws to improve the socio-economic environment for women, given changing economic and social conditions. Still, despite these efforts, many of the implemented laws and policies have been ineffective in producing significant change for women.

Over the past few decades, the Japanese government has attempted to address gender inequality and a host of other socio-economic issues stemming from a rapidly aging society and declining fertility rate, since they progressively are having a major impact on Japan's future economic and political environment. Considering the implications that gender inequality has for the future of Japan, this paper seeks to establish the historical basis of the rights for women and their role in postwar Japan, identify the structural obstacles that Japanese women face in society, and detail potential policy options to improve gender equality in a holistic approach.

The Case to Improve Gender Inequality in Japan

Japan, as a democratic nation, should ensure equal opportunity for all to participate in society. In failing to address gender equality and other social inequities, Japan diminishes the principle of democracy. Secondly, Japan has an economic interest in promoting gender equality given its aging society, decreasing fertility rate, and continuing labor shortage. If Japan were able to improve wage and working hour differentials for both men and women, Japan's GDP could increase by 15%.[ii] Lastly, by encouraging equal participation within society, Japan can craft more comprehensive solutions to its most pressing issues through diversity of thought and engagement with a diverse number of stakeholders.

Historical Background of Gender in Japan

The Foundation of the Role of Women in Post-War Modern Japan

The foundation of the socio-economic environment for women in Japan begins with the establishment of the postwar democratic constitution. The Peace Constitution ushered in an age of societal transformation for Japan in the realm of politics, economics, and society. Guided by the Supreme Commander of the Allied Powers (SCAP), the Peace Constitution was drafted quickly by the SCAP drafting team and then vetted with the Japanese Diet. Notably, the drafting team, wishing to include comprehensive rights and protections, recruited the assistance of Beate Sirota Gordon, the sole woman involved in the process of creating a new Japanese Constitution.[iii] Gordon, charged with considering rights and protection for women in Japan, drafted the two articles specifically regarding women's rights within the Peace Constitution – Article 14, and Article 24.

Article 14 designates that discrimination based on sex within society, politically, economically, and socially is prohibited and unconstitutional, and Article 24 provides the right of choice for women within marriage with the recognition that "marriage shall be based only on the mutual consent of both sexes and it shall be maintained through mutual cooperation with the equal rights of husband and wife as a basis". [iv,v] While these two articles specifically refer to women, other constitutional rights and protections such as access to education and employment also extend to women. Despite these legal protections, actual enforcement of these measures has been a separate problem, which is why governments must continually adopt new laws and regulations, and adapt existing ones.

Alongside the newly formed constitution, the Japanese government adopted structural reform to labor markets with the Labor Standards Act of 1947, which establishes and ensures fair working conditions and decent welfare for all workers regardless of nationality. Although revised numerous times until 1995, this law establishes that women and men are given equal wage and work environment protections, and even addresses the issues of childbirth, childcare, and menstrual periods for women in Chapter 7.[vi] However, there are two caveats to this. Firstly, this act only "endeavors" employers to maintain the established regulations, providing leeway for employers to abide by the law voluntarily.[vii] Secondly, while the act ensures equal protection within the work environment, it does not address issues of hiring and providing equal employment opportunities, employment termination, or provisions on harassment. But for its time, the Labor Standards Act was progressive, and established a framework for future laws and regulations.

The Evolution of Women's Rights and Roles in Japan

Internationally, the 1970s and 1980s were a time of substantial growth in women's rights as the United Nations General Assembly adopted the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), also known as the International Bill of Rights for Women, as an international treaty in 1979.[viii] Japan, following international trends, initiated the dialogue to provide more specific regulations and expanded protections for women that were not effectively addressed with the Labor Standards Act of 1947 and ratified the CEDAW in 1985. Later that year, the Equal Employment Opportunity Act (EEOA) was passed. It promoted equal opportunities for men and women in recruiting and hiring, promotion and training, benefits, and retirement or cases of dismissal, and addressed the protocol for what are or are not discriminatory practices in the workplace.[ix] Although, similar to the Labor Standards Act, the EEOA "endeavors" employers to follow these set guidelines, depending once again on employers' self-selection to volunteer. In response to the EEOA, many firms adopted a new employment structure that persists today. Within the labor market, firms hire on the basis of two career tracks, a managerial track (sogo-shoku) or a clerical track (ippan-shoku), giving women the opportunity to select the more competitive and promotional managerial track, or the less arduous, but more flexible clerical track, depending on their circumstances.[x]

The EEOA has not been without reform, as the Japanese government has updated guidelines and regulations to better address the changing socio-economic environment within the country. The revision of the EEOA in 1997 provided a prohibition on discrimination in recruiting, hiring, and job placement, in an attempt to decrease indirect discrimination, and established the notion of "positive action", or affirmative action for private employers.[xi] The 2006 revision of EEOA required employers to take active measures against sexual harassment and indirect discrimination, and expanded the EEOA to also apply to men.[xii] The EEOA and its revisions sought to build better workplace practices to allow women the opportunity to improve their socio-economic background, but it only addresses the economic aspect for women. Yet, to create even more comprehensive policy changes, the Japanese government looked to improve the social welfare of women in the 1990s.

In 1994, the Headquarters for the Promotion of Gender Equality, which later became the Gender Equality Bureau in 2001, was established within the Cabinet of the Prime Minister, to ensure a smooth transition and effective implementation of policies towards a gender-equal society between all stakeholders, including governments, private institutions, and citizens.[xiii] The vision of a gender-equal society is one in which both men and women hold equal opportunity, where:

> "…both men and women, as equal members, have the opportunity to participate in all kinds of social activities at will, equally enjoy political, economical and cultural benefits, and share responsibilities…allow[ing] individuals to choose various lifestyles regardless of their gender, and without being bound by such rigid, stereotyped gender roles…"[xiv]
>
> *-Gender Equality Bureau*

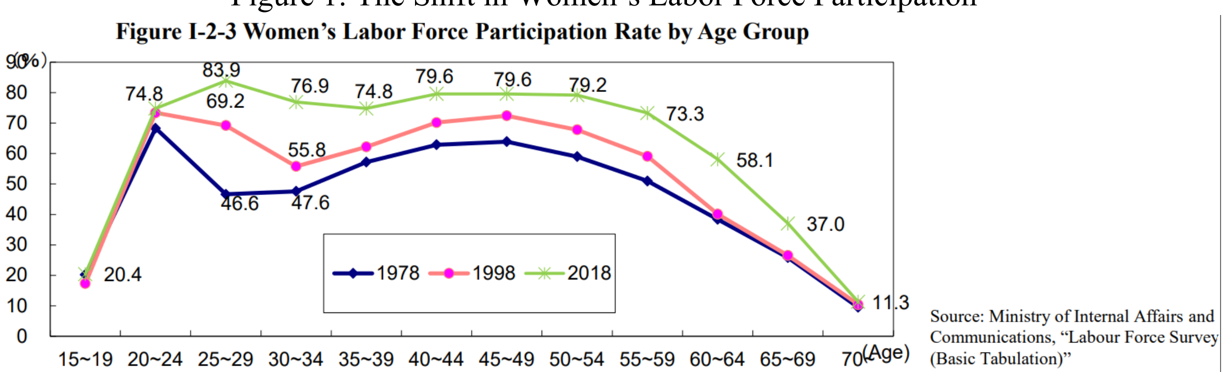
The framework of a gender-equal society is based on the Basic Act for a Gender-Equal Society (danjo kyodo sankaku shakai kihon-ho) and was adopted in 1999. Looking at the issue of gender inequality holistically, it created guidelines by which governments, national and local, private institutions, and citizens should strive to achieve in all parts of life.[xv] This provision also allocated capital and support for all to achieve better socioeconomic standards. Alongside pursuing the mandate of a gender-equal society, the responsibility of the Gender Equality Bureau still includes coordinating gender-related policy issues across ministries and international institutions, informing the development of legislation through research, and raising public awareness about gender-equality-related issues.[xvi] The Gender Equality Bureau also establishes government policy on gender equality through its publication of the Basic Plan for Gender Equality, a blueprint of target goals to reach and improve women's economic and political participation and empowerment, education and training, health and social welfare, and promote collaboration towards international initiatives. In contrast to previously enacted labor laws and policies targeting gender equality in Japan, the establishment of the Gender Equality Bureau signaled an acknowledgment that improving women's socio-economic environment involved other factors outside of economic labor laws, primarily in non-work, familial responsibility, and required the participation of all stakeholders.

Active Initiatives to Improve Socio-Economic Conditions for Women

The issue of gender equality for private industries began to gain traction in the 1990s due to economic stagnation following Japan's asset bubble collapse. Research into how firms could better utilize labor capital, particularly women, for improved economic performance gained more attention. Kathy Matsui, a strategist at Goldman Sachs, began researching the issue of gender inequality and how to better utilize women within the labor market and its potential benefits, coining the term 'Women-omics' in 1999. This idea of improving Japan's economic performance through improving labor market conditions continued to gain popularity. This idea was strengthened by the fact that by the 2010s, the Japanese government began to be proactive in providing actual target numbers and percentages to reach their gender-equality objectives within their Third Basic Plan for Gender Equality.[xvii] Setting political and economic objectives of increasing women's participation in senior positions to 30% and also improving gender representation in the underrepresented areas of education and job training became the highlights of gender equality policy. This idea only accelerated once Abe Shinzo became prime minister in 2012.

The Abe administration, dedicated to improving Japan's stagnating economy, pioneered "Abenomics", a three-arrow economic policy focusing on fiscal policy, monetary policy, and structural reform. In pursuing structural reform, the Abe administration also promoted the idea of Kathy Matsui's Womenomics, in which corporations could increase their performance by tapping into underutilized human capital, in this case, women, by encouraging these firms to revise their corporate governance framework and providing more meaningful benefits for women to work.
At this time, Japan had a low rate of labor participation for women in comparison to its OECD peers. In particular, Japan's labor market for women resembled an "M" curve, a representation of the general employment lifespan of women in which women join the labor force, drop out of the force during child-bearing years, decreasing overall labor participation for that age group, and eventually return to the labor market. [xviii]

Figure 1: The Shift in Women's Labor Force Participation



(Source: Gender Equality Bureau)

With the implementation of Abenomics, women's labor participation in Japan rose significantly, to the point that as of 2023, women's labor participation in Japan exceeds its Western counterparts, including the United States.[xix]

While improving labor participation was one of the initiatives of Womenomics for the Abe administration, improving overall political participation for women in Japan was a major objective too. The second Abe Cabinet created the fourth iteration of the Basic Plan for Gender Equality in 2015, expanding on the previous target objectives. In particular, the administration focused on improving women's economic empowerment by increasing the proportion of women as section directors to 30% for both the national government and local governments, the proportion of women as directors to 15% (a decrease from an initial 20%), and section directors to 30% (a decrease from an initial 35%) in the private sector by 2020.[xx] In addition, improving social welfare benefits for women to realistically participate in the labor market became a forefront objective, intending to expand childcare services for working mothers. However, progress towards these objectives was insignificant, as shown by the release of the Fifth Basic Plan for Gender Equality in the Reiwa era. The Fifth Basic Plan, issued in 2020, maintains many of the same objectives previously established in earlier basic plan policies. While there has been progress on some metrics within a five-year span, much of it is slow and gradual, requiring the Japanese government to change the target year from 2020 to 2025 and 2030 to achieve these measurements[xxi]. The Japanese government admits to its failure to achieve its targeted objectives for several reasons, such as its inability to effectively promote work-life balance, expand childcare resources, and demonstrate successful examples of how exactly a gender-equal environment operates.

Overall, the Japanese government has implemented gender measures that guarantee the right of women economically, and politically, but the gap between the law and the practical environment is wide. As seen through the wording of these laws and regulations, many operate on the basis that stakeholders participate voluntarily, which aligns with the notion of democratic choice, but as a result, codify societal inequities between men and women, as there are no incentives to change behavior. In order to effectively craft public policy to improve these metrics, a comprehensive study of the structural obstacles that women face in Japan is required. The following section will establish the remaining roadblocks that the Japanese government must overcome to properly achieve gender equality.

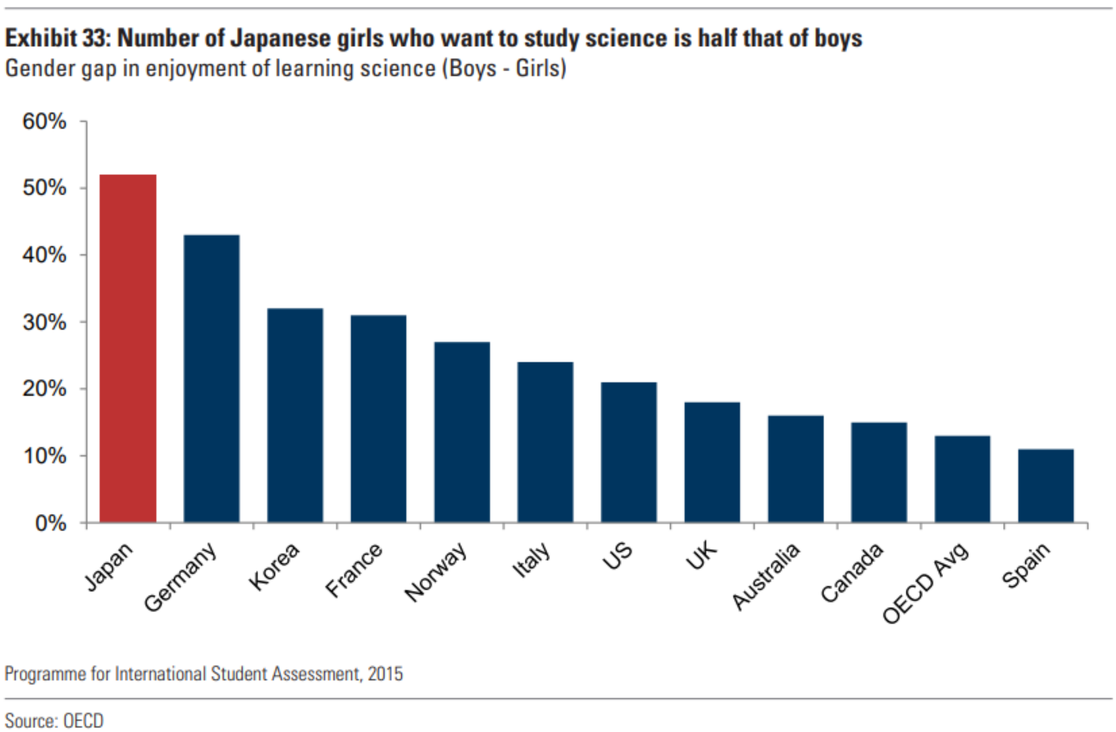
Obstacles to Resolving Gender Inequality

Social and Cultural Barriers – Societal Values, Stereotypes, and Responsibilities

Many of the obstacles to structural change benefiting women in Japan are connected to the image of the ideal Japanese woman and her perceived role in society. For many, this role primarily is to be a mother, homemaker, and family caregiver, if necessary. Due to this common societal viewpoint, the aforementioned labor laws such as the Labor Standard Act and EEOA were constructed with the consideration of gender roles, reaffirming women's societal value as primarily linked to taking care of the family. While reaffirming rights for women who are mothers is not inherently bad, many women are left with the impression that deviating from such societal expectations is difficult, thus limiting the choices women have and the decisions they make throughout their life. This societal pressure to conform to the societal standards for women and men leaves women with a lack of opportunity and also a lack of agency within society. For women who attempt to deviate from societal norms, there is a lack of a support system, as well as transparency in how the system operates. Such barriers disincentivize many women to act for their individual interests. These societal mindsets are what shape the foundational structure of the economy and politics, and inform the decisions made by government and business leaders.

This notion of traditional gender roles begins with education, as children in school are taught how to act within society. While there are no legal or practical disparities in educational attainment between girls and boys, children are guided to pursue subjects that align with traditional gender roles, such as STEM courses for boys. This impacts later education decisions in high school and higher education. As noted in Womenomics 5.0, the gender gap for students enjoying mathematics or science is the highest in Japan compared to other countries, which supports the notion that girls and women opt out of pursuing interests that seem to conflict with societal expectations.

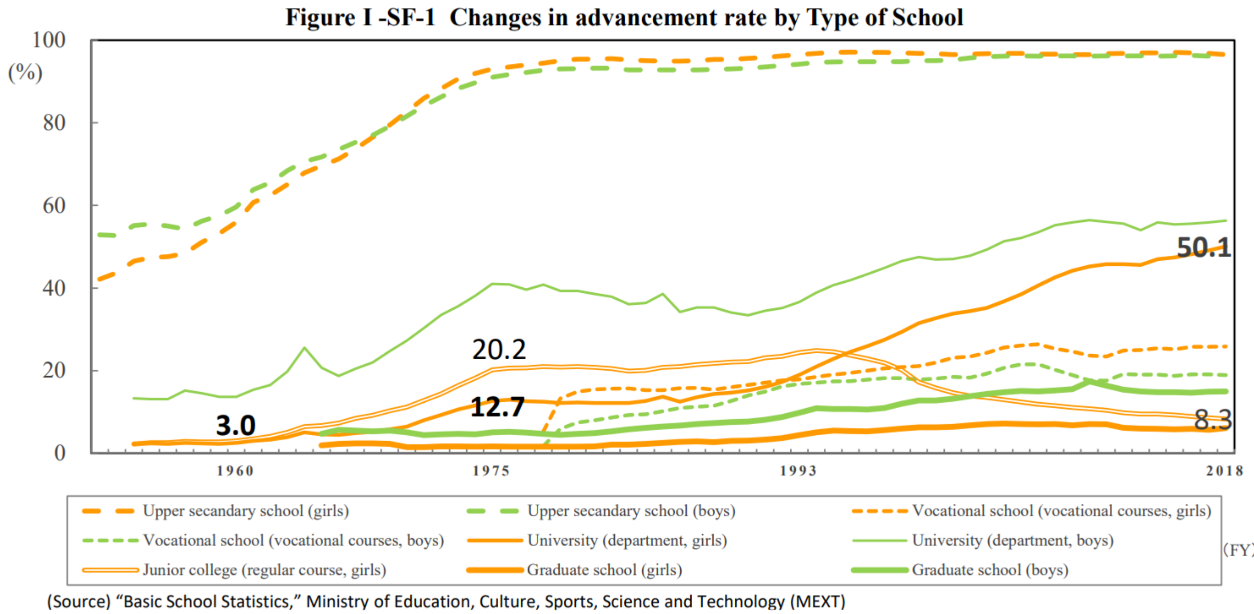
Figure 2: Gender Gap in Views Towards STEM



(Source: Goldman Sachs, Womenomics 5.0)

This split in opinion towards certain subjects influences later life decisions regarding higher education, and it is shown that while Japanese women have higher rates of higher educational attainment across OECD countries, a significant number of women go on to vocational or junior college, which generally lead towards service sector jobs, or jobs with little to no advancement opportunities.

Figure 3: Shifts in Educational Attainment



(Source: Gender Equality Bureau)

Additionally, women are often penalized from pursuing higher education, as there is a common societal viewpoint that women should place a stronger emphasis on building a family, rather than career progression. While women and men both benefit from higher labor earnings from attending well-known higher education institutions, women who are married and have a college degree are penalized, earning 6.3% percentage points less than their male counterparts, holding all else equal. For women who have children, they are likely to earn 16.4% percentage points less than their male counterparts who have children, and if they have attended college and have a child, earn 20.5% percentage point less than their college-educated male counterpart who has a child.[xxii] These statistically significant results explain why women are disincentivized towards pursuing higher education, and confirm that there is a marriage-penalty and child-penalty for working women.

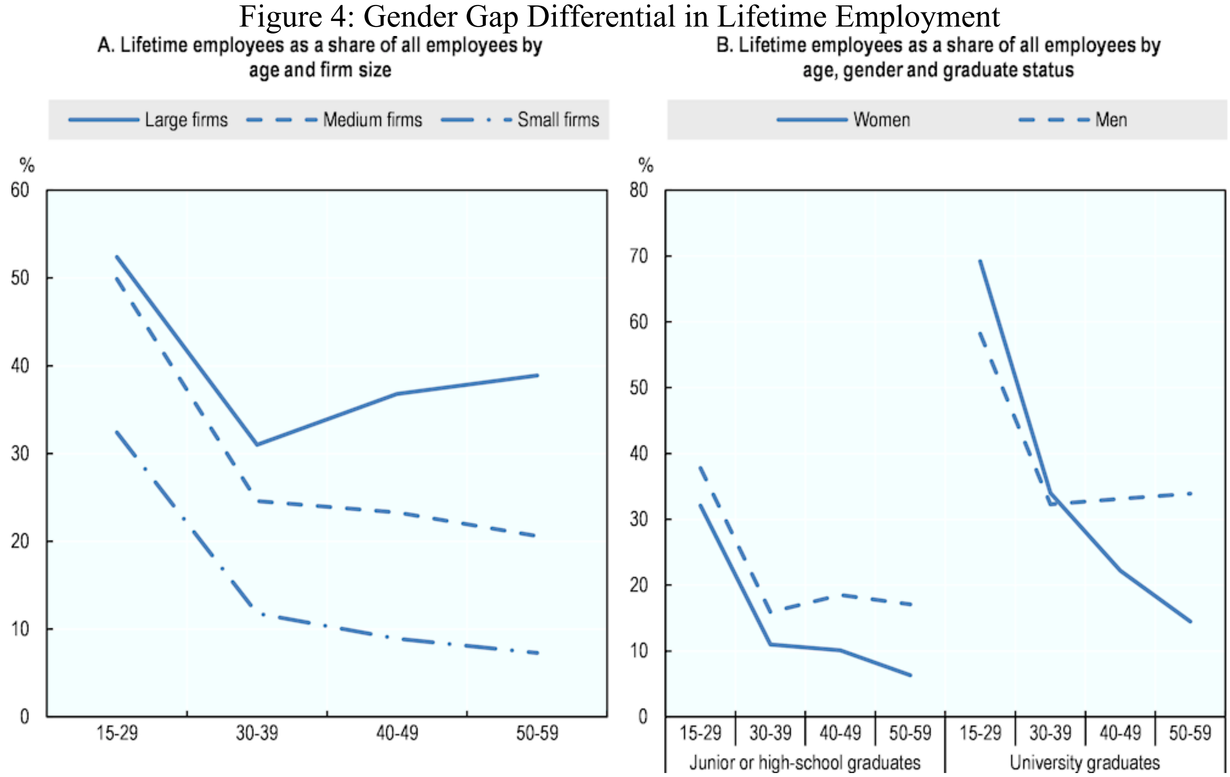
For women who go on to pursue higher education, there is the structural obstacle of entering the labor market. Japan employs an annual 'job-hunting' system called shushoku-katsudo, which is a pipeline for graduating students to find jobs within the labor market. This system utilizes the concepts of ippanshoku and sogoshoku, for graduating students. Maoko Otaki, a research associate at the Matsushita Institute of Government and Management specializing in urban and rural gender inequities in Japan, noted that the job-hunting system places an immense burden on graduating women to conform. To get hired, women must adhere to strict uniform standards and behaviors regardless of the career path chosen.[xxiii] Oftentimes, many graduating women pursue jobs within the clerical track, ippanshoku, which has little room for career progression, but generally offers flexible benefits for women who intend to have a family. On the other hand, the managerial career track, sogoshoku, has become synonymous with a male-dominated career path, and one that women should not pursue if they choose to start a family. The Womenomics 5.0 report, released on the 20th anniversary of the initial report, notes that in 2014, 82% of newly hired women entered the labor force with a clerical-focused career compared to 18% of newly hired men.[xxiv]

The structure of the Japanese job market continues to perpetuate traditional gender roles, which lead into the workplace environment to which men and women must conform.

Workplace Environment and Work-Life Balance

The two-track career system that Japan utilizes reaffirms the existing corporate governance structure that companies enforce upon their employees. Many companies in Japan follow a system of lifetime employment, shushinkoyo, that has been used since the early 20th century and is credited as being a primary source for the tremendous economic growth that Japan achieved during the early postwar decades. Lifetime employment is the notion that a person works as an employee of a firm from graduation until retirement. Employees are required to dedicate a significant amount of their time to work, often working overtime over extended periods for generous benefits. These benefits are a function of the aged-based promotion scheme, where employees are promoted based on loyalty and how long they have worked for the company rather than on their performance or skill. For this system to function properly, employees under lifetime employment need a supportive family structure in which one spouse, typically the man, can work full-time, while the other spouse, the woman, assumes full-time duties to the household and family. This system of promotion has evolved to become the managerial career track, sogoshoku. As previously stated, the proportion of women entering the managerial sogoshoku career track is minuscule in comparison to the men, which lends itself towards the employment differential of men and women in senior positions. As shown in Figure 4, men make up a majority of the total share of lifetime employment, regardless of educational background.

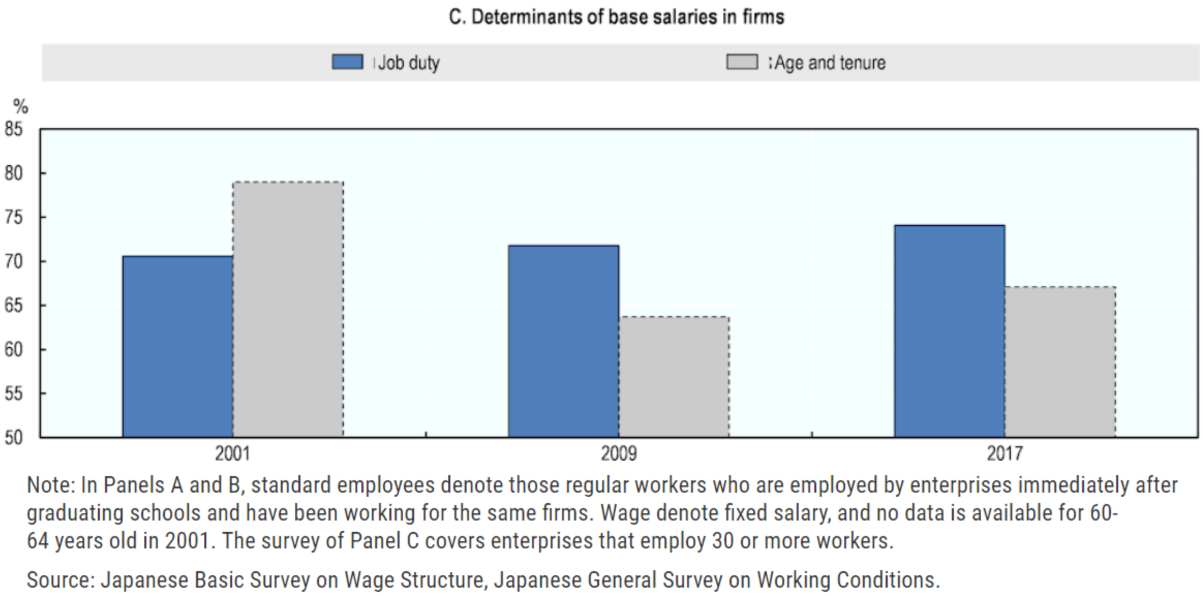
Figure 4: Gender Gap Differential in Lifetime Employment



(Source: OECD)

However, Japan's economic environment has amplified career differentials as the asset bubble collapse caused many companies to phase out their lifetime employment system. This shift in hiring practices indicates both positive and negative changes. This shift could be interpreted as positive, as some companies have shifted their benefits structure from age and tenure to skill, as shown in Figure 5, or negative, as some companies have begun to favor hiring part-time contractual workers, which do not receive the same benefits as full-time contract workers, despite similar full-time work responsibilities.[xxv]

Figure 5: Declining Usage of Lifetime Employment for Skills-based Wage Compensation



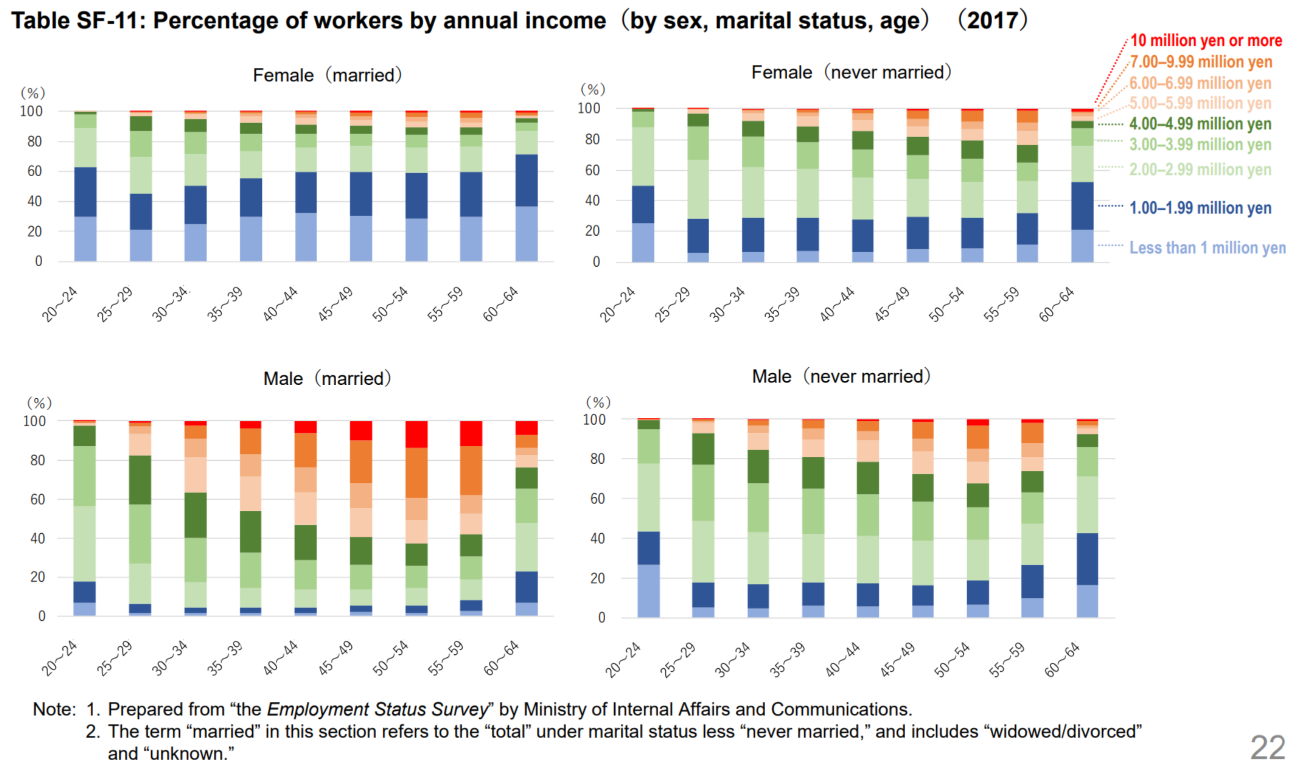
(Source: OECD)

The trend of part-time work has increased over the decades due to changes within labor laws regarding childcare leave, where working mothers now have the right to work part-time until their children reach school age. Dr. Masako Kurosawa, a labor economist at the National Graduate Institute for Policy Studies (GRIPS) in Tokyo, argues that this policy, rather than Abenomics alone, is what spurred the increase in women's labor participation within Japan. [xxvi]

Management and Wage Differentials

The aforementioned career tracks and lifetime employment are products of companies' corporate governance structures, but company management plays a significant role in shaping the work environment and work benefits for their employees. Many companies utilize the career tracks and lifetime promotion basis system in relation to wages rather than skills. This later impacts the lifetime earnings of men and women in the labor market. The Ministry of Education's report on annual income on the basis of sex, marriage status, and age only reaffirms the studies and common perception of a marriage penalty on the earnings of women. [xxvii] As shown in Figure 6, the wage differentials between unmarried men and women are not too distinct. However, the wage differentials between married men and women, and married and unmarried women are substantial, and should be considered when crafting policy around gender equality.

Figure 6: Annual Wage Differential by Sex, Marriage Status, and Age



(Source: Gender Equality Bureau)

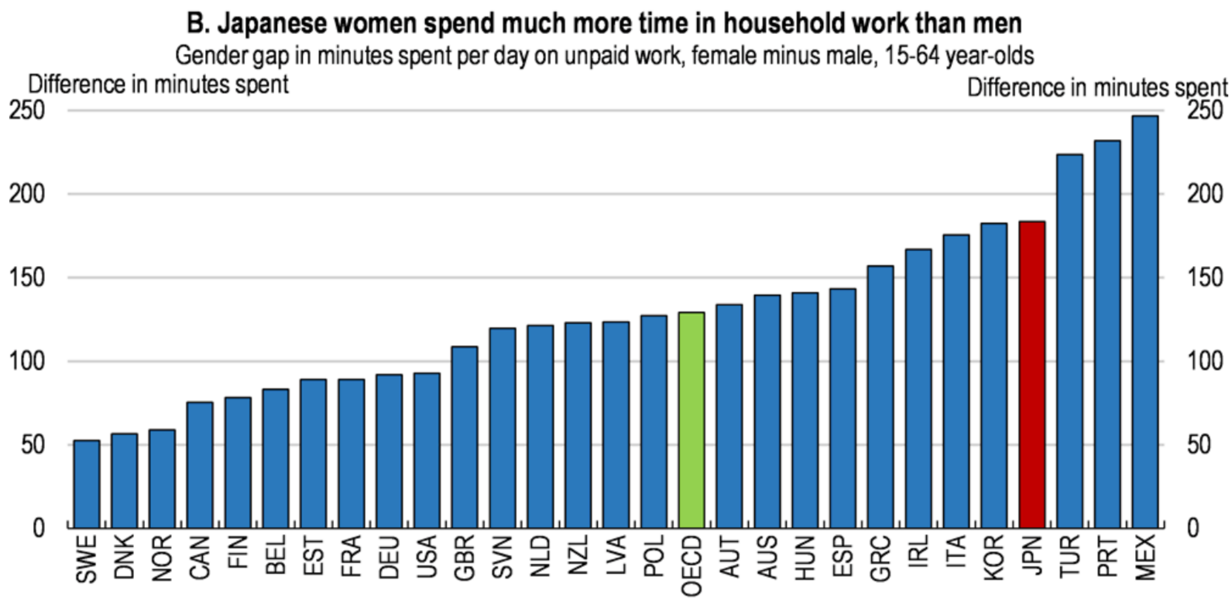
The reasons why married women earn less than their unmarried counterparts and significantly less than their spouses relate to how the Japanese government utilizes and distributes social benefits such as taxes and pensions. Japan's tax system operates on an individual basis rather than a familial basis, and for dual households, the second earner has a higher tax rate than a single individual (23% versus 13%).[xxviii] In addition, dual households can utilize a spousal tax deduction of ¥380,000 under the assumption that the second-income earner earns less than ¥1.03 million, and the second-income earner, then qualifies under the pension benefits from their spouse, exempted from the requirement to pay into the pension system.[xxix] However, this spousal deduction incentivizes the second earner to limit their earnings in favor of not paying higher taxes. Additionally, married women typically leave the labor market to have children, which leads to a drop in overall lifetime income earning potential. After leaving the labor market, many women only have the option to return to part-time work, and such work does not necessarily mean shorter hours in Japan, or decent wages or benefits.[xxx]

For women who remain working with their employer full-time and seek career progression, there is the obstacle of establishing career progression. As noted, the Japanese employment environment operates on age-based promotions, leading management to promote on the basis of age rather than performance or skill. In an interview, Michiko Yoshinaga, a human resource consultant at a start-up financial tech company, noted that despite the increase in start-up culture within Japan over the past few years, many of these technologically innovative firms follow an opaque promotion system where tenure, not performance determines whether a person is promoted to an upper management position.[xxxi] Many in upper management, she noted, are disproportionately male, having little experience or training in management, but rather deep knowledge and expertise in their previous positions or departments. However, in her opinion, start-up companies offer a distinct experience that traditional Japanese firms do not offer career-oriented women in Japan: a challenging environment in which they can improve their skills for future career paths. Unfortunately, some women find that the start-up culture in Japan only perpetuates existing structural obstacles for recruitment, hiring, training, and career promotion, which pushes them to find opportunities elsewhere, and oftentimes outside of Japan.

Work-Life Balance Spillover

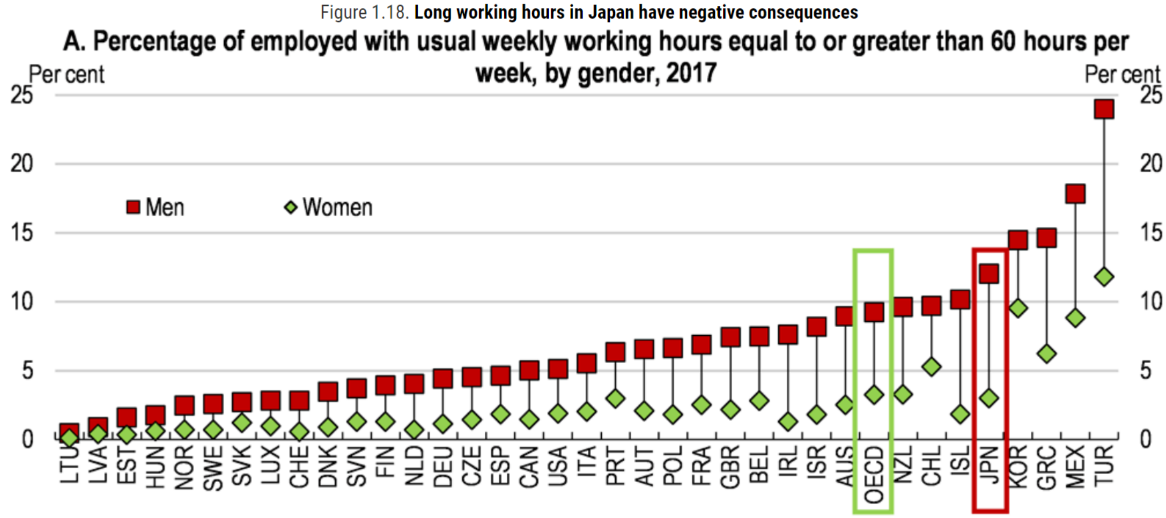
The issue of work-life balance is seen as the origin of many of the gender inequities towards employment. Given that women are primarily seen as caretakers and mothers, household and familial responsibilities fall upon the woman. Japanese women, on average, spend a disproportionate amount of time taking care of household work that is unpaid in comparison to men as shown in Figure 7. This is exacerbated by the fact that the percentage of Japanese men working more than 60 hours a week is higher than the OECD average percentage. In addition, childcare, one of the many household responsibilities, is mainly relegated to women, with over 80% of Japanese women taking maternity leave, in comparison to the less than 10% of men taking paternity leave.[xxxii] These disparities in household responsibilities either require women to participate less in the formal labor market, or to take on a disproportionate burden of work and household responsibilities.

Figure 7: The Gender Gap in Household Responsibilities



(Source: OECD)

Figure 8: Gender Disparity in Working Hours

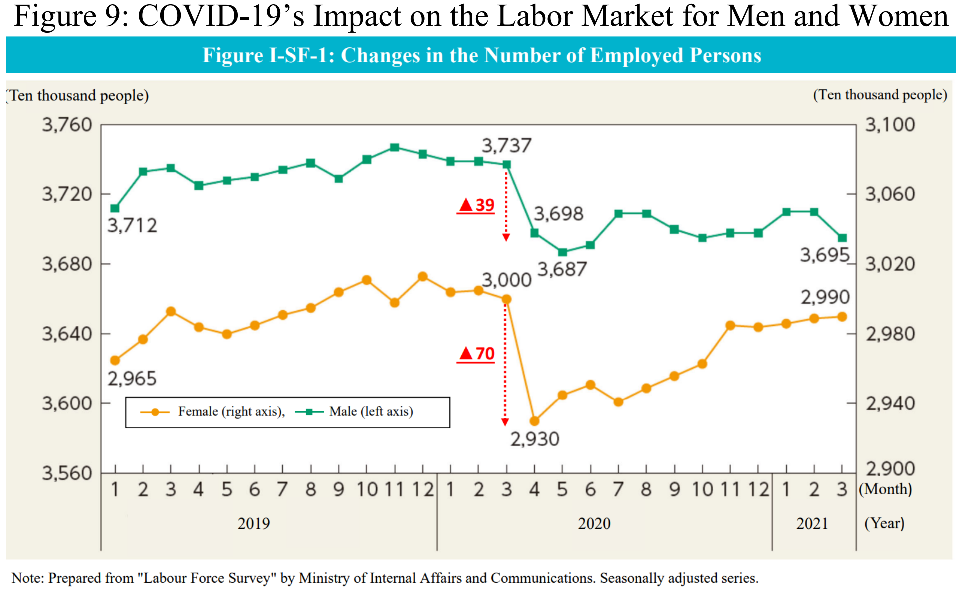


(Source: OECD)

The Implications of COVID-19

The COVID-19 pandemic significantly impacted work, school, and everyday life for many people, highlighting many social inequities. With the pandemic, the usage of digital technologies and remote work proliferated as a way to maintain set routines and business. While there is still much research to be done on the impact of COVID-19 on different aspects of life, there is a consensus that the pandemic brought positive change towards social and work-related life, but in other ways damaged it. For Japan, the COVID-19 pandemic highlighted the little change in gender disparity in Japan. Nevertheless, the pandemic was the impetus that incentivized companies to revise their employment guidelines to accommodate the special circumstances, permitting both men and women to utilize remote work, increasing productivity and decreasing other work inefficiencies and burdens.[xxxiii]

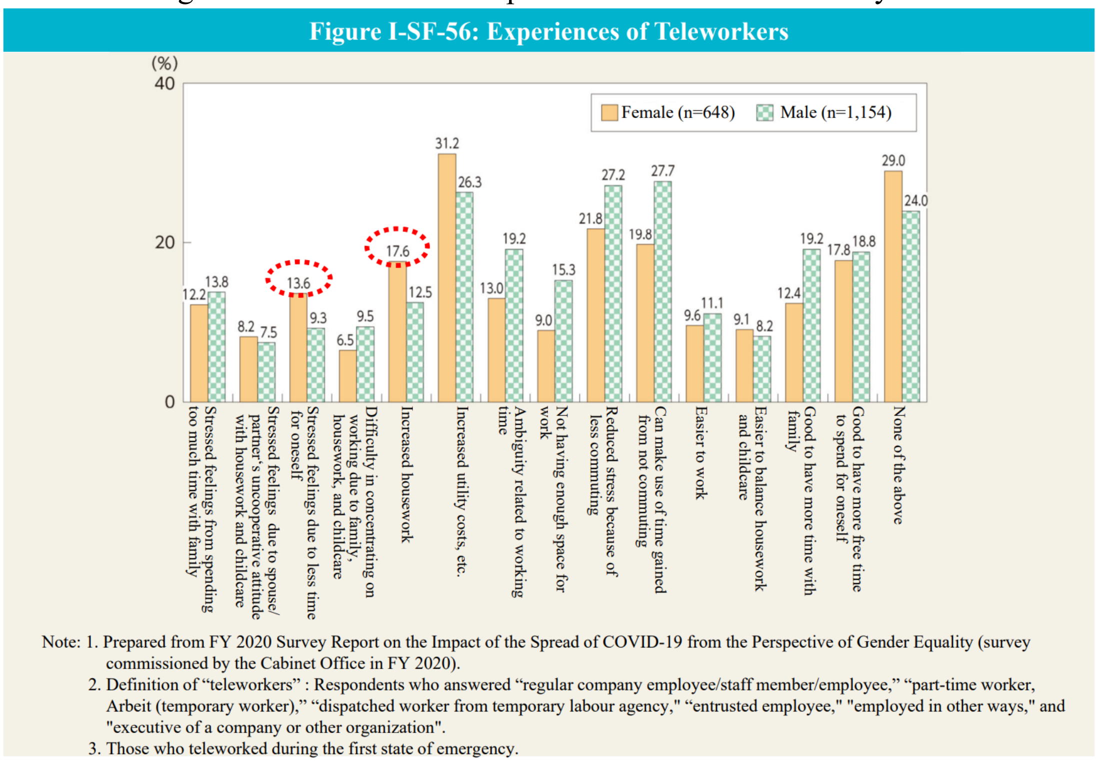
Figure 9: COVID-19's Impact on the Labor Market for Men and Women



(Source: Gender Equality Bureau)

When the pandemic hit, both men and women experienced job losses, but women were disproportionately affected, with about 700,000 women losing employment, compared to 390,000 men. This disparity is amplified by the fact that a large proportion of women are classified as 'non-regular' or part-time workers in sector industries, primarily in foods and services, which were disproportionately impacted by the pandemic.[xxxiv] On the other hand, for some women who remained in employment remotely during this time, the burden of both household and work responsibilities increased unexpectedly.

Figure 10: Attitudes and Experiences of Remote Work by Sex



(Source: Gender Equality Bureau)

In a survey conducted by the Gender Equality Bureau, for people who teleworked during the first state of emergency during the pandemic, women experienced a slightly higher increase in stress and difficulty in balancing work, housework, and familial responsibilities compared to their male counterparts. Although COVID-19 brought benefits of remote working, decreasing commuting times and workplace inefficiency, it exacerbated overall stresses brought by combining work and home in the same environment. It also highlighted the issue of how private industry had not entirely changed to provide better socio-economic standards, as women are forced to maintain high work output.

A Vision to Improve Gender Disparity

Continuing Structural Reform through Digital Transformation (DX)

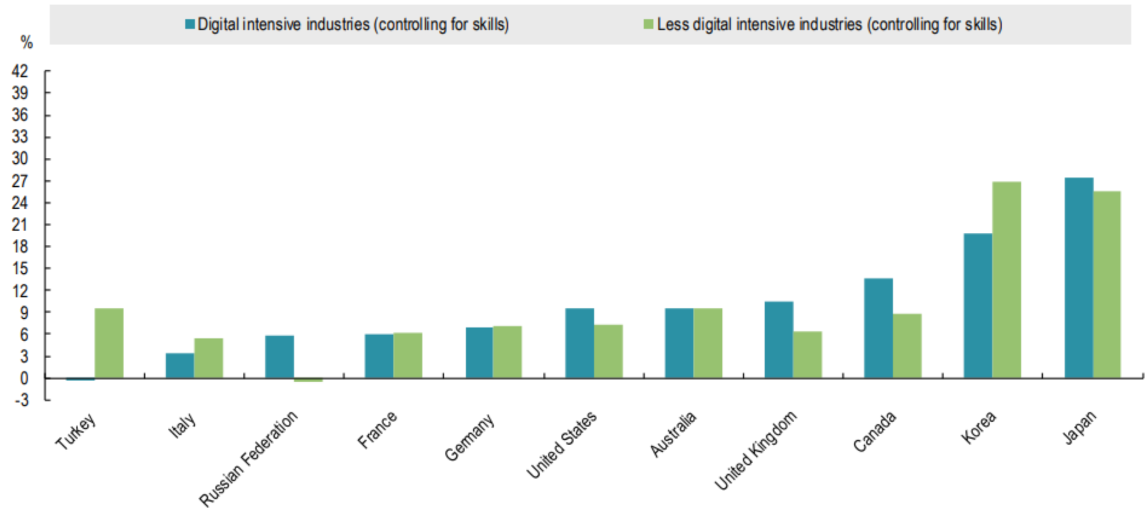
The Japanese government, in striving to improve the gender gap, implemented many initiatives that codified the rights of women within the labor market. But it has only begun to think about gender equality comprehensively. To facilitate fundamental change, the government needs such an approach that spans the gamut of factors that impact gender equity. The Kishida administration recently has come out with the framework of “New Capitalism” (atarashii shihon shugi) that focuses on significant and widespread investment for socio-economic growth. Within this vision, the Kishida administration focuses on the public and private collaboration of stakeholders to provide sufficient investment towards people, science, technology, and innovation to spur growth and ensure a stable society.[xxxv]

Within the framework of New Capitalism, the Kishida administration, following the previous momentum of the Japanese government’s policy towards digitalization, promotes the Digital Transformation initiative. This initiative began with the previous administration, under Prime Minister Suga, and focuses on digitalizing many aspects of Japanese society. With an emphasis on investing in human capital, it is seen as a tool to introduce greater labor market flexibility, force a change in corporate governance and a shift towards performance and skilled-based evaluations, and potentially introduce a change in mindsets. As Karen Makishima, the former Digital Minister within Prime Minister Kishida’s first and second Cabinets, and currently a Lower-House representative, explained in an interview, digital transformation provides new opportunities for women, men, and the elderly, to achieve better work-life balance through reskilling. Regarding women, reskilling offers an opportunity to transition from part-time work to full-time. As IT skill demand increases and employers require those skills, it has and will continue to have reverberations within the labor market and economy, improving productivity, efficiency, and overall wage levels.[xxxvi]

Societies, however, must heed the caveat of the digital divide, being careful not to exacerbate existing societal inequities. To avoid exacerbating gender disparities with digital technologies, the government should offer subsidies and support for women to pursue building the skills necessary to work in digital-intensive industries. In addition, the government should enforce existing labor laws on equal wages for equal amounts of work in all industries. As shown in Figure 10, the gender wage gap in digital-intensive skills is higher than in less intensive industries for most countries, but especially in Japan. This indicates that there are some remaining cultural biases toward women in digital environments. As girls and women are not encouraged to enter into fields of mathematics and science, this leads to decreased participation within more technical industries and inadvertently, more discrimination. With government proactivity towards women and re-skilling, there is the potential to decrease not only biases against women who pursue more mathematical or scientific fields, but also the wage differential within the industry.

Figure 11: Gender Gap in Wages by Digital and Less Digital-Intensive Sectors

Figure 30. Gender wage gap by country in digital vs. less digital intensive industries (controlling for skills)



Notes: The figure shows the differences in hourly wages for men and women in percent (for the sub-samples of employees in digital vs. less digital intensive industries, respectively). Digital intensive industries are defined using a new measure for digital penetration developed by Calvino et al. (2018). The estimates for the gender wage gap are based on OLS wage regressions (Mincer equations) using data from PIAAC and control for the same covariates as in Figures 27 and 28 (in particular for all skill variables). The skill measures are based on PIAAC and are taken from Grundke et al. (2017).

Source: OECD calculations based on OECD (2017m), *Survey of Adult Skills (PIAAC)* (database), www.oecd.org/skills/piaac/.

(Source: OECD)

The digital transformation policy also influences corporate governance and overall labor market flexibility as the skills demanded by firms require productivity and efficiency, introducing more competition within industries for talent. This shift towards a system based on productivity introduces more flexibility within the labor market and as a result, improves benefits that firms are willing to offer to their employees. While digital transformation has significant implications for all aspects of life, including social, educational, and work, it alone cannot resolve gender equality.

Corporate Governance Reform, Labor Reform, and Tax Reform

The Japanese government holds immense power in directing the timing and speed at which society reacts to and adopts measures to improve gender equality. While digital transformation introduces more competition within private industries, the government sets the overall standards and guidelines for what is acceptable. Since the Japanese government views main social issues such as an aging population and the labor shortage as pressing issues to resolve, and gender equality leans into these issues, it should offer incentives for private industries to update their corporate governance standards. Factors that could lead to the change of corporate governance standards would be overall tax deductions for meeting government diversity and gender guidelines, and tax subsidies for companies looking to train their staff and personnel on better company practices and providing programs and services to allow women to upskill. As many of the laws and regulations towards gender equality are based on voluntary participation, the government should continue to build incentives that shift overall mindsets towards better work-life balance practices, and generous benefits. A step that makes it easier to offer incentives is collecting general information about corporate governance practices through disclosure. Fortunately, the Japanese government has adopted a medallion system, Eruboshi, a certification for companies that empower women, and Kuromin, a certification for companies that encourage work-life balance for families. This informs workers about the general work benefits that companies offer.[xxxvii] Connecting this disclosure system to tax benefits and subsidies will provide even greater market incentives for not only large firms, but small and medium-sized firms to disclose their operations, and begin operational transition towards a more equitable work environment.

Additionally, the Japanese government can yield its legal power to establish additional labor law revisions that encourage labor market flexibility. While there are anti-discrimination laws that firms must abide by, the government should continue to build stronger labor rights for not only women, but also men. Discouragement of overtime work and encouragement of paid leave and equal pay should be leveraged, and the government should increase enforcement of the labor laws they have revised. By increasing oversight over firm disclosure and overtime and increasing the overtime wage premium, firms will be more judicious in forcing employees to work overtime as their operating costs will increase. Through these legal enforcements, the Japanese government adds another layer of pressure on public and private institutions to institute better work-life balance practices, improving equality between work and home responsibilities.

Lastly, the Japanese government should reassess its tax system for individuals and businesses to provide spillover effects on work-life balance. The spousal tax deduction within the tax system should be eliminated due to its impact on disincentivizing women to join the labor force. In doing so, the Japanese government could encourage a 6.5 percentage point increase in the labor market, and encourage women to pursue jobs and careers with higher pay.[xxxviii]

Encouraging Women Towards Politics through Gender Quotas

Women's participation in government is essential to crafting comprehensive policy proposals and creating proper incentives and guidelines to improve women's socio-economic environments. Japan's representation of women within the political realm is abysmally low compared to its OECD counterparts, and the government has set target objectives to improve women's overall political representation to about 30% by 2030.[xxxix] However, the societal mindset that women should not participate in politics due to its demanding work environment, and that their obligation should be towards their family, persists. Pursuing a political campaign is very arduous in Japan and requires candidates to dedicate a significant amount of their official and unofficial time.[xl] Since Japanese women and men do not share the same amount of familial and household responsibilities statistically, women face an uphill battle in attempting to break into the political world. As changes to the political process generally are very difficult to achieve, the government should institute gender quotas towards the recruitment of parties and listed candidates for national elections, due to the little change in political representation over the past decades. Conscious and unconscious sexism is rife toward women in politics, and there is a common misconception that women are generally less interested, less qualified, and unserious about engaging in politics.[xli] Implementing a gender quota on the number of representatives sitting in the National Diet might be too controversial, but insisting on better recruitment practices for political parties through gender quotas is a more subtle method to introduce better representation.[xlii] This would introduce a gradual structural change in the political world and have an impact on policymaking and implementation. In doing so, Japan has the chance to spur political participation, much like South Korea has by implementing a gender quota.

Conclusion

Japan is a unique country, being one of the few whose constitution codifies women's rights. However, as seen throughout its postwar history, laws and regulations are not well-implemented and do not match the realities that men and women experience. Japan has taken steps to improve gender equality within society through a principle-based approach. Paired with the conservative and traditional mindset of Japanese society, this principle-based approach has led to inefficient policies and laws with institutions and people circumventing them with values and mindsets that are discriminatory. While taking principle-based measures aligns with democratic values, the government must provide correct incentives to guide institutions and people toward a change in mindset.

An overall change in mindset is a key factor in decreasing the structural barriers that Japanese women face within society. These structural barriers are reinforced by Japan's weak principal-based laws addressing gender equality, and reversing their effects will require structural change, both incentive-based and penalty-based. Structural change also requires the deliberate collaboration of public institutions, private sectors, and communities. Japan's ability to address other socio-economic concerns begins with the issue of gender equality, and recent government and business acknowledgment of this is shown through new laws and recent regulations. The current issue is whether Japan is progressing quickly enough to have a profound impact on gender equality and other socio-economic issues. To ensure accelerating progress toward gender equality, the Japanese government must continue to be proactive in breaking traditions and norms.

Acknowledgments

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The Clean Spark: The Role of Natural Gas in Achieving Japan's Energy Security

By Bryan Hong

Introduction

Japan reclaimed its position as the world's top importer of liquified natural gas (LNG) in 2022, following a volatile year for global energy markets. As gas markets have adjusted to the ongoing war in Ukraine, energy security has regained priority as a top concern for policymakers. This paper proposes that natural gas will play an important role in Japan's energy security, as gas serves a critical role in fueling industries, heating homes, and powering the Japanese economy. To achieve Japan's energy security, this paper proposes the following:

- Japan should continue to buy gas under long-term deals from established and emerging markets, diversifying its purchasing portfolio to manage supply risk.
- Japanese companies should sign contracts that allow for flexible delivery terms, leveraging destination-free clauses and resale terms to commoditize LNG. This would in turn boost the liquidity of the Japanese LNG market and manage price risk.

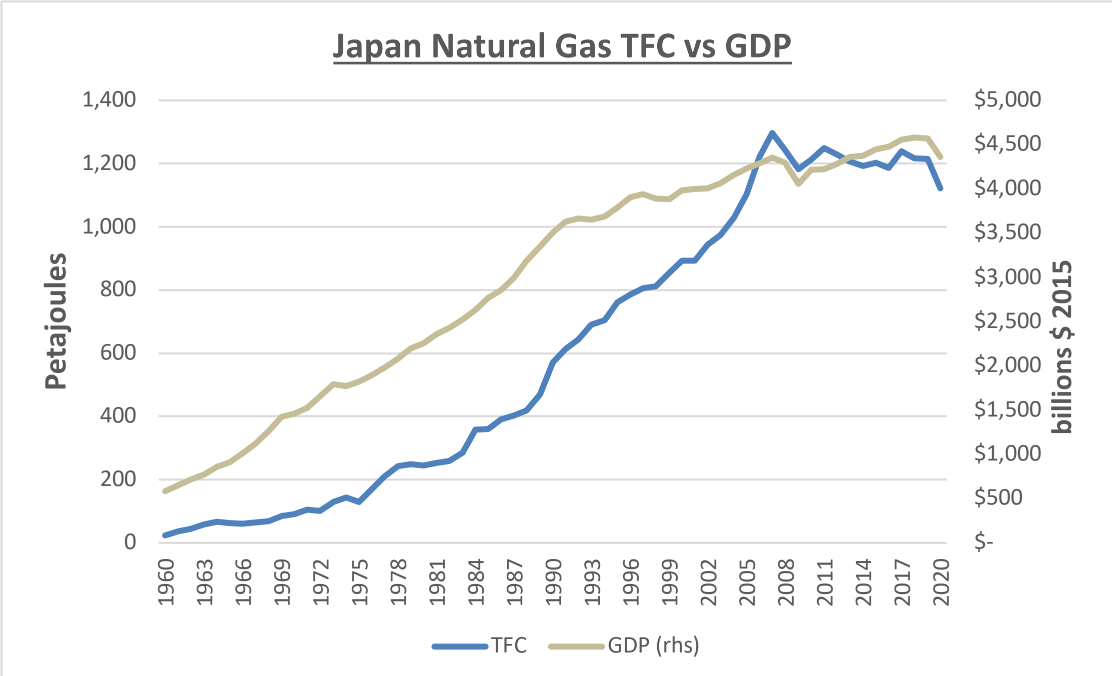
This paper will progress in the following manner: first, a report based on publicly available data will cover the Japanese gas market, followed by an overview of the market's liberalization from 1995 to 2017. Then, an analysis of the 2020-2021 Asian winter freeze will follow to contextualize Japan's susceptibility to exogenous shocks to global supply and demand. Next, an overview of global LNG projects in which Japanese companies hold equity will be provided, identifying countries of interest such as the United States, whose vibrant LNG market would greatly support Japan's energy security. Contracts will then be discussed, with an emphasis on contracts with flexible terms. Finally, trading activities that leverage existing price spreads across gas benchmarks will be mentioned as well as their implications for liquidity.

State of the Market

A resource-poor island nation, Japan depends on natural gas to fuel its economy. Data shows that gas consumption moves steadily with economic growth but has flatlined since 2008 as a shrinking population weighs down on topline energy demand. Decomposed by fuel source, gas consumption has gradually ticked upward, overtaking coal consumption. Electricity and gas demand are positively correlated, reflecting the predominant use of natural gas in the Japanese power sector. Gas demand comes mostly from the power sector, followed by industry demand and residential demand for space heating.

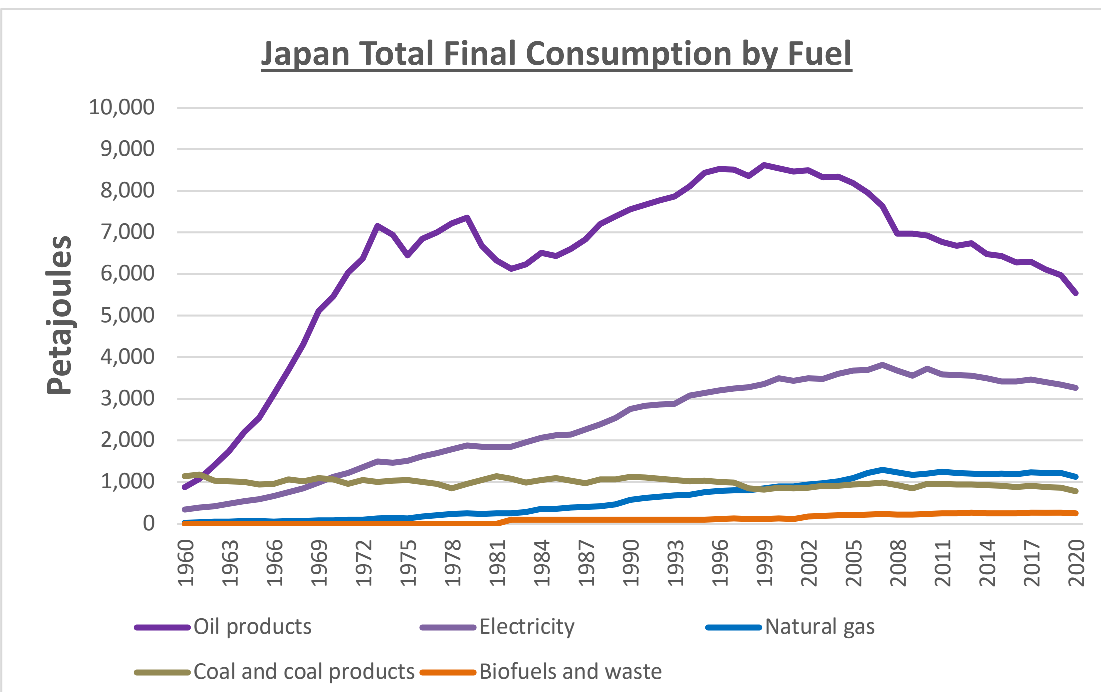
Following the 2011 Great Earthquake, the Japanese government closed all operating nuclear reactors in the country. To fill the energy gap, Japanese utilities scurried to ramp up their imports of coal and natural gas, primarily for use in their power plants. Today, natural gas comprises approximately one-third of Japan's electricity needs, though gas competes with coal in the power generation stack, reflecting intense coal-to-gas switching in the power sector with gas acting as the marginal fuel source based on economic dispatch.[i]

Figure 1. Natural Gas Consumption and Japan GDP



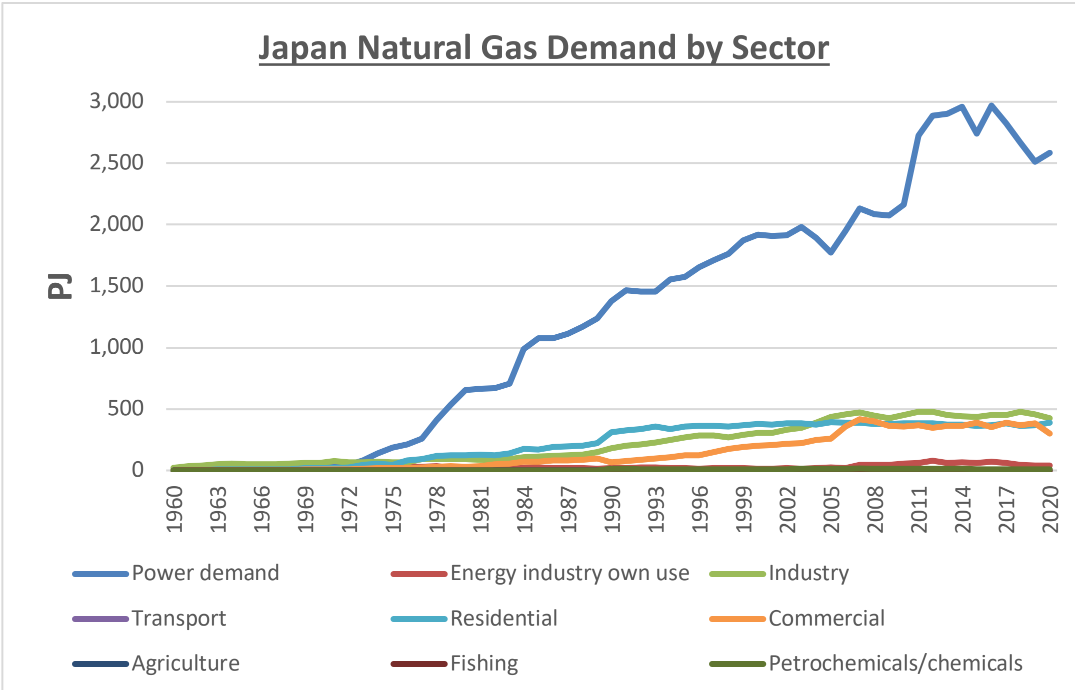
(Source: IEA[ii] and World Bank[iii])

Figure 2. Japan Topline Energy Demand by Fuel Source



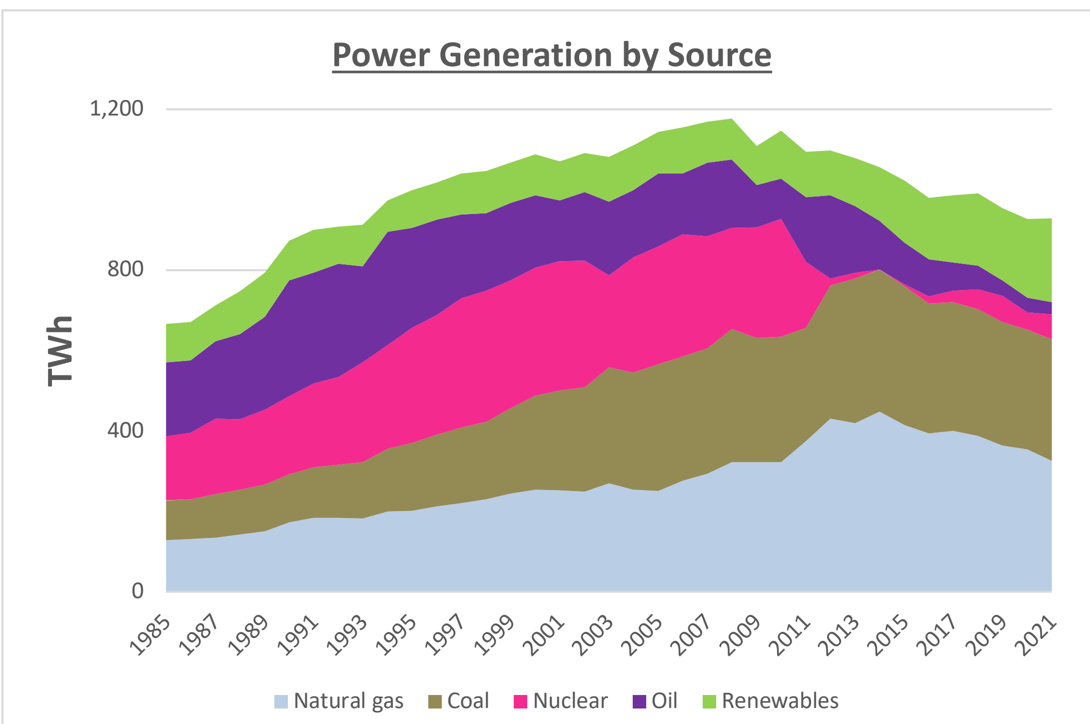
(Source: IEA)

Figure 3. Natural Gas Demand by Economic Sector



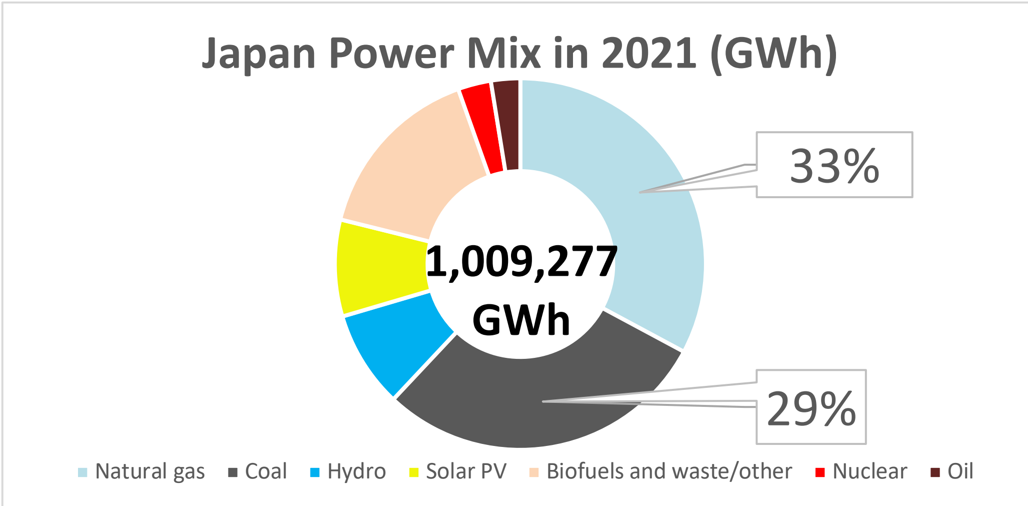
(Source: IEA)

Figure 4: Power Generation by Fuel Source in Japan



(Source: BP Statistical Guide of Energy[iv])

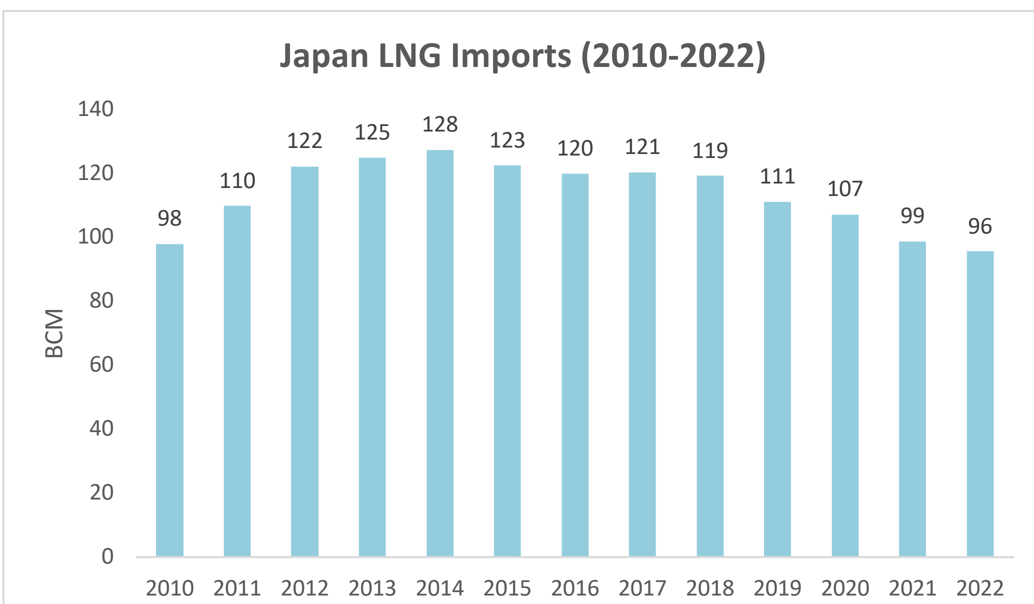
Figure 5: Japan Electricity Power Mix (2021)



(Source:IEA[v])

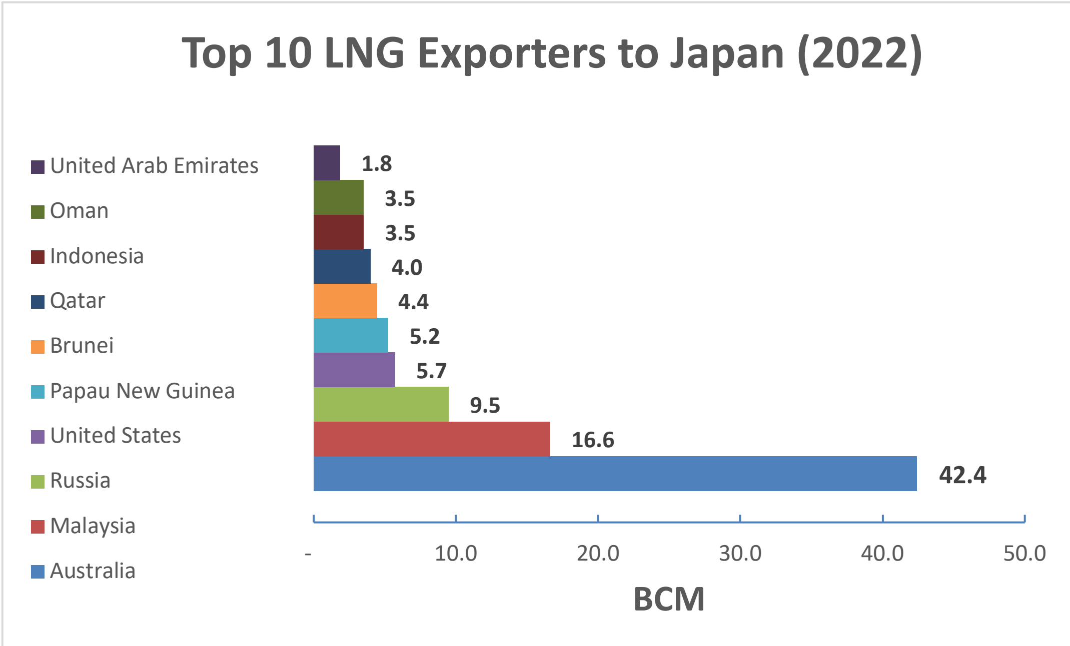
Trade figures indicate that Japanese LNG imports reached approximately 96 billion cubic meters (bcm), a 2 bcm decrease from past-year figures. The drop in imports can be attributed to supply-chain issues, the pandemic, and economic slowdown. By country, Japan imports most of its LNG from Australia, a country of considerable importance due to its plentiful gas supplies and proximity to the Japanese market. Elsewhere, Japan's next biggest source of LNG comes from Malaysia, followed by Russia. The U.S. is slowly saturating the Japanese gas market, delivering approximately 5.7 bcm in 2022. However, shut-ins due to an explosion at the Freeport LNG terminal in the summer of 2022 and a diversion of U.S. spot cargoes to Europe following the breakout of the Russia-Ukraine war led U.S. exports to Japan to fall by 4.3 bcm from 2021 levels.

Figure 6: Japan LNG Imports



(Source: JODI[vi])

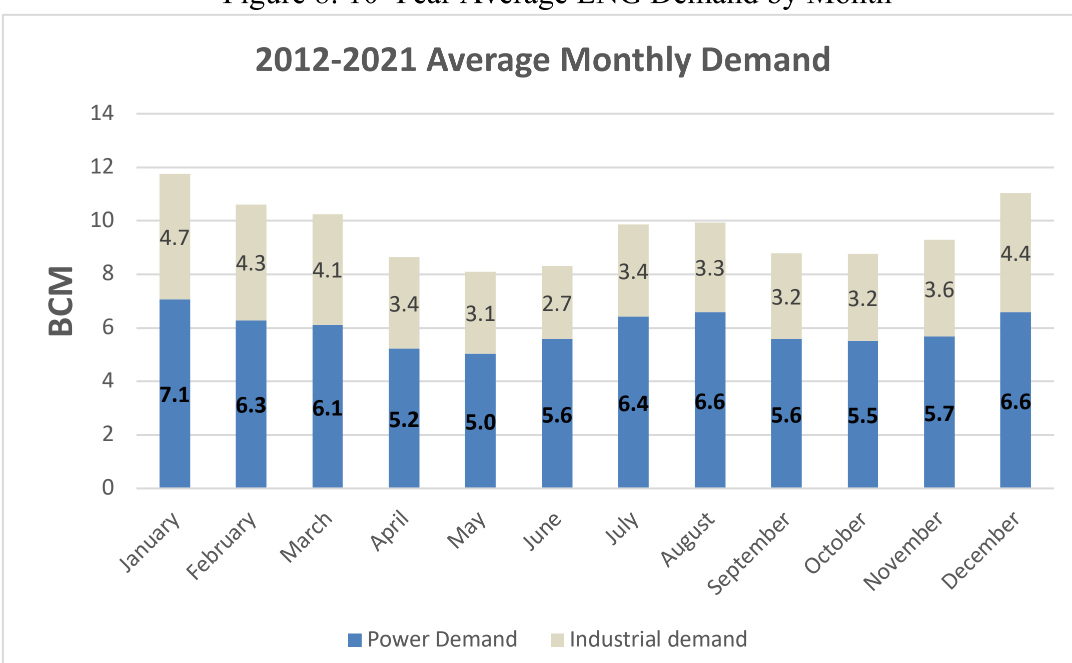
Figure 7: LNG Exports to Japan by Country



(Source: Ministry of Finance[vii])

An analysis of past 10-year LNG consumption trends shows that LNG demand follows a seasonal pattern. Demand is highest during the winter months, and levels off during the spring-shoulder months before increasing again to meet summer cooling needs. Following the summer peak, imports slowly decline until they rise again to meet winter and storage demand.

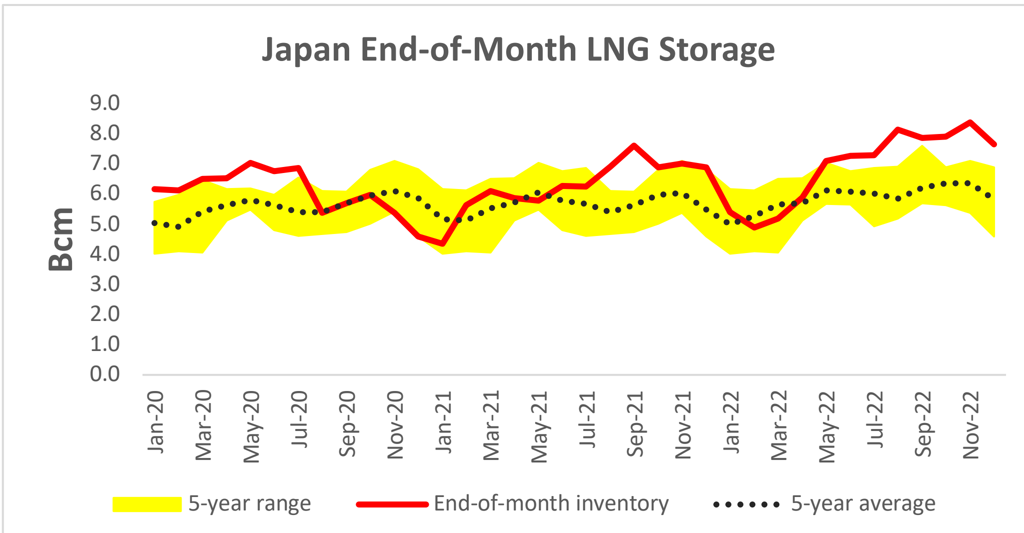
Figure 8: 10-Year Average LNG Demand by Month



(Source: JODI)

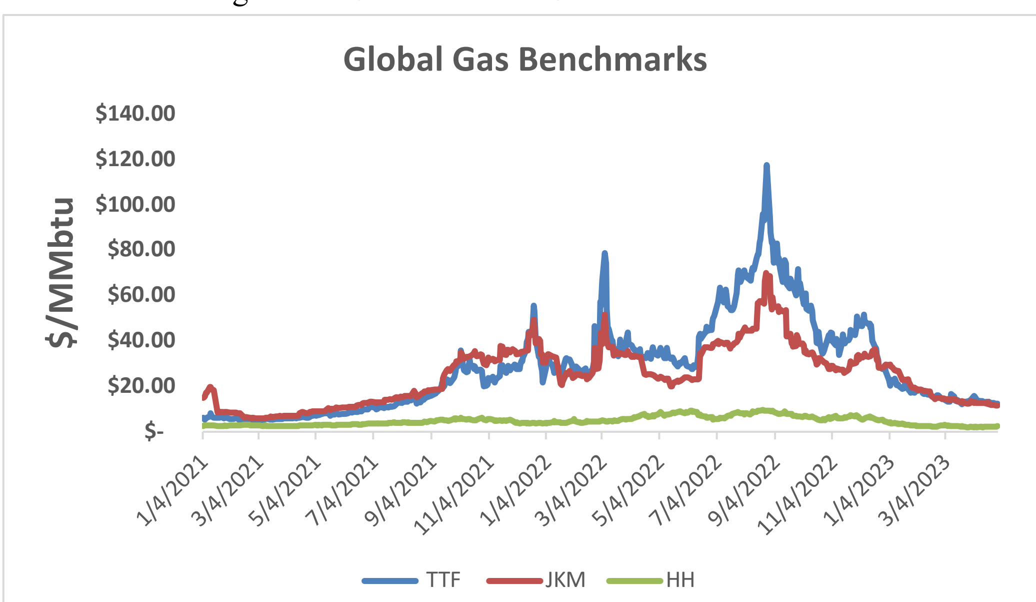
LNG inventory data also reflects seasonality, as Japanese utilities stock up on LNG during the shoulder seasons. Storage levels trend downward as utilities withdraw gas to meet winter demand. Inventories reached a two-year high during Q3-Q4 2022, outperforming year-ago stock levels as the war in Ukraine struck global gas markets. As Europe scrambled to fill its inventories with LNG, Northeast Asian states had to compete with the EU for limited LNG spot supplies, delaying seasonal injections and adding bullish support to LNG prices. At their height, Title Transfer Facility (TTF) prices reached an unprecedented €339.20, outpacing the Japan Korea Marker (JKM), the spot price for LNG cargoes delivered to Northeast Asia.

Figure 9: Japan Monthly LNG Inventories



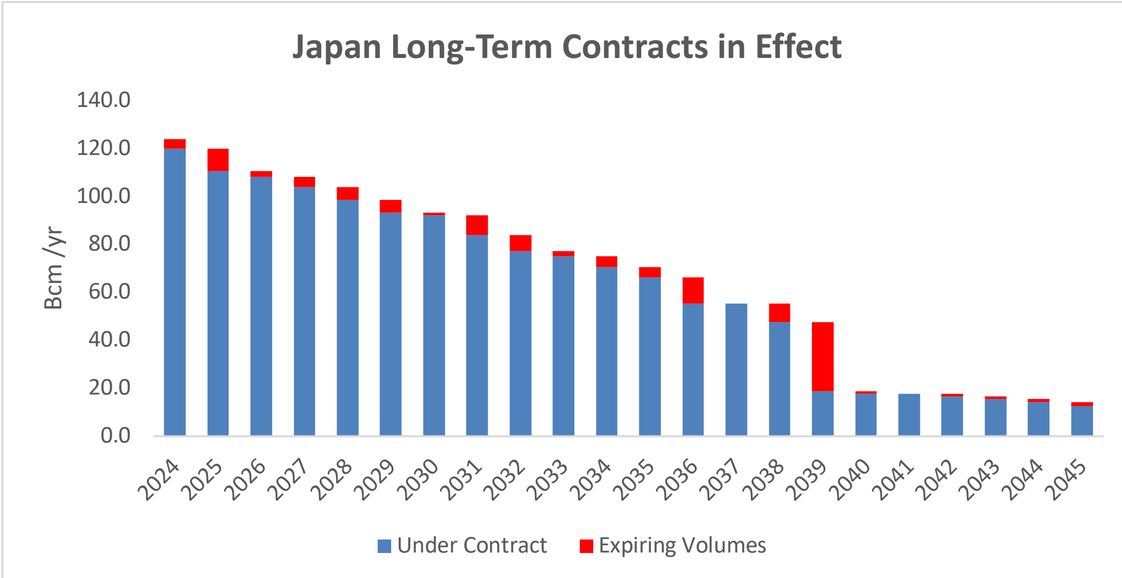
(Source: JOGMEC[viii])

Figure 10: Global Natural Gas Futures Prices



(Source: Investing.com, Own Calculations[ix])

Figure 11: Japanese Long-Term Contracts Signed as of 2023



(Source: JOGMEC[x])

Long-term contracts are essential to Japan's energy security, reflecting buyer preferences for stable supplies delivered across time periods. On average, Japanese companies sign long-term deals for 17.2 years. LNG is sold under FOB[xi] (free-on-board) or DES (direct-ex-ship) terms, with most Asian contracts delivered under DES. Japanese LNG contracts are mostly indexed to crude oil prices, though moves to tie contracts to gas hub indices such as the U.S. Henry Hub, Dutch TTF, and JKM are being pursued. The Japan Crude Cocktail (JCC), the average price of crude Japanese oil imports, is the reference oil price for Asian oil-indexed LNG contracts.

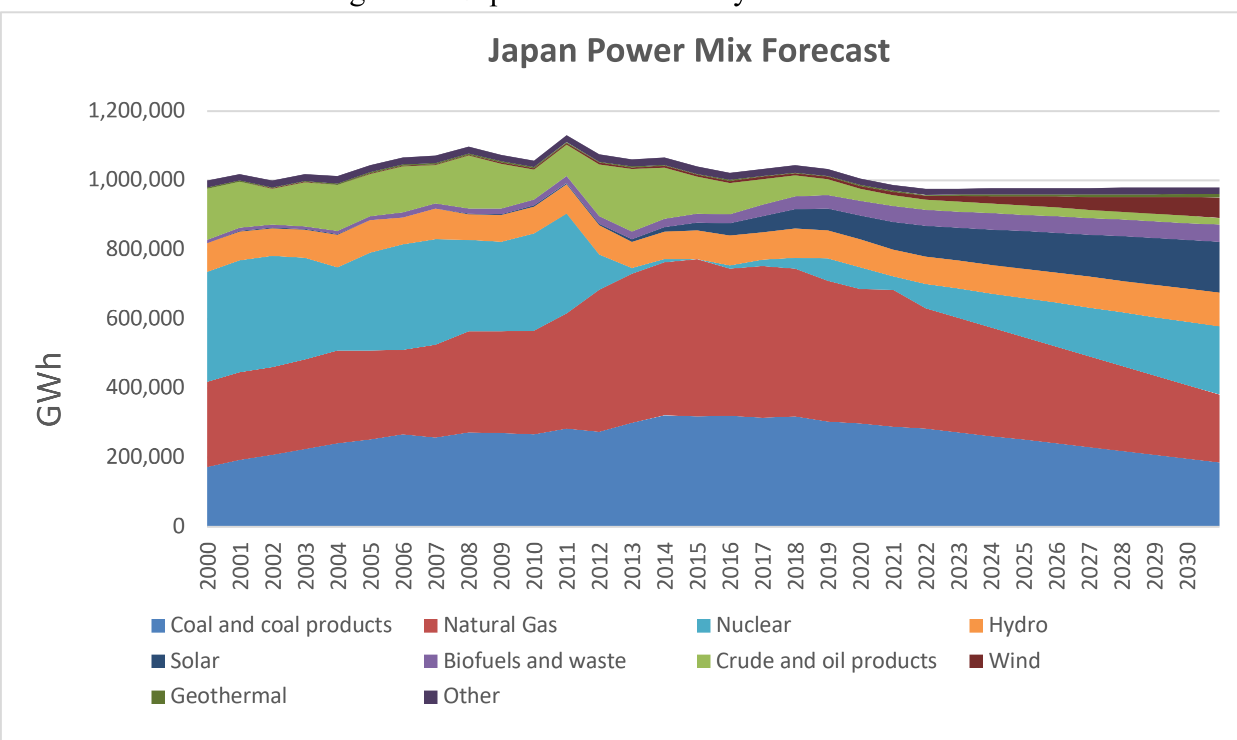
A hallmark of Japanese LNG contracts is the "S-curve" contract, an oil-indexed contract[xii] whose slope fluctuates when the underlying oil reference price reaches pre-defined levels. When oil prices rise, the S-curve provides buyers with a flatter slope, resulting in a slower rise in LNG prices relative to the increase in oil prices. When oil prices fall, the S-curve protects sellers through a flatter slope, upholding gas prices. Slopes usually range between 13-15% of oil prices and are applied with a time lag that accounts for past oil prices.[xiii] Revisit clauses allow parties to renegotiate the slopes, constants, and time lags used in S-curve contracts, which are often activated during unbalanced markets. However, markets are starting to lean more on gas-on-gas competition to price LNG rather than rely on traditional oil-indexation formulae.

Japanese gas contracts typically contain "take-or-pay" clauses. Under such clauses, buyers must pay for all scheduled deliveries, even if suppliers fail to deliver contracted quantities. In turn, buyers can negotiate for "make-up clauses," exercising downward quantity tolerance (DQT) or upward quantity tolerance (UQT). These options allow a buyer to reduce or increase volumes by about 5-10% for a given year and move supplies across time horizons[xiv] Additionally, suppliers may opt to incorporate destination restriction clauses, which restrict the resale of imports to specified ports. The legality of destination restriction clauses has been disputed by the Japan Fair Trade Commission, amid growing interest for flexible contracts.

For 2023, analysts expect more fuel-switching to occur in Japan as contracts worth 8.3 bcm of gas expire this year, representing roughly 8% of Japan's annual import volume.[xv] However, analysts predict that spot prices will unlikely reach their year-ago peaks in the near term due to weak demand for excess Atlantic basin cargos, warm weather, and robust storage levels, [xvi] though futures prices are expected to rally in time for year-end seasonal demand.

Looking ahead, the Japanese government looks to gradually phase out LNG from its energy mix to accommodate renewables, though gas will play a "key" part in Japan's energy mix. Guided by its "3E+S" (energy security, energy efficiency, environment, and safety), the Japanese government seeks to provide stable and affordable energy by taking an "inclusive" approach to decarbonization, supported by new energies and carbon-negative technologies such as carbon capture utilization and storage (CCUS) and blue hydrogen and ammonia. According to Japanese officials, blue ammonia, a byproduct of using CCUS to create hydrogen from natural gas along with nitrogen, is a key resource that can replace fossil fuel generation in the power industry, with METI expecting demand for ammonia to grow to 30 million metric tons per year by 2050.[xvii] Interest in ammonia is growing, as Japan seeks to introduce 1% of hydrogen or ammonia into its power mix and to use ammonia to replace 20% of its coal-fired plants by 2030. Investment into the blue hydrogen/ammonia industry is already growing, as Japanese companies are exploring agreements with current partners in North America, the Middle East, and Oceania to grow the blue hydrogen/ammonia industry in Asia. LNG markets would look to benefit from the new investments into the blue hydrogen supply chain, as Japan leans further on carbon-free sources from both renewable and non-renewable sources to lead its clean energy transition.

Figure 12: Japan 2030 Electricity Mix Forecast

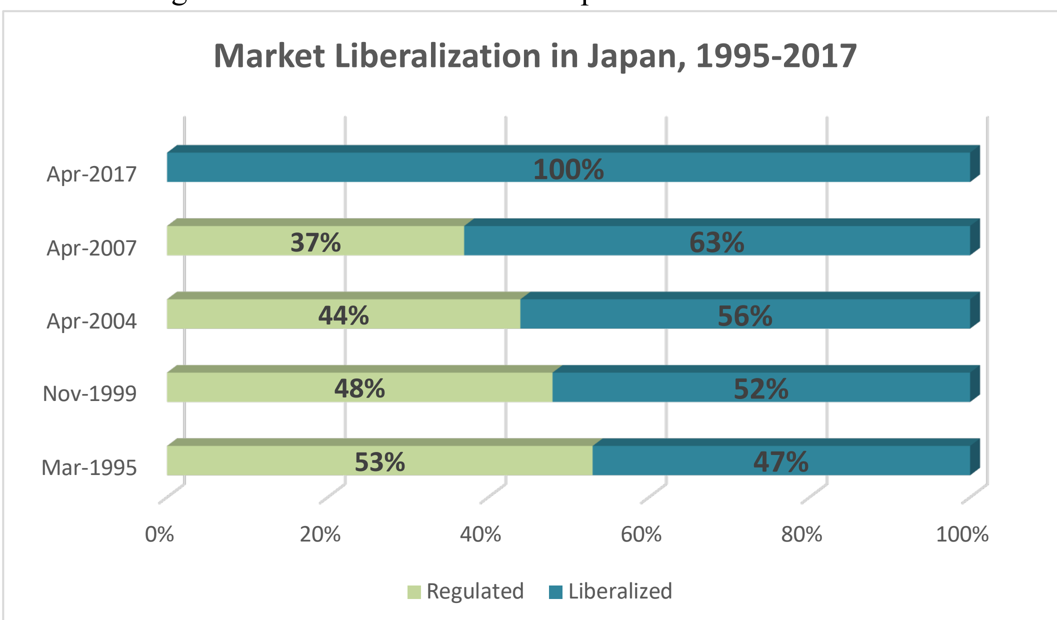


(Source: IEA, S&P Global Commodity Insights, Own Calculations[xviii])

Deregulation and Liberalization of the Japanese Gas Market (1995-2017)

Until 1995, the Japanese gas market was fully regulated by the government and operated by the few utilities that were granted monopolies to service local regions. As the market was vertically integrated, Japanese utilities (mostly power companies) owned and operated their own LNG import terminals, as well as the pipelines that transported gas to their respective service territories. As the Japanese economy grew, demand for gas priced at competitive rates from industrial consumers sparked the first stages of gas market liberalization. Beginning in 1995, the gas market was split into two halves: a "liberalized" sector and a "regulated" sector. Under the new dual market structure, suppliers wishing to trade within the liberalized market needed to register with the Ministry of Economy, Trade, and Industry (METI) while only government-designated suppliers could sell gas in the regulated market.[xix] The Japanese government then carried out three more rounds of gas reforms in 1999, 2004, and 2007, with each wave of reforms resulting in greater sales between buyers and sellers transacting within the liberalized market.

Figure 13: Liberalization of the Japanese Gas Market[xx]



(Source: Agency for Natural Resources and Energy[xxi])

Market participation improved following the 2011 Great Earthquake as power utilities turned to coal to gas to replace nuclear power output. As gas imports increased steadily from 2011 to 2014, the Japanese government introduced new policies to further the liberalization of the Japanese gas market, beginning with its revision of the 1953 Gas Business Act in June 2015. Under the new revisions, the Japanese government unbundled then-monopolized pipelines and implemented TPA (third-party access) at LNG import terminals, setting goals to supply the market with sufficient volumes of gas during disasters, boost competition in the retail market, and improve the pipeline system.[xxii] Backed by state support, new retailers began to enter the market, expanding retail choices for customers. Data shows that a total of 4,256,481 applications to switch service providers had been filed from March 2017 to March 2021, with the highest switching rates (48.9%) observed in Kinki, the area serviced by Osaka Gas, while the Kanto region, a major metropolitan area, witnessed the greatest number of switching applications in absolute values (2,059,311).[xxiii]

Led by the government's flagship 3E+S policy, the government achieved "complete" liberalization in April 2017, concluding a 22-year-long effort to introduce more competition and private sector participation within the Japanese gas industry.

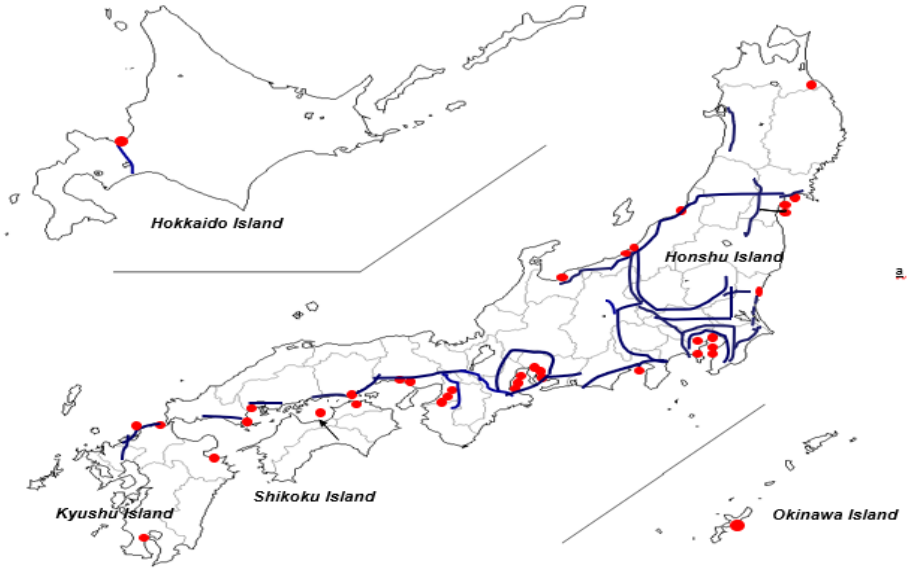
The Japanese Gas Market Today

Today, natural gas and power utilities compete against one another for market share, as power utilities have entered the market in droves in hopes of recovering lost market shares due to the power market's liberalization in 2016. New competition between power and gas utilities has been "fierce." with both sectors seeking to establish their business lines with residential, commercial, and industrial customers.[xxiv] Currently, more than 200 general gas utilities operate in Japan. By market share, the three largest utilities are Tokyo Gas, Osaka Gas, and Toho Gas, holding approximately 70% of the retail gas market. Nine other gas utilities import LNG through their own LNG terminals, while other companies purchase gas from LNG importers and domestic gas producers. Recently, more Japanese utilities are forming partnerships to strengthen their market positions across different regions and business segments. JERA, a joint venture between TEPCO Fuel and Power and Chubu Electric Power, has emerged as one of the world's biggest importers of LNG, and is an active trader and producer of gas and power. Other companies such as Tokyo Gas have sought out cooperatives with both domestic and international power utilities to optimize its LNG procurement strategy, demonstrating the coupling of the power and gas markets in today's energy markets.

Currently, Japan maintains 37 LNG import terminals. Altogether, these terminals hold a maximum liquefaction capacity of 19,694,000 cubic meters and a nominal send-out capacity of 313 bcm per year, a figure equal to around three times the country's annual gas consumption.[xxv] TPA is available at 74% of all LNG terminals, though most terminals are owned and/or operated by the same utility. Potential third parties wishing to access wholesale gas must first apply to purchase gas from an LNG terminal owner-operator under annual or multi-month contracts[xxvi]. An operator can choose to deny a request for terminal access based on numerous factors, including force majeure, operational and safety issues, or failure to pay tolling fees.[xxvii] Terminal owners also retain the right to shorten the term of use or reject requests for renewals.

The Institute of Energy Economics, Japan has identified spare capacity as a key bottleneck to third-party entry. Under current lease agreements, prospective users must forecast whether there will be enough spare capacity left behind after power utilities have taken their share of gas based on their own contracts.[xxviii] This leaves third parties to assume the supply risk, as fierce competition ensues between utilities and third parties for limited supplies during the peak winter and summer months. According to industry sources, this arrangement makes third-party access practically "unworkable" due to the transaction costs involved in negotiating agreements with terminal owners and issues related to forecasting spare capacity. The fragmented structure of the Japanese pipeline system presents another issue for transmission as pipelines only cover approximately 5.7% of the entire territory, limiting the physical flow of gas between regions.[xxix] Consequently, industry analysts have called Japan an "island of islands", a reference to the island nation's poorly connected pipeline network.

Figure 14: LNG Terminals and Gas Pipeline Infrastructure in Japan

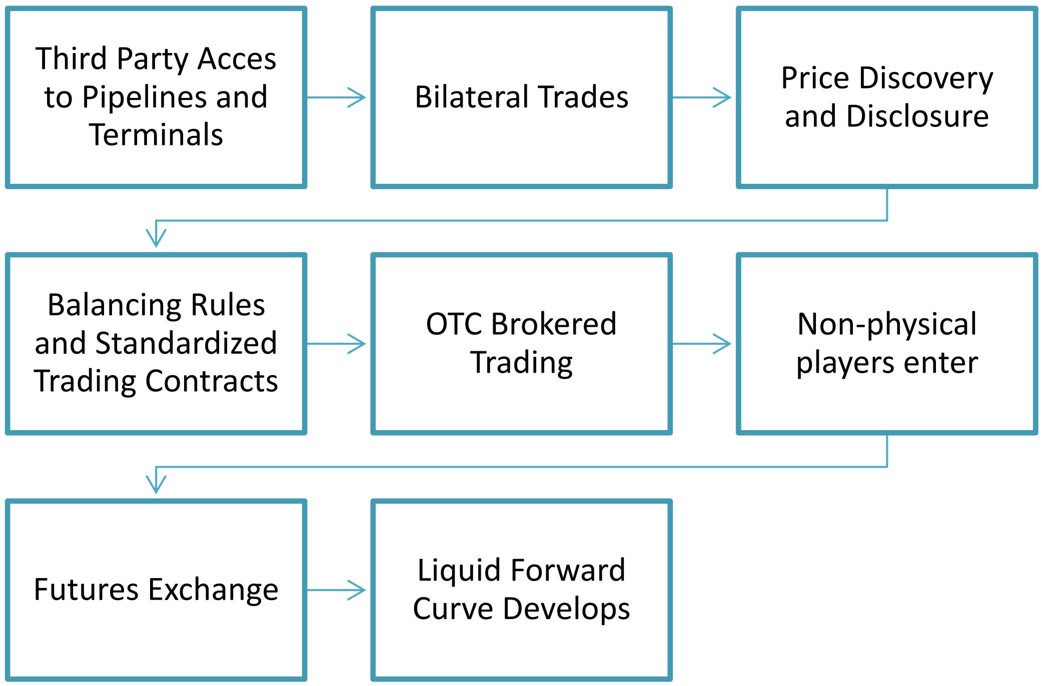


(Source: TotalEnergies Japan)

The Electricity and Gas Market Surveillance Commission (EGC), created in September 2015 by METI, oversees efforts to ensure competition within the retail gas and power markets. The EGC ensures transactions are carried out in appropriate manners, as well as offering opinions and recommendations to METI about new rules and regulations concerning the gas sector.[xxx] Furthermore, the Advisory Board on Regulatory Reforms, established in September 2016, reviews issues related to regulatory reform in the gas and power markets. Finally, the General Research Committee on Resources and Energy, under METI supervision, conducts periodic reviews on liberalization efforts in the gas and power sector.

Though the market is liberalized, attempts to develop a liquid hub in Japan have largely failed to push the market along its path to maturity. Since 2014, METI and the Japan Organization for Minerals and Energy Security (JOGMEC) have released data on monthly spot prices of LNG delivered ex-ship into Japan based on price data reported by Japanese importers. However, this data is shared voluntarily, and is sometimes left unreported.[xxxi] In 2014, METI launched the Japan Over-the-Counter Exchange (JOE) to encourage futures trading for LNG, but this benchmark has largely failed to generate sufficient trades to justify its use as a liquid benchmark. Per the IEA, active wholesale trading will be "necessary to induce greater competition,"[xxxii] as well as establishing better price signals to encourage more physical and non-physical trades. Analysts note the creation of wholesale exchanges offers expanded access for non-physical and physical players to use futures trading for risk management purposes.[xxxiii] Moves to introduce hedging have support from the sizable Japanese financial markets. In April 2022, the Tokyo Commodity Exchange (TOCOM) began to list cash-settled LNG futures contracts using the Platts JKM index for settlement of spot LNG cargoes delivered ex-ship to Japan and South Korea.[xxxiv] Per TOCOM President Izhizaki Takashi, futures contracts are "significant" tools that help protect consumers from volatile prices in the commodity markets, though analysts generally agree that Japan's current market structure has not yet progressed far enough to facilitate virtual trading, the endpoint for fully liberalized gas markets.

Figure 15: Natural Gas Market "Path to Maturity"



(Source: Columbia University SIPA Center for Global Energy Policy[xxxv])

Energy Security in Focus: The 2021 January Winter Freeze

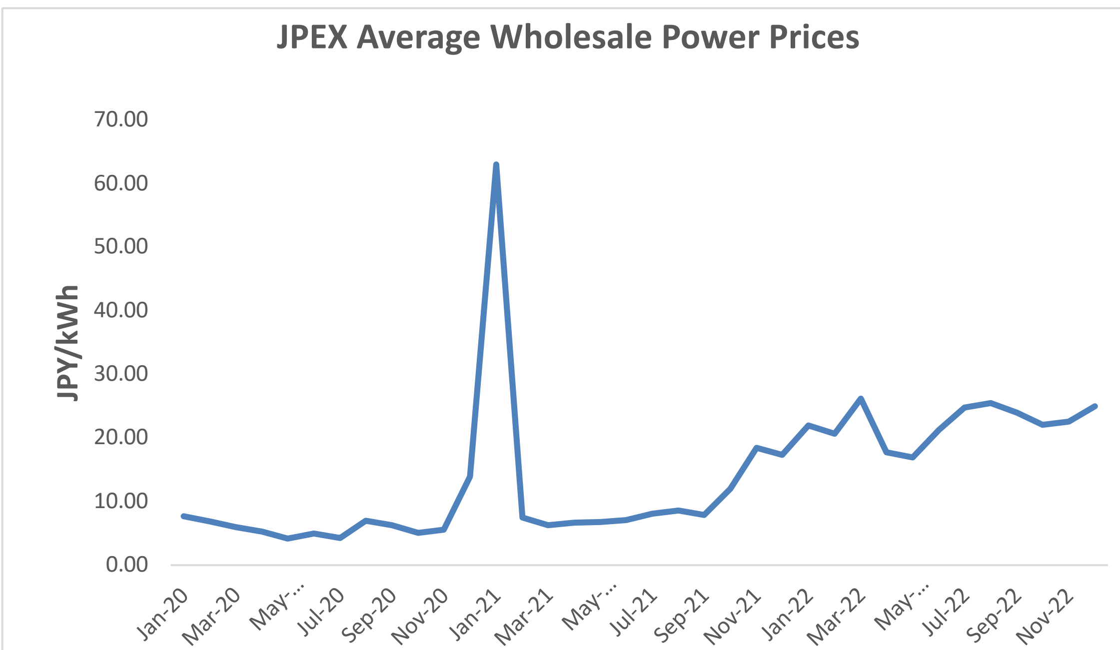
The IEA defines energy security as the "uninterrupted availability of energy resources at an affordable price."[xxxvi] Between December 2020 and January 2021, Japan struggled to meet both conditions, as Northeast Asian nations suffered from a winter supply crunch. By late December, unseasonably cold weather caused heating demand to skyrocket, leading utilities to withdraw greater volumes from LNG inventories. Inventory levels fell below their 5-year minimums while demand carried into the new year, causing power consumption to increase by 10% to 30%.[xxxvii] Though Japanese utilities were aware of the freeze, the lack of LNG cargo due to shut-ins from global suppliers led utilities to cut domestic gas output to delay the depletion of LNG inventories. Heavy snow cover in early January dampened renewable output, while scheduled maintenance of coal-fired power plants, low nuclear output, and the phase-out of oil-fired power plants restricted Japan's supply of dispatchable power to meet demand.

Outside Japan, supply issues and cargo cancellations at LNG supplier nations in Malaysia, Qatar, and the United States limited spot supplies, while congestion at the Panama Canal delayed scheduled shipments of U.S. cargoes bound for Asian markets. In addition, a shortage in charter ships raised spot Pacific Basin rates to $300,000/day.[xxxviii] JKM prices also rallied to a then yearly high of $32.50 per Metric Million British Thermal Units (MMBtu) [xxxix] while JOGMEC data shows that Japanese spot prices surged to $18.50 per Mmbtu, a then 12-month high, In the power market, the Japan Power Exchange (JPEX) wholesale price momentarily reached an unprecedented 251 JPY/kWh on January 15, 2021, its highest price ever recorded, mirroring high fuel costs.

By mid-December, the Organization for Cross-Regional Coordination of Transmission Operators (OCCTO), the system overseer for the power market, formed an emergency response task force to manage the crisis. From December 15 to January 16, OCCTO officials made 218 orders for utilities to transfer power to load centers faced with power deficits at specified times of the day. In addition to calling for maximum output by power generators, OCCTO ordered JEPX exchange members to supply their excess power into the wholesale market in a bid to rebalance prices. To address transmission-related issues, the organization raised the maximum carrying capacity of the Chubu-Kansai interconnection line six times as the Kansai region was hit especially hard by the supply crunch.[xl] On February 27, OCTOO lifted its warning, as wholesale power prices returned to pre-winter freeze levels. However, the financial impact had run its course after exposed retailers filed for bankruptcy.[xli]

The winter price spikes of 2020-2021 help illustrate Japan's exposure to energy shortages and the accompanying price risk Japan must bear as an energy-importing nation. Though a series of factors fell together to create the perfect storm, an argument can be made that the price rally could have been better contained had market actors been able to hedge their price exposure.

Figure 16: Japan Power Exchange Average Monthly Prices (2021-2022)



(Source: Japan Electric Power Exchange[xlii])

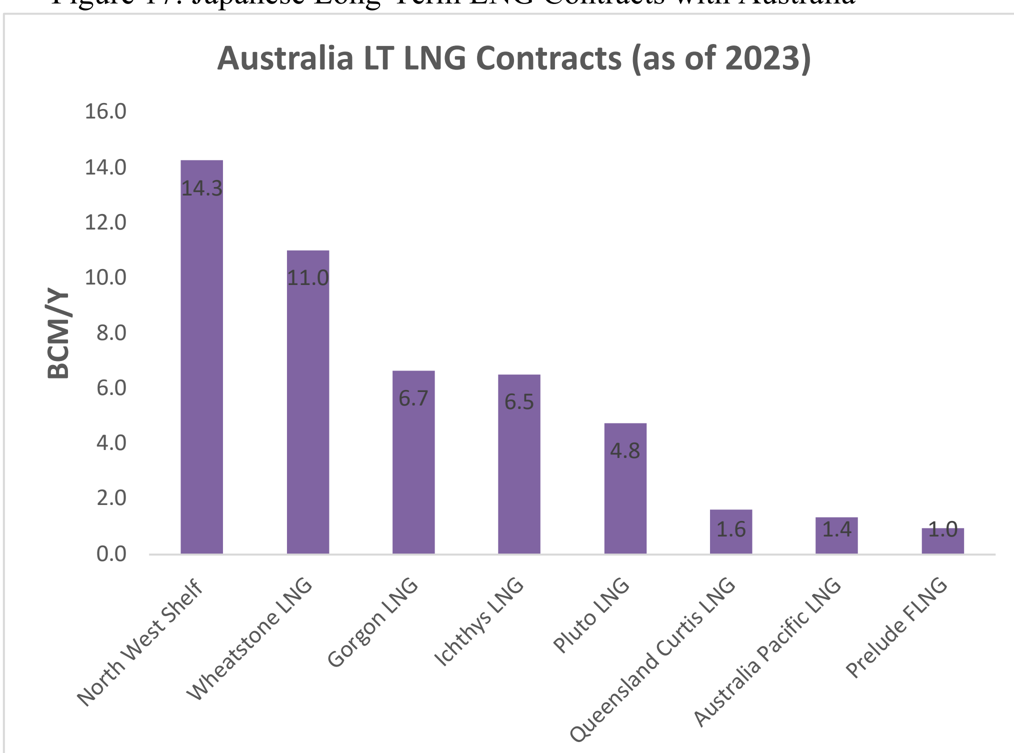
Diversifying Supply will Strengthen Energy Security

Japan's reach across regional gas markets is vast, reflecting its position as one of the world's largest importers of LNG. Supply availability is key to Japan as periodic cargo shut-ins and shortages increase supply risk. Therefore, Japanese companies should continue to invest in global LNG projects, as equity allows for a steady stream of gas to flow into Japan. As LNG markets continue to develop, Japan should sign long-term offtake agreements from established and emerging suppliers to diversify its purchasing portfolio while monitoring geopolitical risk.

Australia

Australia is Japan's largest exporter of LNG by volume, delivering approximately 42 bcm in 2022, nearly half of Japan's import portfolio. The comparatively shorter voyage trip from Australia to Japan, combined with Australia's vast supply of natural gas, makes Canberra the preferred market for Asian LNG customers. Japanese firms are highly present in Australia, operating across eight Australian projects. At the Ichthys LNG project, major Japanese oil and gas developer INPEX operates the gas fields, exporting 6.5 bcm a year. As of 2023, Japanese companies hold a total of 12 active long-term offtake agreements at the Northwest Shelf LNG project, Japan's biggest source of LNG by volume. However, policies designed to restrict supply to Australian LNG exporters via the Australia Domestic Gas Security Mechanism (ADGSM)[xliii] have spooked Japanese officials, who fear any activation of the mechanism may fail to give Japanese buyers enough time to procure alternative spot cargoes. Trade data suggests a carved space for Australian spot cargoes, as the country outsold U.S. spot exports to Japan by approximately 1.8 bcm in 2021. However, nearly all Australian LNG exports are indexed to crude oil as Australia lacks a benchmark gas hub similar in scope to U.S Henry Hub, though Japanese buyers have begun to sign long-term offtake deals under U.S-style tolling agreements.

Figure 17: Japanese Long-Term LNG Contracts with Australia



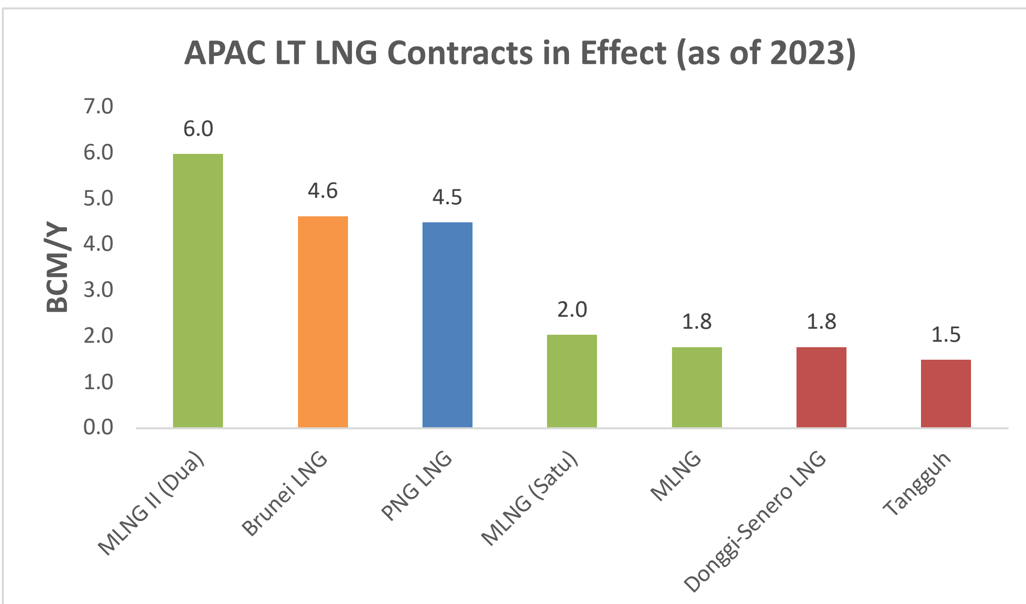
(Source: GIIGNL[xliv], JOGMEC)

Asia-Pacific

LNG projects found across the Asia-Pacific (APAC) region are also critical to supplying Japan, as these projects provide nearly 22.2 bcm of gas to Japan as well as financial opportunities for Japanese firms looking to invest in developing Asian states. Malaysia, Japan's second-largest LNG exporter, supplies Japan with long-term contracts, though production issues at Malaysian plants have limited their upside. Nevertheless, reports indicate that Malaysia is keen to re-sign soon-to-expire LNG contracts under new long-term deals, providing Japan with a stable stream of gas for the foreseeable future.[xlv]

Elsewhere in APAC, Brunei, Papua New Guinea, and Indonesia sell gas to Japanese utilities, benefiting in turn from Japanese investments. As of 2023, Brunei and Papua New Guinea are under contract to supply 5 bcm per year and 4 bcm per year of gas, respectively, to Japan via long-term contracts, while Indonesia will supply 3.3 bcm per year from its two plants at Donggi-Senero and Tangguh. Efforts to sign new contracts with Brunei are ongoing[xlvi] though political unrest in Papua New Guinea could present some risk.[xlvii]

Figure 18: Japanese Long-Term LNG Contracts with APAC



(Source: JOGMEC)

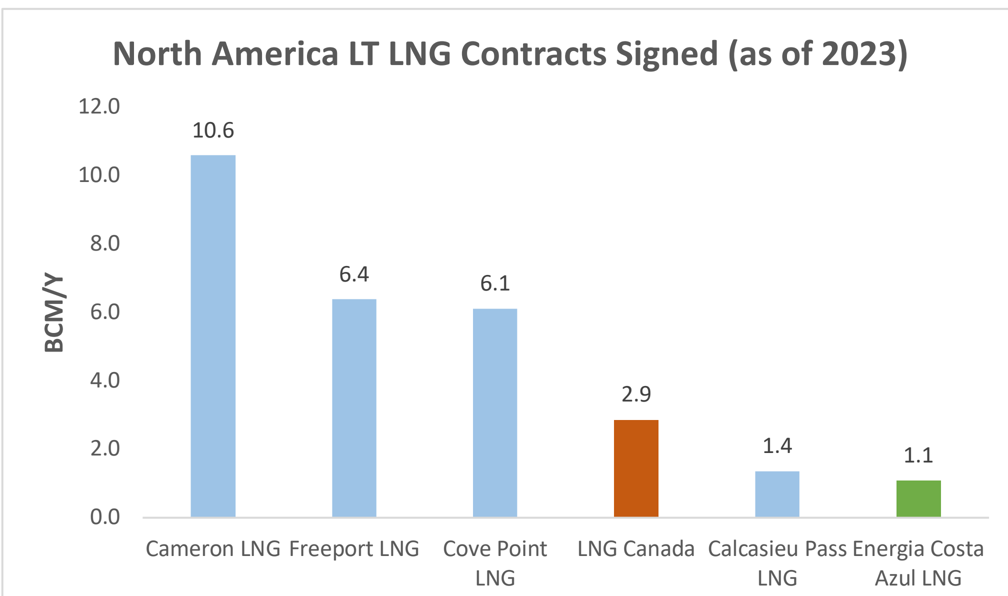
North America: The United States

LNG projects in North America, led by the United States, present the most promising and "stable" source of LNG for Japanese buyers, according to interviewees. In terms of trade volume, the United States trails Australia and Malaysia in exports, though is a vital source for spot cargoes. Trade between the two allies is robust, as Japanese major JERA bought "record" levels of spot LNG from the United States, purchasing more than 7 million tonnes per annum (MTPA) of LNG in 2022.[xlviii] The company has followed through with its massive purchases of U.S. LNG with a 20-year deal to buy approximately 1.4 bcm/year of LNG from Venture Global's project at Calcasieu Pass.[xlix] New projects such as Alaska LNG, with a production capacity of 3.5 billion cubic feet (bcf) per day, provide additional value to Japanese customers in terms of quantity and proximity to Japanese markets.

The "flexible structure" of U.S. LNG contracts is a key driver of growth for the global LNG market.[l] U.S. LNG is generally sold via a tolling structure, a pricing scheme in which the purchaser, producer, or aggregator of natural gas is treated as a different entity from the owner of the LNG export facility.[li] Tolling contracts consist of 1) gas destined for liquefication (feedgas) priced at 100% of Henry Hub, 2) a variable cost that typically adds 15% on top of feedgas prices to cover the facility's variable costs, and 3) a fixed tolling fee usually at $2-3/Mmbtu to cover the facility's fixed costs.[lii] The primary benefit of the tolling contract is that it transfers the price risk from the seller to the buyer.

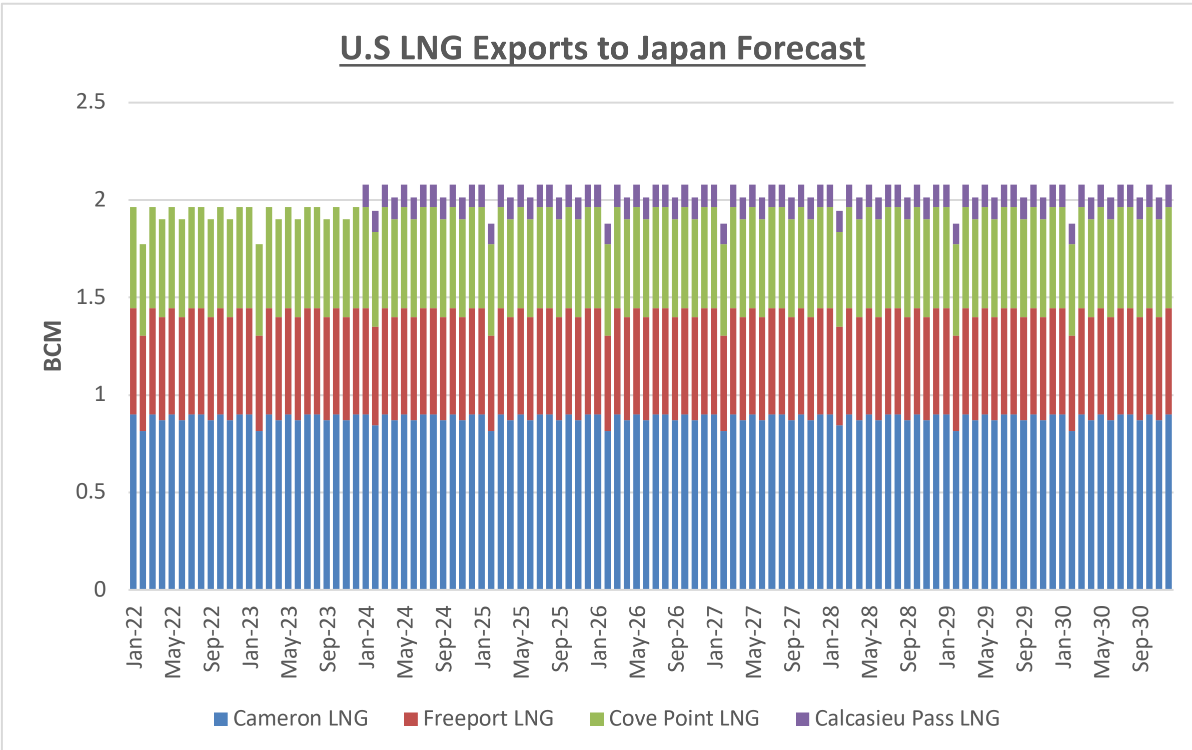
U.S. LNG is mostly delivered under FOB terms and signed without destination restrictions. As U.S LNG continues to saturate the market, Japan will look to leverage enticing offers of cheap, hub-indexed LNG cargoes. The regulatory environment in the United States and the federal government's support for LNG projects also make the U.S. a "game-changer" for Japan's energy security, per interviewee comments. Japanese firms stand to benefit from widely available U.S. gas, though would need to monitor U.S. gas markets to minimize their price risk. Japanese companies are set to buy gas from the Cameron LNG plant in Louisiana, the 2 bcf/day-producing Freeport LNG terminal in Texas, and gas sourced from the eastern United States at the Cove Point LNG terminal in Maryland. A forecast of U.S LNG exports to Japanese firms based on existing sales and purchase agreements (SPA) is provided in Figure 20.

Figure 19: Japanese Long-Term LNG Contracts Signed with North America



(Source: JOGMEC)

Figure 20: Forecast of U.S LNG Exports to Japan Under Long-Term Deals



(Source: JOGMEC, Own Calculations[liii])

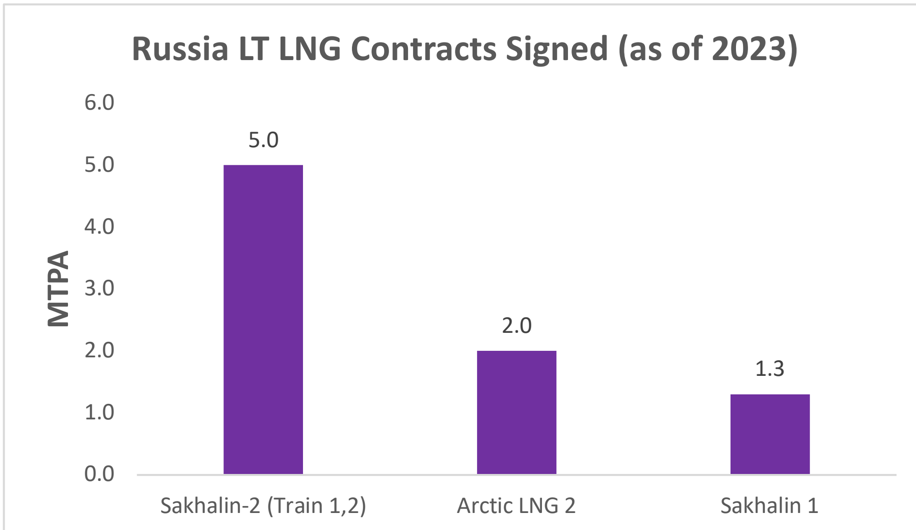
North America: Canada and Mexico

Emerging projects in Canada and Mexico also present new opportunities for Japanese companies to diversify their gas supplies. In Canada, Japanese major Mitsubishi Corp. has signed three long-term offtake agreements with LNG Canada, a 3.5 bcf/day project due to come online by mid-decade. The project's location on the Pacific coast would allow Canadian LNG to bypass the Panama Canal, shaving charter times and transport costs for cargoes bound for Asian markets. In Mexico, emerging projects will likely employ an arbitrage strategy to buy U.S. gas, liquify the gas, and then resell LNG to Asian markets.[liv] However, Japanese companies should monitor regulatory risks that could impact the timelines of emerging Canadian and Mexican projects, as regulations could impede their expected startups.

Russia

Despite commitments to abide by G-7 embargoes on Russian oil products, Japan continues to draw on Russian gas. In 2022, Japanese companies imported approximately 8.3 bcm per year of gas from Russia, with most of the supply coming from the Sakhalin-2 LNG project (5.0 bcm per year). The war has seemingly done little to change Tokyo's stance towards Russia as an important gas supplier. According to analysts, the decision by Mitsui and Mitsubishi to retain their existing assets at Sakhalin demonstrates the "strategic" value Russia holds for Japan.[lv] Empirical data also shows that Japanese firms are under contract to buy gas from Russia until 2031. Additionally, reports indicate that Japan will not look to suspend its investments in new Russian projects in the Arctic.[lvi] As cheap Russian gas seeks new markets, Japan will most likely continue to buy LNG from Russia, though Japanese firms should continue to monitor geopolitical risks posed to their investments in Russian LNG projects. Nevertheless, interviewee testimony notes that any moves to replace Russian gas in the near term will be "difficult."

Figure 21: Japanese Long-Term Contracts with Russia



(Source: JOGMEC)

The Middle East

The Middle East is a strategic supplier of LNG to Japan, with analysts expecting a supply glut to ensue with the completion of multi-train liquefaction projects in Qatar by mid-decade. Interestingly, Japan has declined to renew its 7.2 MTPA long-term deal from the Qatargas-1 project[lvii], as only 2.0 bcm per year remains committed to Qatari LNG. Contracts are reportedly the stumbling block for new deals between Japan and Qatar as Qatar prefers to sign term deals that restrict the diversion and resale of its cargoes. Additionally, the inflow of new and existing LNG exporters has "eroded Qatar's market share in Japan"[lviii], due in part to Japan's strategy to procure gas from a wide range of suppliers. However, state-level talks indicate space for Qatar in Japan's energy budget, as Japanese officials view Qatari LNG as "crucial" to ensuring supply stability. Looking ahead, Japanese energy analysts should take note of the European Union's pivot to the Middle East following the war and the ensuing competition between Asia and Europe for a limited number of Qatari contracts up for sale.

Oman is Japan's other major exporter of LNG in the Middle East, exporting approximately 3.5 bcm/year in 2022. Japanese buyers are attracted to Oman's favorable location, as Omani LNG cargoes can bypass traffic near the Strait of Hormuz as well as the country's relative political stability. Japanese firms are set to import 2.0 bcm per year from Oman, holding investments in the Oman LNG and Qalhat LNG projects. Interest in Omani gas is growing, as three Japanese companies, led by JERA, have signed deals to buy LNG for ten years in 2025.[lix]

Emerging Markets: Mozambique

As demand for natural gas grows, more countries with proven reserves will enter the market. LNG projects in Mozambique are attracting foreign investment from Japanese firms spearheaded by MEPMOZ, a joint venture between Mitsui and JOGMEC. Japanese firms such as Tokyo Gas, Tohoku Electric, and JERA have signed long-term deals to take 3.3 bcm per year, though local violence has stalled the project. However, Prime Minister Kishida Fumio supports investments in new Mozambique projects, promising Mozambique President Felipe Nyusi to "help restore stability of the local area."[lx] As energy security concerns grow, Japan will continue to draw on gas from an expanding list of established and emerging markets.

Strengthening Energy Security by Implementing Flexible Clauses into Contracts

Long-term contracts are key to Japan's energy security, though they can be signed under restrictive terms. As the LNG market continues to experience an uptick in available supplies by mid-2030, LNG contracts should also evolve to meet changing buyer needs. To secure supplies and minimize their price risk, Japanese companies should look to sign long-term contracts with destination-free and diversion clauses. These clauses would allow LNG cargoes to trade hands more freely across a larger group of buyers. Backed by flexible contracts, Japanese companies and traders stand to benefit from the resale of LNG across regional markets.

Removing Destination and Diversion Clauses

Clauses that restrict the resale of LNG limit the tradability of LNG as a commodifiable good. Presently, nearly all DES and some FOB contracts contain clauses that limit the diversion of LNG cargoes between ports, which in turn limits opportunities for buyers to profit from the resale of LNG across markets. To divert cargo, buyers must request permission from suppliers to transfer cargo to an alternative destination point, though such instances of "seller's consent" are usually rare.[lxi] Contracts that allow for diversion also suffer from a lack of clarity in their terms that define the conditions under which buyers would be entitled to divert cargo for re-export. Sellers may also not wish to sign contracts that allow for the resale of their cargo. The Japan Fair Trade Commission (JFTC) argues that "destination restrictions prevent Japanese users from reselling LNG", creating a situation where "new entrants are excluded" from potential trades and trading opportunities are "lessened."[lxii] Consequently, clauses restricting the resale of LNG by importers work against efforts to boost the liquidity of the Asian gas market.

Leveraging Quantity Tolerance with Flexible Destination Terms

Improving flexibility in contracts would likely lead buyers to make greater use of quantity tolerance options, downward quantity tolerance (DQT), and upward quantity tolerance (UQT). These options would allow buyers to move supplies across periods to optimize their procurement strategies. When prices fall in reaction to an oversupplied market or during periods of weak demand, a Japanese LNG buyer may invoke DQT to move quantities to later periods, opting to defer quantities until a later time when demand rises to meet supply. On the other hand, buyers could use UQT to arbitrage price spreads that reflect tightening markets. Under this scenario, a percentage of LNG earmarked for future delivery could be moved to the present, which boosts energy security (if the buyer seeks more gas for immediate consumption) and tradability, as market participants could exploit excess spare capacity, sell term cargos trading at discounts to spot cargoes, and rebuy cargoes at spot prices when market prices rebalance. Underpinning the success of these trades would be forecasting methods to better estimate expectations in future demand, transparent price reporting by importers to downstream market actors, and the legal terms that back flexible trades.

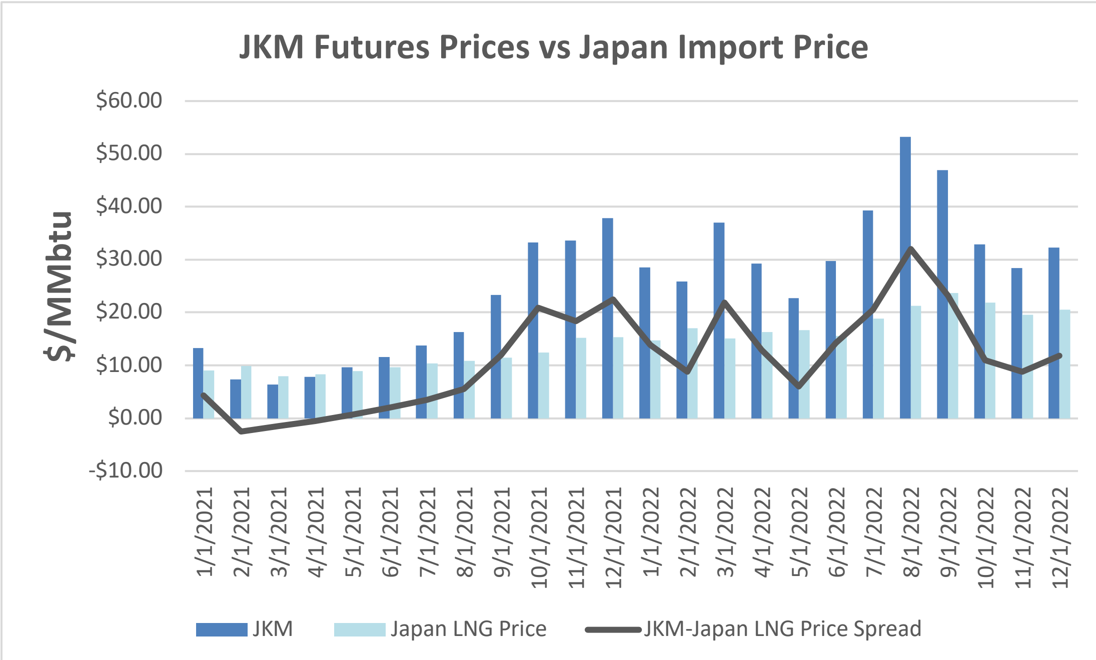
Using Flexible Contracts to Arbitrage Price Spreads

Trading opportunities would also be boosted if backed with flexible contracts that accommodate buyer preferences. In Asia, Japanese traders could arbitrage price spreads between oil-indexed LNG prices and the JKM spot prices (Figure 17). When spot prices rise above oil-indexed prices, indicating strong demand, Japanese companies could profit from the resale of their cheaper term contracts to spot markets. Using Henry-Hub indexed contracts, Japanese traders could sign destination-free contracts to re-sell U.S. contracts to other Asian gas-importing nations. The relatively shorter voyage trip between Japan to sizable economies in China, South Korea, and Southeast Asia could make Japanese re-exports more competitive to Australian or U.S. spot cargoes. When spot prices fall below oil-indexed prices, indicating weak demand, Japanese companies could renegotiate price slopes with suppliers to re-index their LNG contracts to hub prices, thereby minimizing their losses. for incoming LNG cargoes could work alongside the Tokyo Commodities Exchange (TOCOM) and list derivative prices of LNG cargoes price based on U.S Henry Hub prices for interested parties looking to trade on the exchange. This in turn would boost market liquidity.

Forecasting would have to be strengthened as well to ensure that sufficient supply would be available for physical trading, while terminal operators would need to provide daily information on spare capacity levels. An independent market operator led by EGC could list daily prices for LNG alongside an independent gas operator that forecasts gas demand for physical trades. Markets would benefit from readily available information. In turn, this kind of market restructuring helps to commoditize LNG as a fungible product and exploit its financial properties, allowing actors to better hedge against price risks and meet energy security needs.

Utilities can also hedge electricity futures against low prices based on expectations of spreads between power and gas prices. The spark spread, a price spread that measures the profitability of generating electricity from natural gas (Figure 18), illustrates the arbitrage opportunities available for Japanese commodity traders. In one scenario, a profit-motivated gas utility could purchase a gas futures contract priced below its average marginal cost from the resale of an LNG contract purchased under destination-free terms. As wholesale power markets favor utilities that offer the lowest bid prices, the gas utility could purchase cheap gas contracts that allow for resale to serve as bids in the day-ahead market, benefitting with a higher profit spread between its marginal cost and the clearing price for power during settlement. The success of the trade would encourage more actors to take advantage of arbitrage opportunities, which in turn, would lend further support for the creation of a futures-oriented gas market, boosting liquidity. A power retailer could also hedge against an increase in wholesale power by referring to trends in wholesale gas prices, which would allow them to better manage their price risk.

Figure 22: Japan LNG Price Comparison with JKM

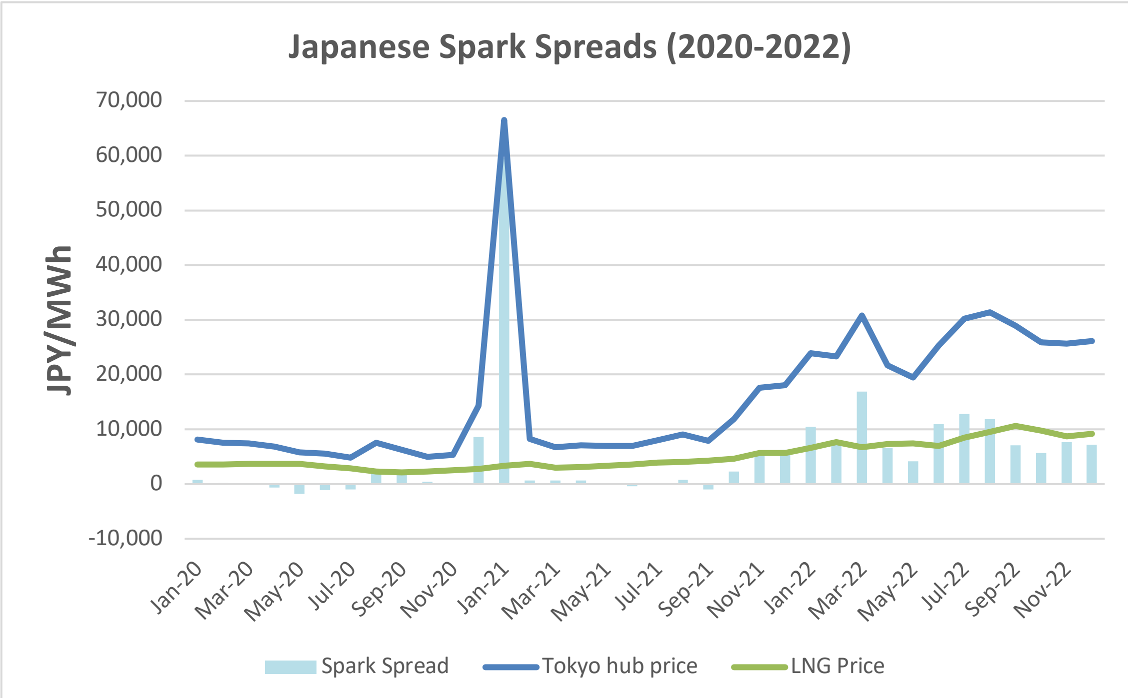


(Source: Investing.com, World Bank, Own Calculations)

Utilities can also hedge electricity futures against low prices based on expectations of spreads between power and gas prices. The spark spread, a price spread that measures the profitability of generating electricity from natural gas (Figure 18), illustrates the arbitrage opportunities available for Japanese commodity traders. In one scenario, a profit-motivated gas utility could purchase a gas futures contract priced below its average marginal cost from the resale of an LNG contract purchased under destination-free terms. As wholesale power markets favor utilities that offer the lowest bid prices, the gas utility could purchase cheap gas contracts that allow for resale to serve as bids in the day-ahead market, benefitting with a higher profit spread between its marginal cost and the clearing price for power during settlement. The success of the trade would encourage more actors to take advantage of arbitrage opportunities, which in turn, would lend further support for the creation of a futures-oriented gas market, boosting liquidity. A power retailer could also hedge against an increase in wholesale power by referring to trends in wholesale gas prices, which would allow them to better manage their price risk.

Efforts to liberalize the energy sector have yielded positive returns for the Japanese retail gas market, though market participants have bemoaned the lack of a clear price signal to incent greater trades in downstream markets. To address concerns of cooling competition in wholesale gas markets, the Japanese government should look to encourage more third-party access at LNG terminals, as these terminals would serve as the likeliest hubs for buyers and sellers to meet and trade incoming LNG cargoes. Price-reporting standards could also be strengthened, which would allow prospective traders to make informed decisions based on readily available information.

Figure 23: Japanese Spark Spreads



(Source: World Bank, JPEX, Own Calculations[lxiii])

Conclusions

As an energy-importing nation, Japan stands to benefit from diversifying its list of gas suppliers to include projects from both traditional and emerging sources. The role of the United States is central to Japan's energy security, as U.S LNG offers the most flexible options for Japanese customers. In turn, market actors interested in non-physical trades could arbitrage price differentials between regional markets to maximize profits while utilities continue to secure physical deliveries of U.S LNG via term and spot contracts. To hedge against price risk, the Japanese government should follow up on its past rounds of liberalization and encourage more third-party transactions to help create a liquid futures market. Looking ahead, Japanese companies should also look to invest further in the clean energy industry, as new energies such as blue ammonia and blue hydrogen offer new opportunities to decarbonize fossil fuel-generating plants. As Japan looks to meet its net zero targets within the coming decades, natural gas can play its role as a bridge fuel that facilitates the gradual phase-in of renewables in the power mix. With the impending restart of nuclear power generators, natural gas's share in the generation mix will likely decrease, as the Japanese government turns to all available resources to secure its energy needs. However, gas will continue to serve as the balancing fuel source to meet peak demand. With Asian markets leaning more on gas to replace coal and meet their decarbonization targets, Japan finds itself in a favorable position to leverage its sizable LNG market, global reach, and expertise with fossil fuel R&D to facilitate further growth in Asian gas markets and lead decarbonization efforts in the region.

Endnotes

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Decarbonization and the Role of Renewables in Japan's Energy Mix

By Kevin Xue

Introduction

The war in Ukraine triggered unprecedented sanctions from the West on Russia. As Russia is a major international energy producer and exporter, the Russian energy sector has been particularly targeted by the sanctions. Because of the magnitude of the sanctions, the energy markets were extremely volatile in 2022. Energy commodity prices skyrocketed in the first half of 2022 and slowly decreased in the second half of the year. Before the start of the war, global economies were focusing on the transition from fossil fuels to clean energy to meet the target set by the 2015 Paris Agreement. However, the energy sanctions on Russia restricted available energy sources on international markets, and many nations found themselves in an awkward position where their clean energy sources were not adequate to meet their energy demand and where they could not procure enough oil and natural gas at a reasonable price.

Japan is an energy-scarce country, as domestic energy production can only meet about 13% of the domestic energy consumption, and Japan has been in a challenging position during the war in Ukraine.[i] Although Russia is not the biggest oil and gas supplier for Japan, the general impact of the energy sanctions has made importing energy much more expensive for Japan. Fossil fuels make up about 77% of the total final energy consumption in Japan, and the deployment of clean energy is fairly limited.[ii] As clean energy sources, such as nuclear, wind, and solar, are facing domestic opposition, it is challenging for the Japanese government to balance the supply of fossil fuels and clean energy at a time of geopolitical uncertainty.

Japan's overarching energy policy is guided by its sixth Strategic Energy Plan (SEP) released in October 2021. The SEP mainly focuses on decarbonization efforts, as Japan aims for 46% emissions reduction by 2030 below 2013 levels and to achieve carbon neutrality by 2050.[iii] To reduce greenhouse gas emissions, the SEP emphasizes the role of renewable energy and nuclear energy in the overall energy mix. However, the volatility in the energy sector in 2022 might have pushed the Japanese government to reconsider its energy targets as challenges persist in the short term. The purpose of this paper is to examine the feasibility of Japan's energy policy and review the current progress of its domestic energy transition.

Energy Policy

As previously mentioned, the SEPs that are adopted under the 2002 Basic Act on Energy Policy provide an overview of Japan's overall energy policy. The Japanese government issued its latest SEP, the sixth one, in 2021. On average, the Agency of Natural Resources and Energy (ANRE) of the Ministry of Economy, Trade and Industry (METI) issues a new SEP every three years, with previous plans released in 2018, 2014, 2010, 2007, and 2003. The overarching concept behind the SEP is to attain three crucial goals: energy security, economic efficiency, and environmental sustainability, which are commonly known as the "3Es". The Fukushima disaster in 2011, however, fundamentally changed Japan's national energy strategy. While still emphasizing the three conventional goals, the Japanese government added a safety umbrella over the 3Es in the fourth SEP released in 2014.[iv] That plan envisioned a reduction in the dependency on nuclear power, coupled with efforts to enhance energy efficiency, promote the adoption of renewable energy, and optimize the efficiency of thermal power facilities. The fourth SEP created a strategic divergence in nuclear power from the third SEP, which focused on increasing the utilization of nuclear power in the country's energy mix. Since 2014, Japan's energy policy has been using the "3Es + S" framework to guide subsequent energy strategies. The fifth SEP released in 2018 aimed to diversify Japan's energy sources, minimize reliance on nuclear power, improve energy efficiency, and reduce greenhouse gas (GHG) emissions by 80% by 2050. It also promotes the development of new energy technologies to achieve Japan's long-term energy transition.[v]

The Sixth SEP

In October 2021, Japan released the sixth SEP. The newest SEP does not drastically differ from the last one but determines to achieve the targets of a 46% reduction in CO2 emissions by FY 2030, compared to levels in FY 2013 and carbon neutrality by 2050, as declared by Prime Minister Suga Yoshihide in October 2020 and April 2021, respectively.[vi] To realize the targets, the ANRE suggests a decrease in the total primary energy generation to around 430 billion liters of crude oil equivalent (COE) by FY 2030, which is a 59-billion-liter-COE reduction from the fifth SEP's FY 2030 target. More specifically, the primary focus is on incorporating renewable energy as the primary source of power, while also promoting the implementation of hydrogen and carbon capture, utilization, and storage (CCUS) technologies. Although the means to achieve decarbonization in the sixth SEP are similar to those in the fifth SEP, the commitment and the level of deployment of renewable energy and decarbonization technologies are stronger and firmer. In addition, nuclear power will continue to be used as necessary, with a primary emphasis on ensuring safety and maintaining public confidence.

On the supply side, the role of nuclear energy is carefully crafted. Nuclear is still a strategically critical energy source for Japan, as it is clean and relatively less geopolitically risky from the sourcing perspective. The sixth SEP acknowledges that nuclear power has advantages, such as its high energy intensity and potential to contribute to decarbonization targets, including hydrogen production, but it slightly reduces the share of nuclear in the primary energy supply from 10-11%, set by the last SEP, to 9-10% (Table 1). The strategy also addresses the challenges of nuclear waste storage, treatment, and disposal, as well as the decommissioning of nuclear power turbines. There are 19,000 tonnes (1 tonne = 1,000 kilograms) of used fuel stored in Japan, and the plan refers to continuing mixed oxide (MOX) recycling development with the aim to establish the technology in the 2030s. Additionally, the Nuclear Waste Management Organization of Japan is working on geological disposal of high-radiation nuclear waste in Hokkaido. Cooperation with the U.S. and France on developing fast-neutron reactors is also mentioned. Upon meeting the most stringent standards, Japan will restart existing nuclear power plants. However, it also recognizes that ensuring safety is essential due to the significant risks associated with nuclear power. The strategy acknowledges that there is tension between the potential benefits of nuclear power from an energy security and decarbonization perspective and the lack of public support for the industry in Japan. Despite this tension, the strategy emphasizes the importance of considering all potential sources of energy and balancing the potential benefits of nuclear power with the need to address safety concerns and public opposition.

Figure 1: Japan's Total Primary Energy Supply Source Breakdown

Japan's Total Primary Energy Supply Source	2021 Level	5th SEP Target for 2030	6th SEP Target for 2030
Renewables	8.54%	13-14%	22-23%
Nuclear	4.58%	10-11%	9-10%
Natural Gas	22.34%	18%	18%
Coal	25.84%	25%	19%
Oil	38.7%	30%	31%
Hydrogen	N/A	N/A	1%
Liquefied petroleum gas	N/A	3%	N/A

(Sources: BP Statistical Review of World Energy 2022, fifth SEP, and sixth SEP)

On the demand side, energy efficiency improvement is still one of the priorities of the Japanese government. Specifically, the SEP focuses on improving energy efficiency in various sectors, including industry, commercial and residential, and transportation. The SEP seeks to promote the development and adoption of energy-efficient technologies in the industrial sector through the Benchmark Program, and the promotion of new Energy Efficient Technological Strategies. For the commercial and residential sector, the SEP aims to strengthen the energy efficiency standards for buildings and to make new constructions meet Zero Energy House/Building standards by 2030. The transportation sector will see the promotion of electrified vehicles and infrastructure, such as batteries, and the application of AI and the Internet of Things (IoT) to optimize freight transportation.

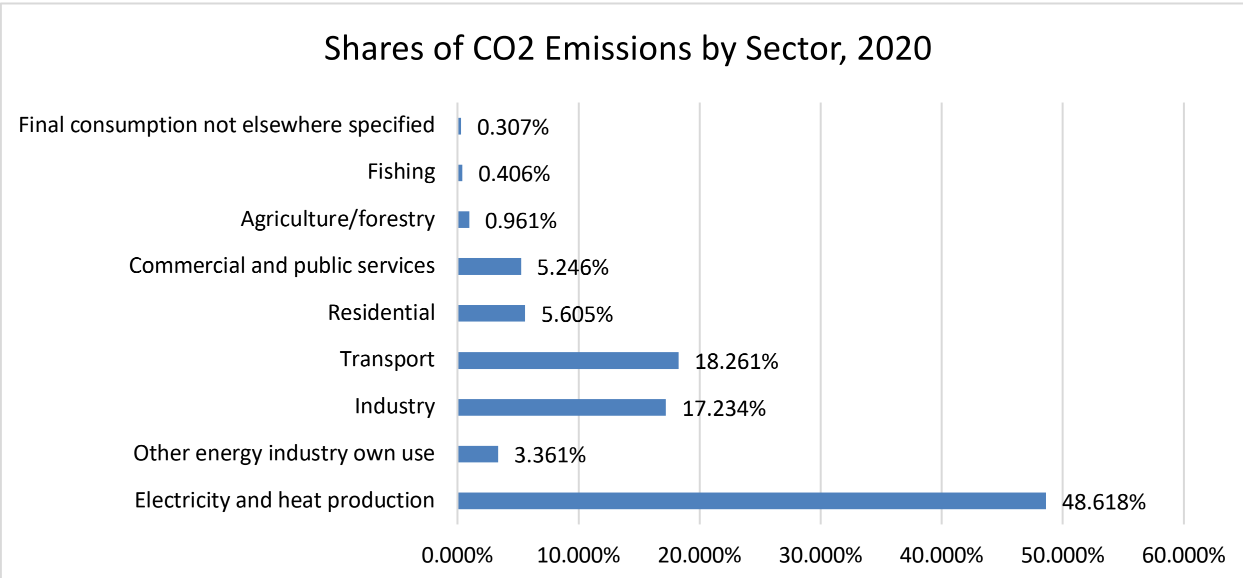
Additionally, the Japanese government is considering new systems to promote demand-side energy transition. To be specific, Japan is considering amendments to the Act on the Rationalization of Energy Use to promote rational energy consumption and enhance non-fossil energy use. A new framework will assess businesses optimizing their energy demand to cope with the fluctuation of energy supply.

Another focus is the effective deployment of distributed energy resources (DER), as a secondary energy structure. The implementation of microgrids will be promoted to enhance the effective utilization of DER-like storage batteries, as well as to increase the efficiency of energy usage, strengthen resilience, and activate the local community. Furthermore, there will be a focus on promoting aggregation businesses that utilize DER.

Power Sector Objectives

As decarbonization is one of the top priorities, the sixth SEP aims to optimize the top CO_2 emitter, the power sector, in terms of its generation fuel mix. Specifically in 2020, the electricity and heat production sector contributed more than 48% of the entire CO_2 emissions in Japan, followed by the transportation and industrial sectors (Figure1). [vii]

Figure 1: Shares of CO2 Emissions by Sector, 2020



(Source: IEA, Greenhouse Gas Emissions from Energy)

The previous discussion has indicated that a higher commitment to renewables is a central strategy for decarbonization, and this strategy is clearly reflected by the power sector, as the sixth SEP includes a much higher proportion of renewable energy in power generation sources than that in the previous SEP. Furthermore, ANRE seeks to generally reduce the share of fossil fuels in the energy mix and introduce alternative energy carriers, hydrogen, and ammonia, to the list of energy sources (Table 2).

Table 2: Japan's Power Generation Source Breakdown

Japan's Power Generation Source	2021 Level	5th SEP Target for 2030	6th SEP Target for 2030
Renewables	20.39%	22-24%	36-38%
Nuclear	6%	20-22%	20-22%
Natural Gas	31.98%	27%	20%
Coal	29.6%	26%	19%
Oil	3.07%	3%	2%
Hydrogen			1%

(Source: BP Statistical Review of World Energy 2022, fifth SEP, and sixth SEP)

Renewable Energy

Specifically, the objective of the SEP is for renewable energy sources to make up the majority of newly installed capacity in Japan. The plan highlights offshore wind power as a significant area of growth, with a target of 45 gigawatts (GW) of additional capacity over the next 15 years. To promote renewable energy investment, the strategy emphasizes the need for an efficient feed-in tariff (FIT) framework for advanced technology and corporate power purchase agreement (PPAs), particularly in decentralized power distribution systems.

Nuclear Energy

The SEP does not provide a specific objective for increasing nuclear power capacity. Nonetheless, the plan still intends to resume the operation of current nuclear power plants after meeting the strictest safety requirements. To restore public trust in nuclear power, Japan will focus on enhancing reactor safety and implementing back-end activities such as decommissioning and disposing of radioactive waste. The government will strengthen human resources, technology, and the industry's nuclear power base, pursue safer and more efficient reactors, and conduct R&D to address back-end issues.

Hydrogen, Ammonia, and Carbon Reduction Technologies

Although the SEP aims to meaningfully reduce the share of fossil fuels in power generation, the policy still anticipates more than 40% of electricity will be generated by coal, oil, and natural gas. Thus, significant changes in thermal power policies are crucial to reduce CO2 emissions to net zero. While thermal power has supported power supply stability and resilience since the Great East Japan Earthquake, it is important to replace its functions with decarbonized power sources while ensuring a stable supply. Decarbonization of thermal power generation requires the conversion of fossil fuels to hydrogen or ammonia, and the capture, storage, and reuse of CO2 released by thermal power generation. This will ensure that thermal power generation continues to play an important role in compensating for the variability of renewable energy while reducing its carbon footprint.

The sixth SEP discusses hydrogen and ammonia for the first time. Specifically, the SEP expects 1% of power from hydrogen and ammonia by FY 2030. The strategy recognizes the potential of hydrogen and ammonia to decarbonize various sectors, including power generation, and stresses Japan's commitment to building an international supply chain. It highlights the importance of power off-takers in creating a demand market for hydrogen and ammonia in Japan. Hydrogen can generate power through gas-fired plants, and ammonia through co-generation in coal-fired plants, with up to 30% of co-generation with gas for hydrogen and 20% with coal for ammonia, subject to technological advancement.

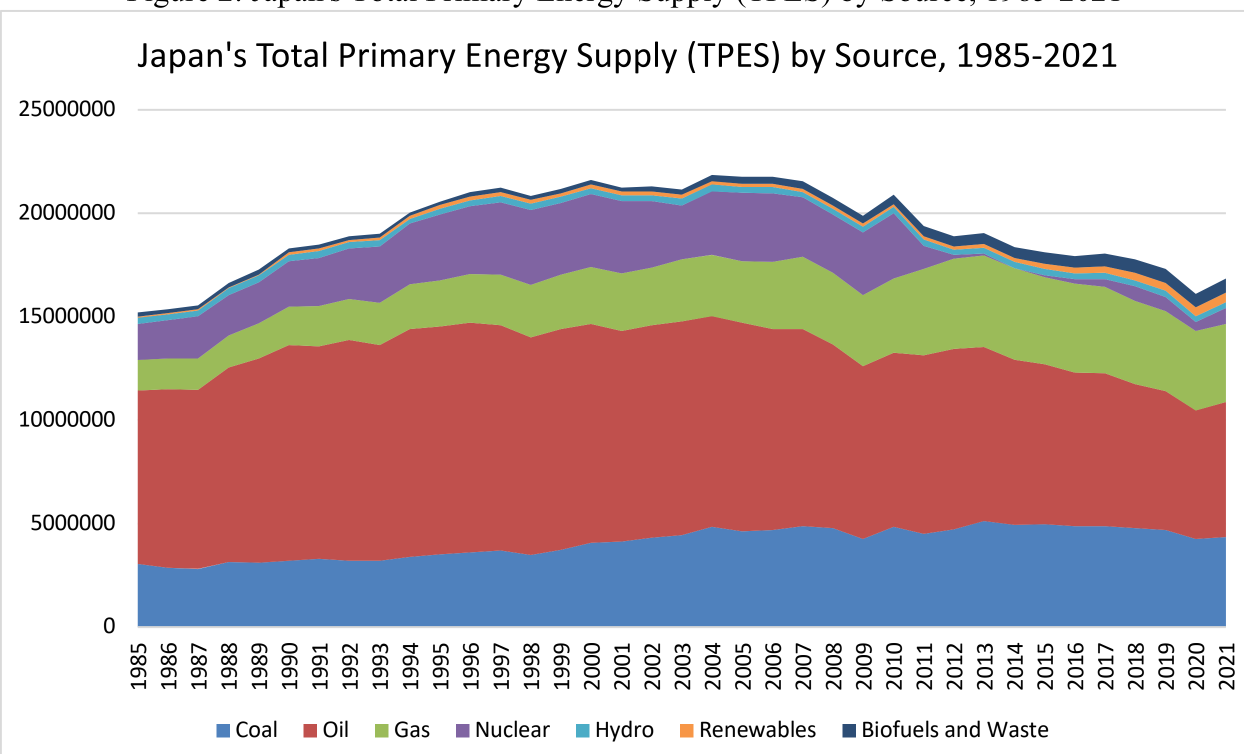
Moreover, Japan plans to establish CCUS technology to reduce its cost and conduct research and development for separation and capture, storage, monitoring technology, and cost reduction. They will also work on the societal implementation of CCUS by demonstrating the shipping of liquefied CO2 and establishing a model base for optimizing the network. Japan will conduct studies to evaluate storage potential and select suitable sites for CO2 storage in Japan. Additionally, Japan will improve the environment for the commercialization of CCUS by considering the trends of overseas CCUS projects and other factors.

Lastly, carbon capture and utilization (CCU)/carbon recycling utilizes CO_2 as a resource to produce materials and fuels through mineralization and artificial photosynthesis, reducing CO_2 emissions. The technology also allows for the utilization of existing fossil fuel procurement systems and facilities while reducing emissions through CO_2 separation and capture. Japan is called upon to advance the development, social implementation, and global deployment of CCU/carbon recycling technology while maintaining a competitive advantage, according to the "Roadmap for Carbon Recycling Technologies."

Energy Sector Structure in Japan

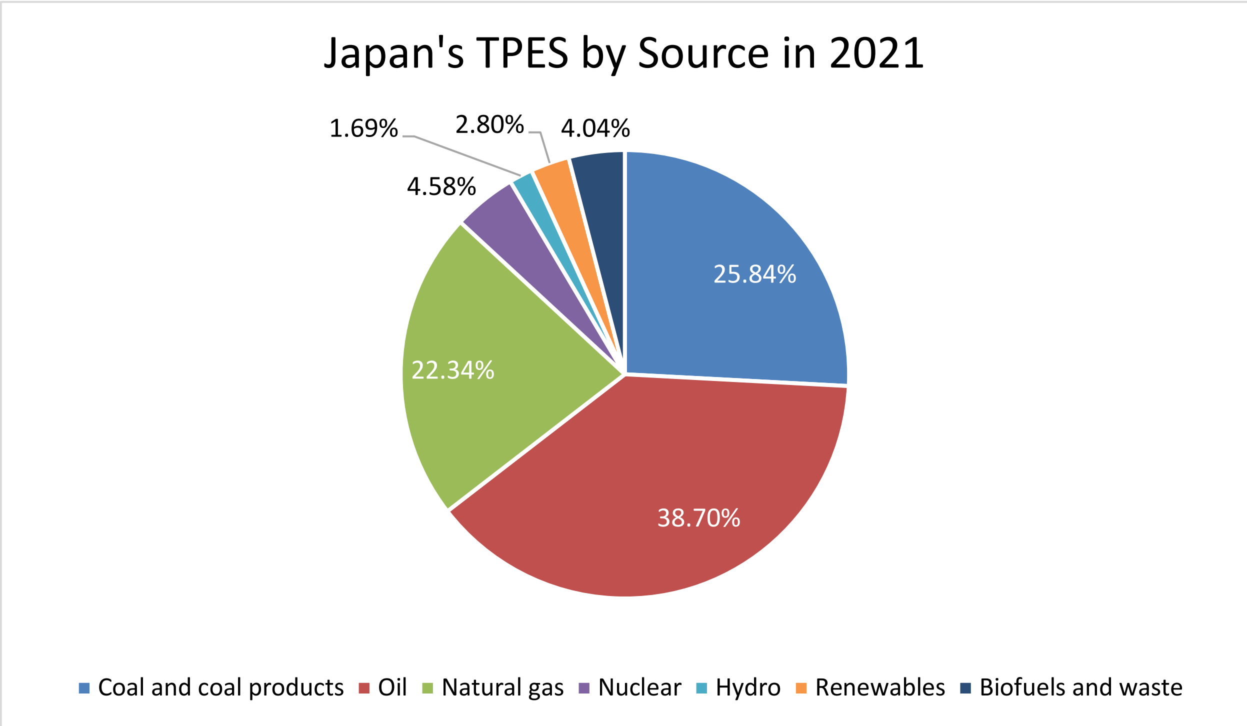
With the key content of the SEP laid out in the previous section, it is necessary to dive deeper into the current energy structure of Japan. As previously mentioned, Japan has scarce domestic energy reserves, so it has to import most of its energy sources from overseas. Traditionally, fossil fuels and nuclear energy make up most of Japan's total primary energy supply (TPES), but the Fukushima nuclear disaster in 2011 has greatly diminished the role of nuclear power in Japan's TES (Figure 2).[viii] The Japanese government halted all nuclear power plants in 2014 but is slowly reactivating some of the facilities in recent years; however, the role of nuclear (4.58%) is minimal, compared to fossil fuels (86.88%) in 2021 (Figure 3).[ix]

Figure 2: Japan's Total Primary Energy Supply (TPES) by Source, 1985-2021



(Source: IEA, World Energy Balances)

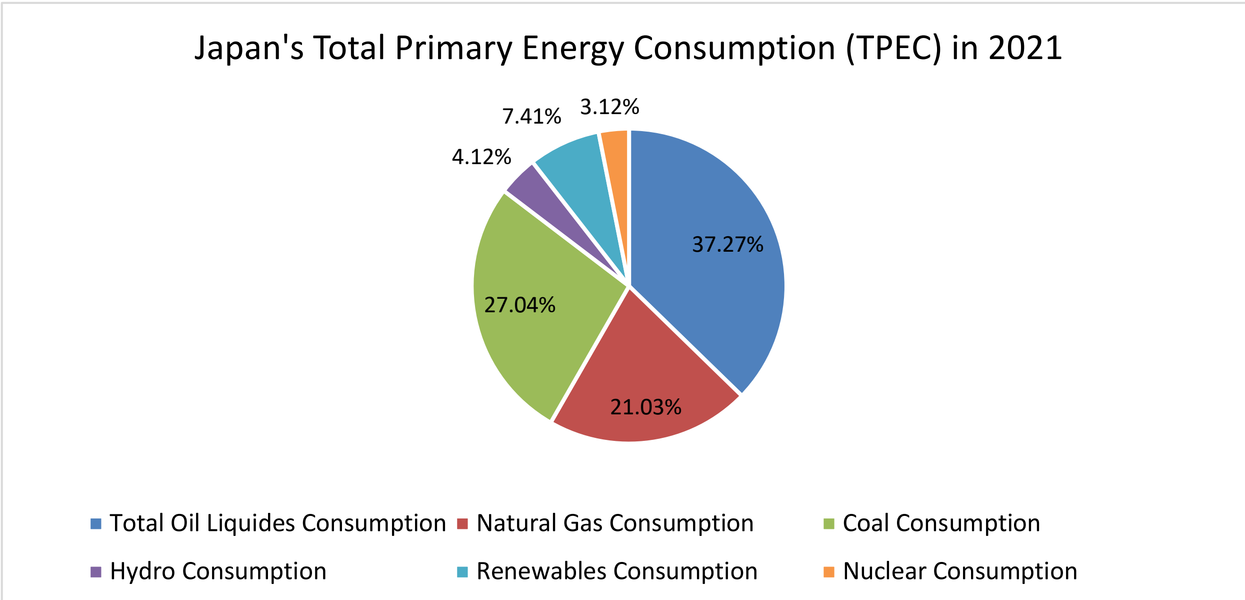
Figure 3: Japan's Total Energy Supply in 2021



(Source: IEA, World Energy Balances)

The size of Japan's economy makes Japan the fifth largest energy consumer in the world in 2021.[x] Limited domestic energy supply and heavy energy consumption mean that Japan has to mostly import its primary energy to meet its demand. Japan is the fourth-largest oil importer, second-largest liquified natural gas (LNG) importer, and third-largest coal importer in the world in 2021.[xi] With its archipelagic geography, Japan's imports of oil and gas are entirely transported by tankers; cross-border pipelines do not reach Japan. Although Japan has one of the largest energy consumptions in the world, its total final consumption has been decreasing over recent years. With its aging and declining population, advanced energy efficiency technologies, and declining gross domestic product (GDP), Japan's demand for energy is slowly decreasing. Currently, Japan depends heavily on fossil fuels for its energy consumption. Consumption of oil, gas, and coal makes up about 85% of the total primary energy consumption. Clean energy sources, such as renewables, hydro, and nuclear, only meet about 15% of the domestic energy demand (Figure 4).

Figure 4: Japan's Total Primary Energy Consumption in 2021

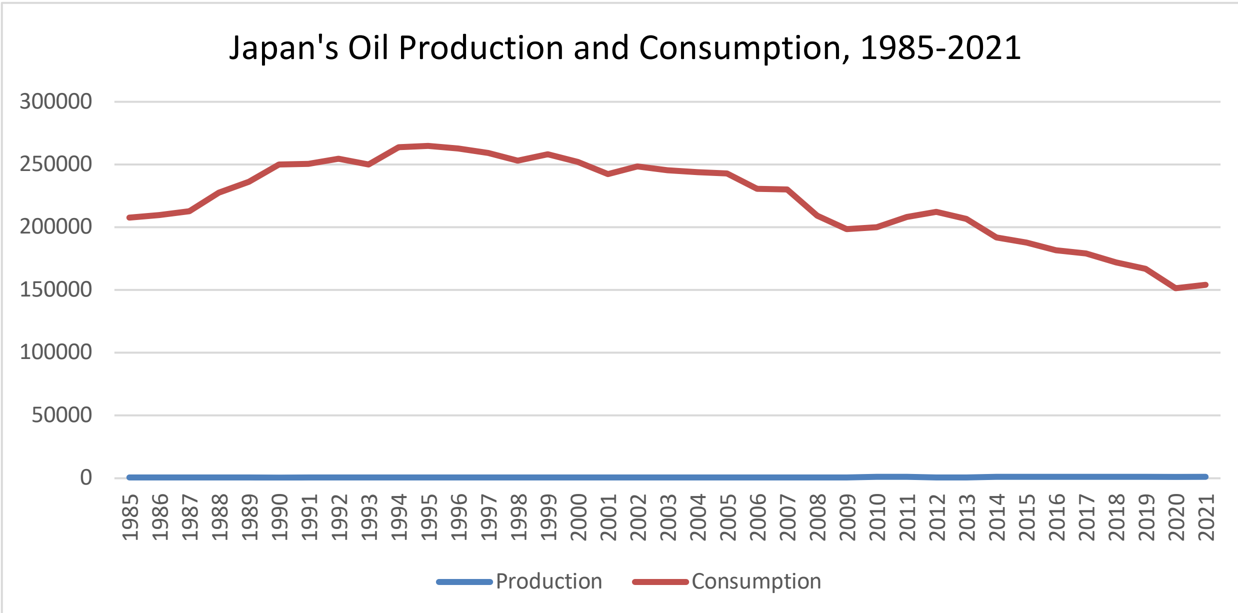


(Source: BP Statistical Review of World Energy 2022)

Oil

Japan has scant domestic proven oil reserves. Although Japan's oil consumption had been trending down from the 1990s to recent years, Japan's domestic oil production barely meets any of its consumption needs (Figure 5).[xii] Specifically in 2021, Japan only produced about 1,054 kilotons (KT) of crude oil and natural gas liquids (NGL), but the total oil demand of Japan was about 154,009 KT. The huge gap in domestic supply and demand forces Japan to import most of its oil from overseas. As oil plays the biggest role in Japan's primary energy consumption, Japan considers oil supply security as a major component of its energy and economic security. Japan, among other members of the International Energy Agency (IEA), has one of the highest levels of oil emergency stocks, which could also trigger doubts and concerns over Japan's energy transition process.[xiii]

Figure 5: Japan's Oil Production and Consumption, 1985-2021



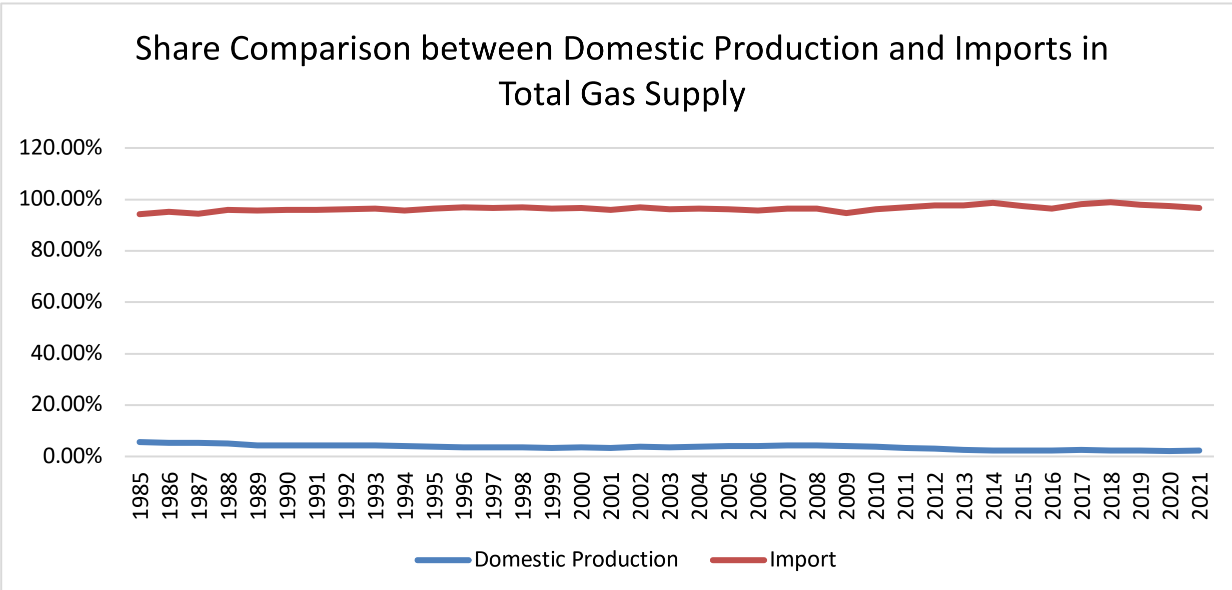
(Source: IEA, World Energy Balances)

As previously mentioned, Japan imports almost all of its oil. Japan imported 2.70 million barrels per day (b/d) of crude oil in 2022, up 8.5% from 2021.[xiv] Japan imports most of its oil from the Middle East. Specifically, the latest monthly data show that Japan imported about 33.11 million barrels, or 43.3% of oil from Saudi Arabia and 26.24 million barrels, or 34.4% from the United Arab Emirates in February 2023.[xv] Japan increased its oil imports from Iran in 2016 when the United States and the European Union lifted their sanctions on Iran's oil exports but had to cease imports due to the re-imposition of sanctions by the U.S. and the expiration of the sanctions waivers in June 2019. Japan has been focusing on diversifying its oil imports in recent years; Russia and the U.S. are two major sources of oil outside of the Middle East.

Natural Gas

Natural gas is also one of the most critical components of Japan's energy structure. About 21% of the TPEC comes from gas. Like oil, gas is also an extremely limited energy resource in Japan. Japan's largest gas field is Minami-Nagaoka Gas Field, which is located on the east coast, and produces approximately 132 million cubic feet per day (MMcfd) a year. Gas companies are also exploring gas reserves in Niigata, Akita, and Hokkaido. Because of Japan's geological challenges, the country does not have a sophisticated pipeline transmission system either. The lack of domestic production makes Japan heavily rely on imported gas. Japan's unique geography requires its imported gas to be completely in the form of liquified natural gas (LNG), which represented 96.67% of the total gas supply in 2021 (Figure 5).[xvi] Currently, Japan has 36 LNG import terminals in operation and one terminal under planning or construction. Australia is Japan's biggest LNG supplier, representing 36% of the entire overseas LNG supply.[xvii] Japan's LNG import terminals are highly concentrated around population centers and owned by gas and electric utilities. Japan possesses the world's biggest storage capacity for liquefied natural gas (LNG), with around 643 million cubic feet (MMcf). This capacity acts as a safeguard during times of increasing demand for LNG.[xviii]

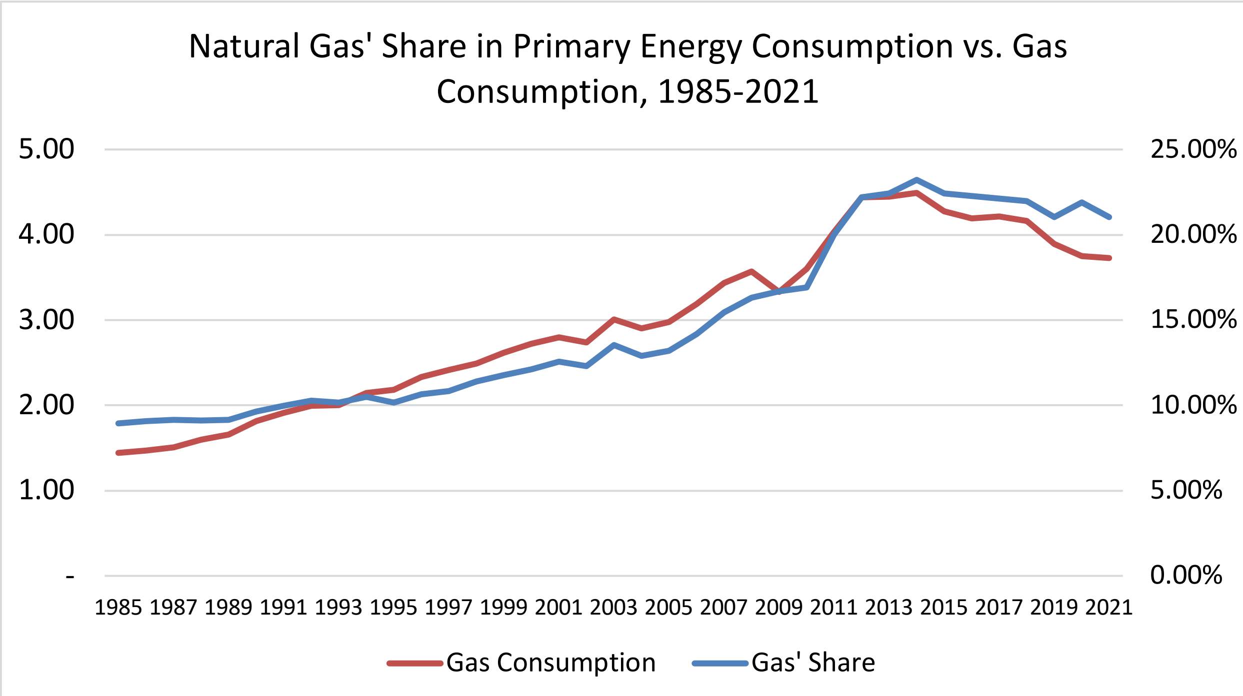
Figure 5: Share Comparison in Total Gas Supply, Domestic Production vs Imports



(Source: IEA, World Energy Balances)

Gas has assumed a bigger role in primary energy consumption, due to its cleanness, flexibility, and, most importantly, the Fukushima accident. Before the accident, gas' share in primary energy consumption was a little below 17%, but the accident triggered a rise to beyond 20%. Although consumption of gas had increased after the accident, the consumption number has been gradually decreasing due to the reactivation of several nuclear plants. However, the rate of decline in the absolute amount of gas consumption is greater than that in gas's share in primary energy consumption, reflecting that there has been a greater decline in the absolute amount of consumption for other fuel sources (Figure 6).[xix] In 2021, Japan consumed 3.73 exajoules (EJ) of gas. The electricity sector consumes the most gas and is followed by the industrial sector and the residential sector.

Figure 6: Natural Gas' Share in Primary Energy Consumption vs. Gas Consumption, 1985-2021



(Source: IEA, World Energy Balances)

Coal

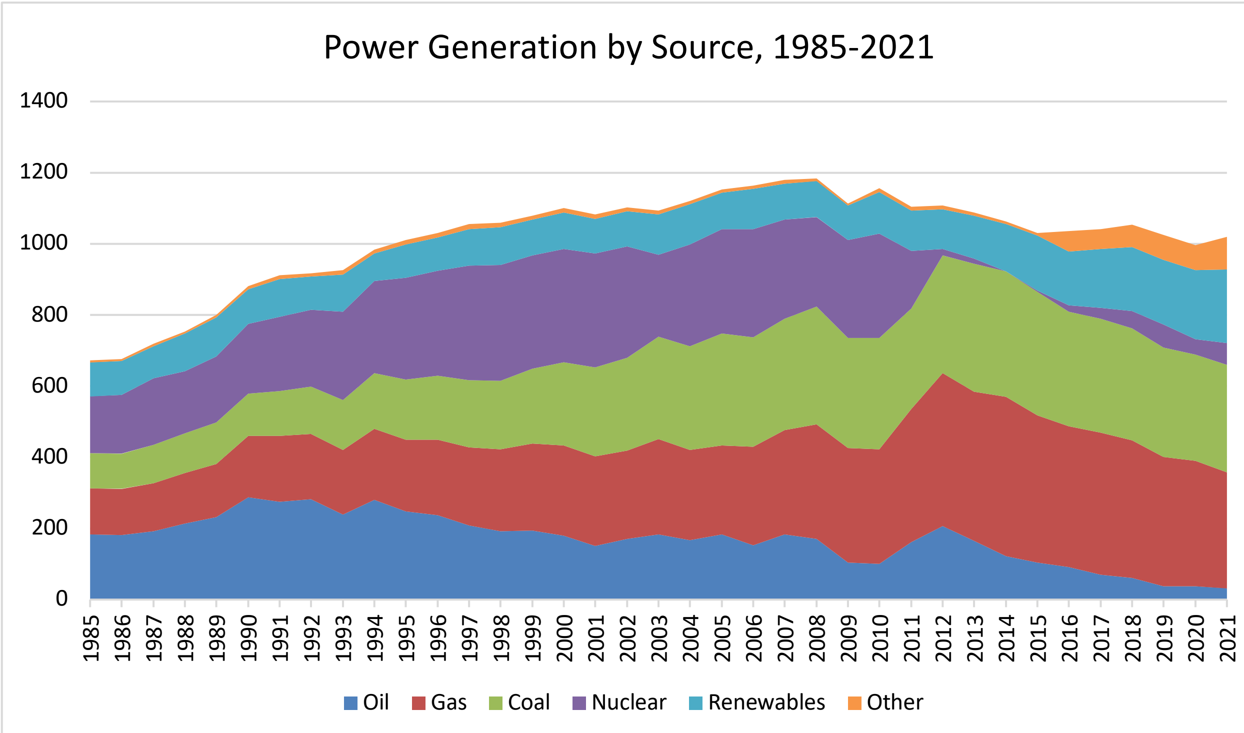
Coal was the second-largest fuel in Japan's TPES in 2021. In Japan, the majority of coal consumption is attributed to power generation, while the rest is mainly utilized for iron and steel production. The influence of the Fukushima disaster on coal was similar to that of natural gas. Supply and consumption of coal dramatically increased after 2011 to fill the gap left by nuclear energy. Like oil reserves and gas reserves, coal reserves are also limited in Japan. Only about 0.4% of Japan's coal consumption was met by domestic production in 2021.[xx] Australia is the largest exporter of coal for Japan, representing 73% of Japan's total coal imports in 2022.[xxi]

Although coal is a dirty energy source, Japan still regards it as a key pillar of Japan's energy security. Japan still has plans to build new coal-fired power generation capacity in the coming years, despite climate change concerns. However, it is necessary to acknowledge that Japanese coal-fired power plants are recognized for being highly efficient and environmentally friendly. As previously discussed, Japan is also heavily investing in the development of new, high-efficiency coal technology and exploring CCUS and carbon recycling to reduce the environmental impact of coal use.

Nuclear

Historically, nuclear power was one of the most important energy sources in Japan until 2011. Nuclear energy in Japan is only used for power generation, and its peak use was shortly before the turn of the century. Between 1995 and 2002, nuclear was the largest element in Japan's power generation mix (Figure 7).[xxii]

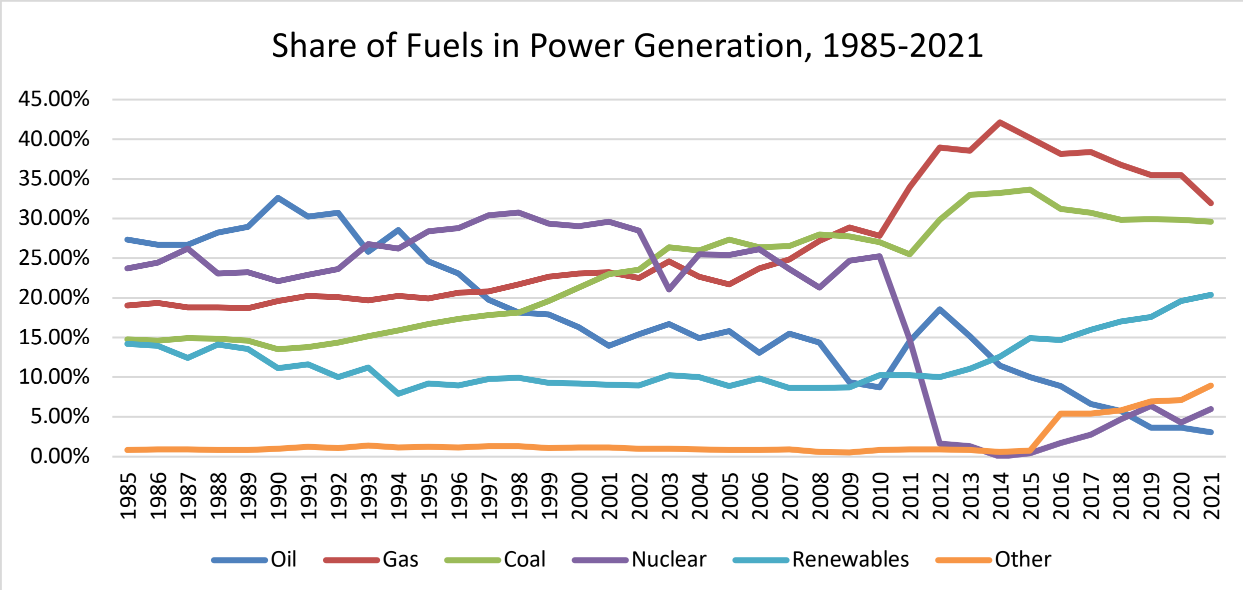
Figure 7: Power Generation by Source, 1985-2021



(Source: BP Statistical Review of World Energy 2022)

Japan had been very careful with its energy security and supply diversification calculations; before 2011, no single primary energy source provided more than a third of power generation. However, between 2000 and 2011, the role of nuclear in the power generation mix started to weaken, as coal and natural gas, two relatively cheap and globally abundant sources, started to assume bigger roles in power generation. The year 2011 devastated Japan's nuclear sector, as the Fukushima accident triggered a dramatic reduction in nuclear power production in Japan. In 2014, zero nuclear power was produced in Japan (Figure 8).[xxiii]

Figure 8: Share of Fuels in Power Generation, 1985-2021



(Source: BP Statistical Review of World Energy 2022)

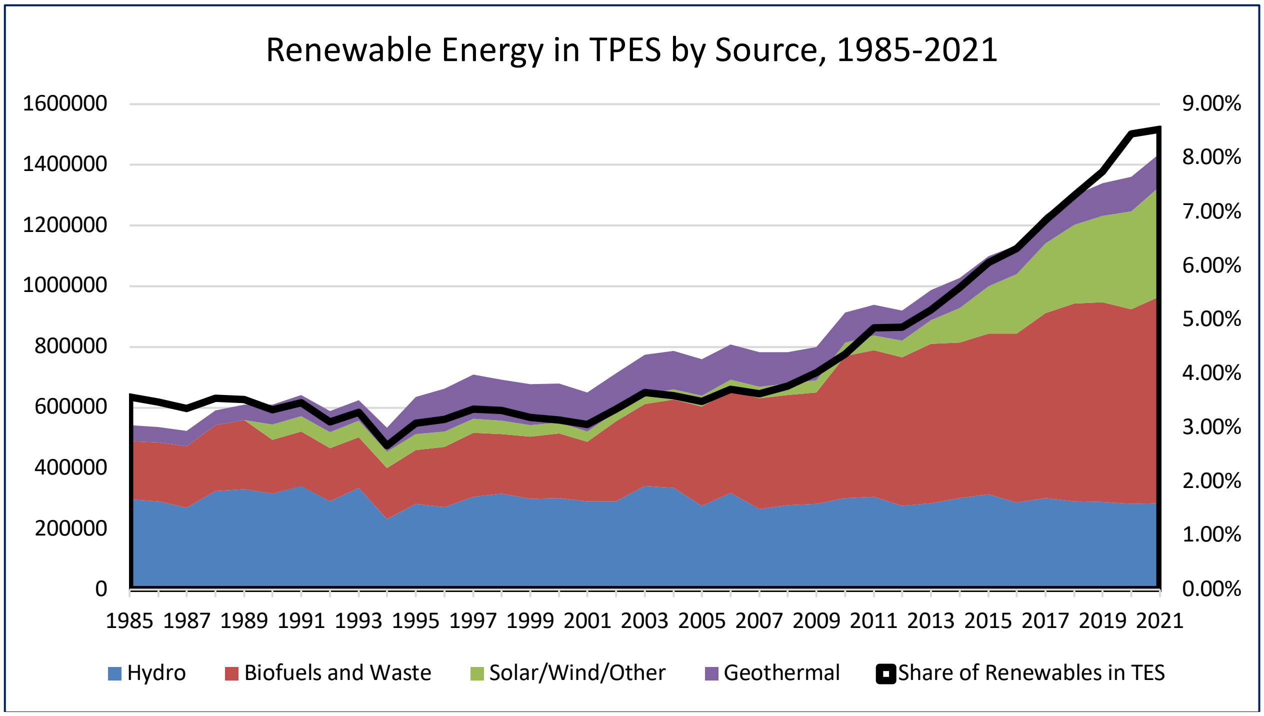
The Fukushima Daiichi Nuclear Power Plant experienced a serious meltdown due to the Great East Japan Earthquake and ensuing tsunami in March 2011, which led to the release of radioactive materials in the surrounding region. Radioactive materials have precipitate international attention and concerns over the years, and the role of nuclear energy in Japan has become much more controversial ever since the disaster.

Immediately following the accident, the initial reaction from the government involved contemplating a complete elimination of Japan's commercial nuclear power program. However, the fourth SEP released in 2014 reflected a change in the direction of the Japanese government, as nuclear energy resurfaced as an essential fuel in Japan's energy mix with relevant proper safety measures. The fifth and sixth SEPs further elevated the role of nuclear energy, as the Japanese government intends to increase the share of nuclear energy in the power mix to 20 to 22% from 6% of power generation in 2021. To reach this target and ease grid pressure in 2022, the Japanese government has authorized a proposal to reintroduce the use of nuclear energy. The nation intends to "maximize the use of existing nuclear reactors" by hastening their restart, which is a departure from the post-Fukushima strategy to gradually discontinue the operation of nuclear power plants.[xxiv]

Renewable Energy (Wind, Solar, Hydro, Biofuels, Geothermal, etc.)

Renewable energy has become increasingly critical to the decarbonization targets of the Japanese government and the world, due to its cleanness. In 2021, about 8.5% of the TPES came from renewables. Among renewables, wind, solar, and biofuels are the three biggest energy suppliers, and they accounted for about 72.5% of all renewables in Japan in 2021 (Figure 9).[xxv] Like nuclear, renewables produced in Japan are mostly used for power generation. In 2021, about 20.39% of power was generated by renewable sources. Additionally, in 2020, 98.27% of renewables produced were consumed in the form of electricity, with the remaining amounts used for heating purposes, the industrial, and the commercial sectors.[xxvi] Hydropower is the largest power generator among renewable sources, accounting for about 45.1% of all renewable power generation. However, hydropower's generation output has been fluctuating around 80 terawatt-hours (TWh) a year since the 1980s, as Japan has utilized most of the viable locations.[xxvii]

Figure 9: Renewable Energy in TPES by Source, 1985-2021



(Source: BP Statistical Review of World Energy 2022)

Japan established a goal in 2014 in its fourth SEP to have renewable energy account for 13-14% of its TPES by the year 2030; in its latest SEP released in 2021, Japan had set a new target for renewable energy in TPES to be 22-23% and 36-38% in power generation by 2030. Both targets seem ambitious, as the current percentages are far from the targets, and the Japanese government has not meaningfully decided to phase out fossil fuels in the general energy structure (Table 1, 2).

Sixth SEP Feasibility Assessment

The examination of Japan's energy structure in the previous section provides a clear picture of the current state of Japan's energy industry. This picture will help assess the feasibility of the targets set by the sixth SEP.

Nuclear

As mentioned in previous sections, nuclear energy is regaining its momentum in Japan's energy structure. Additionally, in December 2022, Japan announced the Green Transformation (GX) to prolong the operating life of nuclear reactors, replace old ones, and construct new ones, representing a significant change for a country that was previously committed to phasing out atomic energy following the Fukushima disaster.[xxviii] As Japan faces fuel shortages, higher prices, and the need to decrease carbon emissions, the government has begun to look towards nuclear energy again. The new policy is the most explicit commitment yet from the government to address delicate topics such as building new reactors. The policy states that Japan will restart as many existing reactors as possible and extend the operating life of older ones beyond the current 60-year limit. The government also promises to work on developing next-generation reactors.

The current SEP aims to use nuclear energy to generate 20-22% of power by FY 2030, but this target may not be viable. To meet the target, it is estimated that the country would need around 26-33 operational nuclear reactors. If Japan wants to maintain the same ratio for 2050, the nation will require around 37-50 reactors. With only three reactors having a 40-year service life and 23 with a 60-year service life by fiscal 2050, the Japanese government would need to construct around 20-40 new reactors to maintain the current ratio of nuclear power generation.[xxix] This is a potentially unrealistic objective, as only ten nuclear reactors are operational now. Additionally, obtaining approval from the Nuclear Regulation Authority (NRA) and securing support from local communities is necessary to restart nuclear power plants. However, there is still a level of uncertainty since legal action, such as injunctions, could force plant closures. Although the new policy allows for older nuclear reactors to operate beyond the present limit of 60 years, the NAC must still evaluate the safety of all plants. NRA's safety inspections need to remain autonomous and independent to ensure the safety priorities of the Japanese government can be realized. Furthermore, construction costs for advanced light water reactors are rising in the United States and Europe, while small modular reactors are facing setbacks and delays, with no successful projects yet. Currently, the restart program is facing real challenges, as supply chains and technical issues have arisen due to more than a decade of sector stagnation.[xxx]

Lastly, construction costs for advanced light water reactors are rising in the United States and Europe, while small modular reactors are facing setbacks and delays, with no successful projects yet. Several issues from the Fukushima disaster need to be resolved. The release of contaminated water from the Fukushima Daiichi Nuclear Power Plant into the ocean has been approved, but the agreement of local fishermen has not been obtained, and the removal of melted fuel debris is not expected in the foreseeable future. The cleanup of the nuclear energy policy remains unresolved, with nuclear waste and decommissioning of old reactors still being issues. The review of the nuclear fuel cycle policy that has left the country with massive amounts of plutonium is necessary. Finally, public trust in nuclear energy was lost after the disaster, and policy decisions need to be made through dialogue with the public, with sufficient validation and discussion, to restore trust. Based on the potential challenges and unsolved issues, the target of nuclear energy in the SEP seems difficult to meet.

Renewable Energy

As decarbonization is one of the focuses of the SEP, renewable energy is set to take a larger role in Japan's energy structure. The previous sections indicate that 22-23% of the TPES and 36-38% of power generation would be renewable sources by FY 2030 (Table 1, 2). Both targets seem ambitious, as the percentages of renewables were only 8.54% in TPES and 20.29% in power generation in 2021. Additionally, renewable energy in Japan is poorly deployed, in terms of capacity, and the share of renewable energy in TPES in Japan is much lower than most of its OECD or G20 peers.

Japan faces multiple challenges in its renewable energy deployment process. One of the main obstacles is the limited availability of land for large-scale renewable energy projects, such as solar or wind farms. Japan is a densely populated country with limited open space, making it difficult to find suitable locations for these types of projects. This challenge has led to a focus on smaller-scale renewable energy and distributed energy resource projects, such as rooftop solar panels, which are less efficient and more expensive than larger installations. Another challenge is cost. There are several factors that make renewables in Japan costly. First, the initial investment required to build renewable energy facilities, such as solar or wind power plants, is very high. In Japan, where land is scarce and expensive, this cost can be particularly high. Second, there is a lack of transmission infrastructure in Japan, making it difficult to connect renewable energy sources to the grid. A lack of existing infrastructure means that new transmission lines need to be built, which adds to the monetary cost and opportunity cost of deploying renewable energy. Third, the capacity factor, the amount of electricity that an energy source produces over time compared to its maximum potential, for renewable energy in Japan is also relatively low. Specifically, the capacity factor of wind energy in Japan is about 21%.[xxxi] To put things in perspective, the percentage in the U.S. on average is 36%.[xxxii] To make the case worse, Japan's weather patterns make it challenging to rely solely on renewable energy. Japan experiences typhoons, heavy rains, and other extreme weather events that can damage wind turbines and solar panels, disrupting power generation.

Because of these challenges that spike the prices of renewable energy, the Japanese government has introduced some subsidy programs to reduce the costs. To be specific, feed-in tariffs (FITs) and feed-in premium (FIP) policies are both mechanisms used by governments to incentivize the adoption of renewable energy. The Japanese government introduced the FIT system in 2012 to encourage the development of renewable energy. The system provided guaranteed prices for renewable energy and these prices were typically higher than the market rate for electricity. This allowed renewable energy producers to sell their energy at a fixed price, giving them certainty in their revenue streams. However, the costs of the FIT system were ultimately passed onto consumers in the form of higher electricity bills. This fundamental flaw led to criticism that the system was too expensive, and the Japanese government introduced the FIP system in April 2022, which is a policy mechanism that also promotes the adoption of renewable energy by providing a premium payment to renewable energy generators in addition to the wholesale market price of electricity. Unlike FIT, FIP uses a competitive bidding process to determine the premium payment. This process allows the government to set the maximum amount of subsidy to be paid, and renewable energy generators compete to sell their electricity at the lowest possible cost. The FIP system typically pertains to renewable energy projects of 50kW capacity or higher, while the FIT system is still applicable to specific types of renewable energy projects at this point.[xxxiii]

The switch from FIT to FIP is expected to slow down renewable deployment in Japan because the FIP system is less generous than the previous FIT system. The FIT system provides a guaranteed price for renewable energy, but the FIP system provides a variable premium on top of the market price, which may be less attractive to investors because of the uncertainty of the premium level. Additionally, the FIP system places a greater burden on utilities to manage the risks associated with renewable energy, such as fluctuating output levels, which may make them less willing to purchase renewable energy. This could make it more difficult for renewable energy producers to secure long-term contracts and financing, which are essential for large-scale renewable projects. Because of these concerns, experts have been skeptical of the outlook for renewable energy deployment in Japan.

However, opportunities still exist in Japan, in terms of offshore wind capacity building. As the SEP aims to increase offshore wind capacity by 45GW over the next 15 years, Japan has been making progress in this specific area. First of all, the coastal line of Japan stretches over 34,000 km, and it was one of the earliest markets in Asia to explore the potential of the offshore wind energy sector. Hokkaido and Kyushu are particularly promising regions for offshore wind resources. In 2018, the Japanese parliament approved regulations related to offshore ownership .[xxxiv] Marubeni, a Japanese general trading company, has completed Japan's first large offshore wind project, which includes regional utilities such as Tohoku Electric, Kansai Electric, and Chubu Electric. The Akita Port project is Japan's first utility-scale offshore wind project and has shown that such projects can be developed cost-effectively in high-cost markets like Japan. This is good news for other developers, including international companies like bp, Ørsted, and SSE, who are partnering with local firms to invest in the next generation of offshore wind projects in Japan. However, the Akita Port project is unlikely to be a blueprint for future offshore wind projects In Japan, as it was built in a port area with less challenging logistics and used smaller turbines, which are not suitable for deeper waters. It is estimated that Japan would need around $147 billion of investment in renewable energy and battery storage through 2030 to achieve its energy transition goals. The success of attracting this level of investment will rely on supportive policies and acceptable returns for renewable energy projects. Although returns for Japanese utility PV projects have typically struggled to get above a 3% internal rate of return, offshore wind has the potential to deliver returns of up to 8-9%, compared to onshore wind's 5-6%. However, risks to these returns exist as developers face pressure from project and supply chain delays and cost inflation.[xxxv] Although challenges in offshore wind projects are not negligible, the government has worked on providing continued policy support. In September 2022, METI identified three areas off the coast of Nagasaki, Niigata, and Akita prefectures as "promotion areas" to encourage the development of offshore wind farms. In addition, five areas have been identified as "promising areas" and 11 areas as "potentially suitable areas."[xxxvi] The Japanese government is definitely showing commitment and making progress, in terms of maximizing the capacity and incentives for renewable energy; however, whether they can meet their FY 2030 renewable targets is still unclear.

Hydrogen and Ammonia

As mentioned in the previous sections, Japan has introduced hydrogen and ammonia (1% in both TPES and power generation by FY 2030) into its energy mix for the first time. By 2030, Japan aims to create a comprehensive global network for supplying hydrogen, with the goal of reducing its cost and promoting the adoption of ammonia as a low-carbon transition fuel in thermal power generation. Although the sixth SEP is the first policy that specifically indicates the role of hydrogen and ammonia in the energy structure, Japan started mapping out its vision for these two energy sources in 2017. METI released the world's first national strategy for hydrogen, "Basic Hydrogen Strategy", in December 2017 and issued the "Strategic Roadmap for Hydrogen and Fuel Cell" in March 2019. In December 2020, the Japanese government released the "Green Growth Strategy through Achieving Carbon Neutrality in 2050",[xxxvii] which was later revised in June 2021. This strategy identified 14 areas of growth for the Japanese economy, including hydrogen and ammonia, and outlined specific goals and a national vision.

Policy support is firm in Japan, and official financial endorsement is also concrete. The Japanese government has allocated significant amounts of money towards research and development activities related to hydrogen, as well as verification testing for co-firing of ammonia in coal-fired power plants. The government has also established the Green Innovation Fund, which has a budget of JP¥2 trillion (approximately $14.9 billion) to support companies and organizations striving for carbon neutrality by providing funding for R&D, demonstration projects, and wider social deployment of new technologies. JP¥370 billion ($2.76 billion) has been specifically earmarked for hydrogen projects, with JP¥300 billion ($2.24 billion) for hydrogen supply chain projects and JP¥70 billion ($520 million) for the development of water electrolysis plants. [xxxviii]

Establishing a full international hydrogen supply chain is one of Japan's main targets, as Japan is expected to be a net importer of hydrogen. The supply chain entails building transportation and storage infrastructure for liquefied hydrogen and methylcyclohexane (MCH) and scaling up upstream production overseas and midstream ammonia to achieve economies of scale, which is necessary to decrease the cost of hydrogen. Japan is working on multiple projects currently to achieve its ambitions. For example, the Brunei Project is the first international hydrogen supply chain project developed by Japanese companies, backed by both the Japanese and Bruneian governments, and funded by the New Energy and Industrial Technology Development Organization (NEDO), a national research and development agency. The project focuses on the conversion of hydrogen to liquid MCH using organic hydrides technology, transportation of MCH to Japan, separation into hydrogen and toluene through dehydrogenation technology, and the recycling of toluene back to Brunei. The project completed 10 months of testing in December 2020 and demonstrated that the system is technically feasible and ready for commercial-scale deployment.[xxxix] Another ongoing project aims to develop an international hydrogen supply chain between Australia and Japan using brown coal gasification and hydrogen production. The project deploys the world's first purpose-built liquefied hydrogen carrier and has the potential to give brown coal a new lease on life as a source of low-cost clean hydrogen, but the challenge is to optimize CCUS technology to ensure that hydrogen produced from brown coal can be classified as "clean".[xl] Although challenges remain in this project, it has progressed to its commercial demonstration phase and has secured JP¥220 billion ($1.62 billion) in funding from the Japanese government.[xli]

Although the development of the sector is booming, research has indicated that the future of ammonia might not be as promising. BloombergNEF, a strategic research provider, estimates that retrofitting a coal power plant in Japan to use 50% clean ammonia co-firing would result in a levelized cost of electricity (LCOE) of at least $136 per MWh in 2030. By 2050, the cost would increase to at least $168/MWh for a coal power plant running entirely on clean ammonia. These figures are more costly than renewable energy sources such as onshore and offshore wind, and solar power with battery storage. To make ammonia co-firing economically feasible in Japan, a significant increase in the country's carbon tax would be necessary. Specifically, the cost of clean ammonia co-firing with a blend rate of 20% would need to be at least $300 per ton of CO2 by 2030. The required carbon price could decrease to around $159 per ton of CO2 by 2050, making 100% ammonia-fueled retrofitted coal plants more economically viable. However, Japan's current "tax for climate change mitigation" is less than $3 per ton of CO2, which is significantly lower than the values required for ammonia co-firing to be economically viable.[xlii]

The Japanese government has realized this gap between the target carbon tax and the current target tax and started to introduce policy support. The recently issued Basic Plan for the "GX: Green Transformation Policy" includes contents regarding emissions trading and a carbon levy. Starting from the 2023/24 fiscal year, Japan's voluntary emissions trading system, operated by the "GX League", will begin with around 680 participating companies pledging and disclosing their emission-cut targets. If the targets are not met, companies will be able to trade emissions through the market. The Tokyo Stock Exchange is likely to be used for trading, with official supervision and third-party certification being introduced from 2026/27. Auctions for emission allowances will begin with the power generation sector around 2033/34, with details still being discussed. Starting from around 2028/29, importers of fossil fuels such as refiners, trading houses, and electricity utilities will be subject to a carbon levy. While the initial levy will be set at a low level, it will increase gradually over time.[xliii] Although relevant carbon pricing measures have been announced, the timeline and the clarity of the policy does not seem ideal. A scant carbon pricing mechanism and slow policy implementation could lead to a failure of meeting decarbonization targets.

Besides cost issues related to clean ammonia co-firing, the motive behind the research and development of hydrogen and ammonia is also questionable. First, it seems that Japan's emphasis on hydrogen as a significant component of its energy mix has taken precedence over other initiatives aimed at reducing carbon emissions. The potential misalignment between the hydrogen strategy and decarbonization objectives could require Japan to take additional action to address emissions in all areas of its energy system. Second, Japan's policy on hydrogen supply chain security is prioritizing market development over the climate crisis, as it initially focused on creating a hydrogen market from fossil fuels before decarbonizing it. Japan's strategy of producing hydrogen from fossil fuels was designed to accelerate the development of international hydrogen supply chains and secure a stable supply at a lower cost. The use of ammonia or hydrogen in coal-fired power plants to reduce emissions is also seen as a way of delaying the closure of polluting plants, rather than a sustainable solution. Third, the cleanness of hydrogen is also uncertain. Currently, the policy aims mostly at blue hydrogen, hydrogen produced from gas and coal using CCUS technology to reduce greenhouse gas emissions, and development. However, a study has found that the truly scalable and environmentally friendly way to produce hydrogen is by using electricity generated from renewable energy, or green hydrogen.[xliv] The production of blue hydrogen results in significant emissions, including the release of methane throughout the gas and coal production process.[xlv] Compared to burning natural gas for heat, blue hydrogen can have a greenhouse gas intensity that is up to 20% higher.[xlvi] The production of blue hydrogen with CCS relies heavily on natural gas, which exacerbates the problem of methane leaks in the natural gas supply chain. It is important to note that human-caused methane emissions are far more potent than CO2 in terms of their impact on climate change, with up to 80 times the warming effect over a 20-year period. Because of these fundamental flaws in blue hydrogen supported by the Japanese government, the feasibility of using hydrogen and ammonia for decarbonization purposes is questionable.

Fossil Fuels

After examining the current development regarding various clean energy alternatives in Japan, it is fair to cast doubt on the potential of Japan's energy transition goals. If the clean energy sources that the Japanese government plans to use cannot supply the consumption needs, the Japanese government would have to fill the gap with fossil fuels. Indeed, the Japanese government knows the importance of the role of fossil fuels although they have set ambitious clean energy targets in the latest SEP.

Power generation is still one of the biggest concerns of the Japanese government, in terms of energy security, and coal has traditionally been used as a baseload power generator. In the sixth SEP, the Japanese government aims to supply 19% of power by coal by 2030, and the percentage in 2021 was about 30%. Clearly, Japan is trying to slowly diminish the role of coal in its entire energy structure, but some of the current development does not reflect a firm commitment to the policy goals. In the summer of 2022, JERA, the largest power producer in Japan, commenced the operation of a newly built coal-fired power station with a capacity of 1.07 GW in Taketoyo. This project faced opposition amid concerns that Japan could not fulfill its carbon reduction targets.[xlvii] Additionally, climate and energy ministers of the Group of Seven (G7) met in Japan in April 2023 to discuss decarbonization efforts and energy transition. Although the G7 agreed to continue phasing out fossil fuels, they failed to release a concrete timeline for the actual phase-out of coal-fired power plants. One of the main reasons for the failure is the opposition from Japan, which reflects the country's real concern when it comes to energy security and energy transition. Japan still needs fossil fuels and coal for power generation and industrial purposes, because coal is highly reliable and can provide baseload power. The latest development regarding coal has proven the fundamental challenges of Japan's energy transition process.

Not only is coal a strategic pillar of Japan's energy structure, but oil is also still critical to Japan's energy security. As previously mentioned, Japan has one of the highest levels of oil emergency stocks within the IEA. In May 2022, Prime Minister Kishida Fumio announced that the country would stop importing crude oil from Russia "in principle".[xlviii] However, Japan restarted oil imports from Russia in January 2023.[xlix] This change in Japan's oil trading behavior regarding Russian crude reflects how reliant Japan is on overseas products. Although Japan tried to show solidarity with its Western allies, in terms of economically punishing Russia, Japan ultimately does not have enough leverage when it comes to its energy industry.

Not only has Japan restarted its oil purchasing from Russia, but Japan has also started to purchase oil above the $60 price cap. In December 2022, the G7 and Australia joined the European Union (EU) in implementing a $60-per-barrel price cap on Russian oil.[l] However, in April 2023, Japan received authorization from the US to purchase Russian crude above the cap. The Japanese government explained that the crude it bought from Russia is a byproduct of the extracted natural gas of Sakhalin-2, which is an oil and gas development, in which Mitsui & Co. and Mitsubishi Corp., two Japanese companies, own a 22.5% stake.[li] Japan needs the gas from Sakhalin-2 for energy security reasons, so it had to break away from its Western allies to buy Russian oil above the cap. This latest development in Japan's oil industry further reflected the awkward position that Japan is in, due to its strategic dependence on international energy sources. Although Japan is determined to reduce its dependence on fossil fuels, it simply cannot meet its goals in the short term.

The stories from the coal and oil side have demonstrated Japan was not ready to phase out fossil fuels, and Japan's natural gas industry also reinforces the idea. Since the Fukushima disaster, Japan has strategically emphasized the use of natural gas due to its relative cleanness, flexibility, and ease of delivery.. In April 2023, the climate and energy ministers of the G7 met in Japan to discuss climate change matters, and Japan, as the host nation, originally included "demand for (Liquefied Natural Gas) will continue to grow" and "necessary upstream investments in LNG and natural gas" in the initial draft communique.[lii] The final version of the communique does not include such language, as other members of the G7 rejected the idea of explicitly mentioning an upscale of fossil fuels. Additionally, Japan plans to build 6 gigawatts of new LNG-fired power capacity by 2030, indicating its continued reliance on LNG.[liii]

As Japan is at a crossroads in its energy strategy, the nation will likely continue to desire flexibility in LNG procurement. On the one hand, Japan potentially does not want to lock itself into more long-term LNG contracts with its energy transition targets in mind. On the other hand, Japan would still need this energy source to fill the gap left by limited renewables. Japan will need to consider signing more spot contracts to satisfy its near-term demand. Indeed, Japan is expected to increase its spot LNG trade in 2023, as it has long-term LNG supply contracts worth more than 6 million metric tons per year that will expire.[liv] Although Japan would potentially continue its dependence on gas and other forms of fossil fuels, one aspect that could relieve some of the energy transition pressure is that Japan's topline energy consumption should be gradually decreasing over the next few decades, with slowed economic activities, decreased population, and ameliorated energy efficiency.

Conclusion

Energy policy has always been tricky to design in Japan, as the country has scant reserves of primary energy sources. Climate change and global warming have pushed countries around the world to rethink their energy structure and consumption. Energy transition has become one of the most critical policy focuses in recent years, and Japan is no exception. Japan has set ambitious energy transition and carbon reduction targets, but the feasibility of the targets is questionable under the current conditions in Japan's energy industry. Because of its limited domestic fossil fuels supplies, Japan has been trying to pivot its focus to clean energy sources, such as nuclear, renewables, and hydrogen. However, the realistic issues related to clean energy, such as local opposition, challenging geological and weather conditions, and a lack of commercial viability, have put a question mark on the future of clean energy sources in Japan. Despite Japan's commitment to combating climate change, the nation also needs to be realistic and mindful of its domestic problems. Fossil fuels are still the short-term solution to Japan's energy security, which is the backbone of Japan's economic stability. Without energy security, Japan cannot dream about energy transition.

Since Japan is not likely able to secure its energy needs from clean energy sources in the foreseeable future, Japan has to feed its energy consumption with traditional fossil fuels. First, one of the biggest concerns of consuming fossil fuels is GHG emissions. Thus, Japan has to put more economic resources into technologies that can reduce emissions. Carbon Capture Use and Sequestration (CCUS) is one of the potential methods that can address emission issues. The problem now with CCUS is that it is not economically feasible and environmentally viable to deploy at scale. CCUS is extremely expensive and there are not many sites suitable for long-term waste storage. Japan currently has a pilot CCUS program in Hokkaido, which is a good start, and sustained effort is still required to make this technology potentially suitable for deployment at scale, which could reduce emissions associated with fossil fuels exponentially. Second, as gas is expected to keep dominating the energy industry in Japan, the Japanese government and the private sector also need to focus on reducing methane emissions from natural gas. Methane is another polluting GHG in addition to carbon. The natural gas industry can implement measures such as leak detection and repair programs, which can identify and repair leaks in equipment and infrastructure. Third, energy efficiency improvement is still critical. Japan has already been a leader in energy efficiency practices, but the Japanese government still needs to keep increasing energy efficiency in the residential, transportation, and industrial sectors. Strengthening building codes and standards to require higher levels of energy efficiency in new construction and renovation projects could be one of the ways to improve residential energy efficiency. For transportation, Japan needs to provide more subsidies for the electric vehicle (EV) industry. As an international automobile powerhouse, Japan is slow in terms of EV development. Japan should offer financial incentives such as tax breaks for EV purchases and invest in the development of EV charging infrastructure. For the industrial sector, Japan could implement energy management systems and conduct energy audits to identify opportunities for energy efficiency improvements in various industries.

The energy transition is a challenging task for countries around the world and is particularly difficult for a country with a limited domestic energy supply and few suitable geological locations for clean energy. Japan needs to face the current conditions pragmatically. As a country with a long history of technological innovation, Japan should be able to develop proper solutions to achieve energy transition and reduce GHG emissions. The international community needs to cooperate and share expertise in clean energy deployment to ensure that the world energy transition is feasible.

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Corporate Governance: The Failed Case of the Mizuho Financial Group

Yuki Nakagawa

Introduction

Mizuho Financial Group (TSE: 8411) is a megabank formed in 2002 through the merger of Fuji Bank, Dai-ichi Kangyo Bank, and Industrial Bank of Japan. The three were some of the largest banks in terms of market capitalization in the world at the height of the bubble in Japan. However, as of 2023, Mizuho Financial Group had the lowest market capitalization out of the three megabanks, with the other two being Mitsubishi UFJ Financial Group and Sumitomo Mitsui Financial Group.[i] It also fell to 56th in the world in terms of market capitalization.[ii] The merger of equals, compared to other megabanks, formed through mergers of stronger banks with weaker banks, was the main factor in the failure of Mizuho to change and produce synergies through its mega-merger. Mizuho Financial Group was born through structural reforms in Japan's financial sector. The impact of the economic bubble and the government's response to the Takenaka Plan[iii] led to a drastic reshuffling of Japan's banks, eventually leading Japan's banking sector to have three megabanks that dominate Japan's economy.

Japan's Financial System

Japan's financial system can be separated into three sectors; banking, life insurance, and government financial institutions.[iv] The "city banks" or the megabanks which are MUFG, SMBC, and Mizuho, as of 2016, account for 20% of the financial system's assets, and Japan Post Bank accounts for 17%, showing the scale of the two large industry leaders of the financial system.[v] Japan's banks have long been unprofitable, with many of its largest borrowers shifting from financing purely through bank loans to other financial products such as capital markets products and other financial products.[vi] In 2003, Japanese banks' profits from non-lending were only 38% of lending revenues compared to U.S. banks' 73%.[vii]

Japan's Bubble

Japan experienced an asset bubble in the late 1980s and early 1990s, with the 1990s now referred to as the "失われた 10 年/ushinawareta ju-nen" or "Lost Decade".[viii] The Nikkei 225 went from 6,867 in 1980 to 34,050 in 1989 and back to 18,109 in 1992. In 2003, the Nikkei 225 hit 9,311, the lowest in 20 years.[ix] Residential property prices in Japan, with 2010 indexed as 100, hit 182 at the peak in 1991. The same index was at 98 in 1981.[x] The bubble came about as a failure of macroeconomic policies and financial regulations, formed due to the lack of independence of the Bank of Japan from the government and also foreign political pressures.[xi] Some argue that the Plaza Accord in 1985 signed by the G5 countries to commit to currency interventions for the U.S. dollar to devalue, and for the other currencies, including the Japanese Yen, to appreciate, led to the collapse of the Japanese economy. The appreciating yen led to the slowdown of exports.[xii] At the Plaza Accord, the governments also committed to growing their economies through expansionary policy rather than devaluing currencies at the expense of other countries. The strong yen and cheap oil led to an increase in domestic demand, stimulating consumption and household real estate investments.[xiii] The government of Japan pursued low policy interest rates for macroeconomic stimulus and thus lowered its interest rate to 2.5% in 1988.[xiv] It also introduced a large fiscal package in 1987, pumping more money into the economy, thus fueling the increase in asset prices and property prices. This was further followed by capital market deregulation, including short-term euro-yen loans, the corporate bond market, and the commercial paper market. [xv]However, the Bank of Japan ended its expansionary monetary policy, increasing its policy rate to 3.25% in May 1989, and eventually up to 6% in August 1990. The Ministry of Finance also established guidelines on lending to the real estate industry in 1990, leading to the collapse of the bubble.

Japanese Banks During the Bubble

Japanese banks had fueled the asset bubble in Japan. Thus, the stringent rules to limit lending to real estate businesses by the Ministry of Finance burst it. The deregulation mentioned in the previous section had opened up other options of financing to the corporate sector in Japan, faster than banks were allowed to participate in the bond markets.[xvi] Banks raced to the bottom and took on riskier assets. The rising asset prices also led banks to lend based on collateral prices rather than cash flows. [xvii] Banks had also reorganized their credit decisions from the credit risk departments to departments that reported to sales divisions, thus encouraging looser credit analyses. Bank lending to real estate-related industries and loans with real estate as collateral increased. As asset prices deflated in the 1990s, non-performing loans at Japanese banks increased.[xviii]

Japan has long had a bank-dominated financial system, with banks providing most of the financing for growth. Japanese banks had also held relationship shareholdings (政策保有株 / seisaku-hoyu-kabu) with their clients, with the financial sector owning up to 46% of the Tokyo Stock Exchange at the height of the bubble in 1989. The corporate sector also owned 25% of the Tokyo Stock Exchange in 1989, to reinforce the keiretsu (系列) system which was common within Japan.[xix] The keiretsu system was a way industry was organized post WWII in Japan, as GHQ during the Occupation dissolved the large family-owned conglomerates or zaibatsu (財閥), as they believed such had fueled Japan's imperialistic tendencies. The zaibatsu system was replaced by the keiretsu and main bank system. The main bank sat at the top of the keiretsu and held three positions within the group. The bank would smooth access to finance, monitor management, and ensure the company's longevity.[xx] As the keiretsu companies held shares in each other, the bursting of the bubble significantly eroded their unrealized capital gains from their relationship shareholdings.[xxi] To meet capital requirements under the Basel Accord requirement minimum ratio of capital to risk-weighted assets of 8%[xxii], banks would have to call back their loans and conduct kashi-hagashi (貸し剥がし), the forced withdrawal of money from banks, leading to a credit crunch leading to further impacts on the entire economy.[xxiii] Though domestic demand and investment had collapsed, Japanese banks had initially kept companies alive by extending loans to some companies, essentially keeping them on life support. However, as deflation continued throughout the 90s, new NPLs or non-performing loans continued to emerge. Banks continued to dispose of NPLs but new ones began to emerge, and eventually led to the bankruptcy of banks.[xxiv]

Financial System Restructuring

Regulators largely failed to acknowledge this as a problem until it was too late. In March 1998, the Ministry of Finance understood the NPLs at major banks to be JPY 22 trillion.[xxv] The government also took steps to recapitalize 21 commercial banks for JPY 1.82 trillion initially, with the second round being JPY 7.5 trillion. Mitsubishi Bank was an exception and received JPY 5.4 trillion. The Deposit Insurance Corporation was also strengthened through the infusion of JPY 17 trillion by the government. Banks receiving capital injections from the government were obliged to submit a restructuring plan (Keiei no kenzenka no tameno keikaku 経営の健全化の為の計画) by the Financial Function Stabilization Emergency Measures Law (金融機能の安定化のための緊急措置に関する法律).[xxvi] The banks included mergers in the plan, and thus the consolidation of the banking sector in Japan began.

The Financial Supervisory Agency (kinyu-kantoku-cho / 金融監督庁) was also created at this time, later in 2000 being merged with supervisory functions of the Ministry of Finance to form the Financial Services Agency (kinyucho / 金融庁) that exists today. The Ministry of Finance had initially pressured healthy banks to help weak failing institutions. This style of rescue operations was called hogacho (奉加帳) operations, which is the term for donation registers at a temple or shrine. [xxvii] The Ministry of Finance was able to use this in the initial outbreak of the financial sector failures, however, this system no longer worked when the non-performing loans (NPL) grew too large and there were no other healthy financial institutions to merge with the weak. In November 1997, the Ministry of Finance ordered Hokkaido Takushoku Bank and Yamaichi Securities to suspend their operations, leading to the closures of both businesses. This led to a perceived increase in risk in Japanese financial institutions from overseas markets and the eventual increase in the cost of funding for Japanese banks in overseas markets with the pricing in of the "Japan premium".[xxviii]

Mizuho

The Birth of Mizuho Holdings

On August 20th, 1999, the Industrial Bank of Japan (IBJ), Fuji Bank, and Dai-Ichi Kangyo Bank announced that they would merge under a single holdings company. Thus, Mizuho Holdings was formed.[xxix] Mizuho (瑞穂) means abundant rice in Japanese. Mizuho was the poetic name for Japan, and the name was chosen for the new company that was supposed to be the leading financial institution in Japan, serving customers domestically and internationally.[xxx] Also, the abbreviation of the three banks' names would not have been auspicious, as it would have been daifuko/大不幸, meaning “great misfortune”.[xxxi] The announcement came from the CEOs of all three banks, signaling to the world that the merger would be one of equals. At the time, the sum of all three banks' total assets would have equaled JPY 140 trillion, making it the largest bank in the world, larger than Deutsche Bank which had just bought Bankers Trust.[xxxii] The newly formed Mizuho also had relationships with 1,600 of 2,300 listed companies at the time, meaning 70% of listed companies excluding financial institutions had a banking relationship with Mizuho. Mizuho would be the largest in terms of total assets, but in an interview, the head of IBJ commented, "With this integration, we will become the world's top in terms of asset size. However, we aim to be among the top five in the world in terms of capital strength, profitability, financial technology, and customer service."[xxxiii]

The Industrial Bank of Japan was headed by Nishimura Masao, a graduate of the prestigious Tokyo University and the stepbrother of Abe Shintaro, a former Minister for Foreign

Affairs and the father of the late prime minister Shinzo Abe. IBJ's industry peers in the long-term credit bank segment, Nippon Credit Bank (日本債券信用銀行) and Long Term Credit Bank of Japan (日本長期信用銀行) had just been placed under temporary nationalization by the government in 1998, differing from the traditional approach of bailing out such institutions.[xxxiv] Nippon Credit Bank was ultimately sold to investors including Softbank, Orix, and Tokio Marine Holdings, and rebranded as Aozora Bank. Long Term Credit Bank of Japan had been sold to private equity fund Ripplewood, and IBJ had also needed to find a way forward. Thus, to IBJ management, a merger with a city bank to scale up and survive was Nishimura's conclusion.[xxxv]

Dai-Ichi Kangyo Bank's head was Sugita Katsuyuki. He also graduated from Tokyo University and had just been promoted after the former CEO took responsibility for the corporate racketeer scandals and resigned. He had joined Japan Kangyo Bank before it merged with Dai-Ichi Bank to become Dai-Ichi Kangyo Bank. Most of Dai-Ichi Kangyo Bank's management was from Dai-Ichi Bank, and Sugita is said to know the hard aspects of restructuring organizations.

The head of Fuji Bank was Yamamoto Yoshiro, who had also graduated from Tokyo University. He had been seconded to a subsidiary of Fuji Bank in Chicago and understood the amount American banks had invested in IT infrastructure. He aimed to reach a level of investment on par with American banks through the merger. Yamamoto had initially asked Dai-Ichi Kangyo Bank for a merger in 1997.[xxxvi]

However, Sugita was behind the idea of a bank merger between three banks. Sugita had faced hardships during the merger of Dai-Ichi Bank and Kangyo Bank and felt a merger between three banks rather than two would avoid different cliques and factions developing within the bank. Thus, both hose only route of survival was to merge with a city/normal bank, and Fuji Bank joined the mega-merger as agreed to in May of 1999.[xxxvii] Mitsubishi Bank had already merged with Bank of Tokyo in 1996[xxxviii], and Sumitomo Bank merged with Sakura Bank in 2000[xxxix] after the announcement of the Mizuho merger and the trend in the industry for banks to become megabanks to survive was apparent.

An analyst commented harshly on the Mizuho merger: “Even if three B-grade banks merge, only a giant B-grade bank will be created.” A banker at Citicorp even called the firm, “three drunks in a ditch who are trying to stand up”.[xl] The management had also felt that they were not creating the world’s largest and best financial institution but only that they had somehow avoided bankruptcy. Mizuho’s NPLs were also the largest out of the three major banks at JPY 2.37 trillion compared to UFJ’s JPY 1.9 trillion and SMBC’s JPY 1.7 trillion. As the NPLs were a majority from IBJ and Dai-Ichi Kangyo Bank, a former Fuji Bank banker, Maeda Terunobu, took the top position of Mizuho Holdings. The three banks were split from their corporate and retail divisions to form Mizuho Corporate Bank and Mizuho Bank, both under Mizuho Holdings.

The First Sign of Trouble

At first, the merger of the three banks was supposed to be an important milestone in the financial Big Bang in Japan. However, on the first day of the launch of Mizuho Holdings and the reorganization of the three banks into two, Mizuho faced major system troubles. Mizuho attempted to launch the new system over a single weekend. ATMs had trouble recognizing debit cards different from their former banks; ex-Fuji Bank branch ATMs could not recognize ex-IBJ Bank branch ATM cards and vice versa. ATMs would also recognize the debit transaction on the account without dispensing cash when clients tried to withdraw money. Mizuho was also having trouble processing automated utility payments. This led to an immediate loss of trust in Japan's financial system as well as damaging the new Mizuho brand. When integrating the three different systems, Mizuho Holdings chose to use Fuji Bank's system as the base for Mizuho Bank housing its retail division, and the Dai-Ichi Kangyo system for its corporate banking division housed under Mizuho Corporate Bank. As they got rid of Fuji Bank systems, most members of management in the IT systems department were comprised of employees from Dai-Ichi Kangyo Bank. Banks fought for their system to be continued because of banking relationships with the vendors, which included IBM for Fuji Bank's TOP system, Hitachi for IBJ's C-Base system, and Fujitsu for Dai-Ichi Kangyo Bank's STEPS system. Further, the discontinuation of systems would mean that engineers who worked on respective systems would lose their posts and positions. As each company's system was administered by a subsidiary that employed thousands of people, each bank had an incentive to keep its system alive to continue employing its employees. IBM proposed a solution to keep all bank systems but utilize a "Relay Computer" method where the bank systems would communicate with each other.[xli] This led to the continuation of the Dai-ichi Kangyo Bank system designed in 1988 as the main frame, with other systems connecting to it, leading to Mizuho's first failure in 2002.

One-sided mergers where the stronger bank's system was used were more common. In the case of the Mitsubishi-UFJ merger in 2005, Mitsubishi Bank's mainframe designed by IBM was used for the integration of UFJ. For the merger to create SMBC, Sumitomo Bank's mainframe designed by NEC was used.[xlii] However, in the cases of these mergers, it was clear which bank was larger and which was merging with whom. In Mizuho's case, the bank was a merger of three equals, and thus there was much debate about which bank's main frame would be used, leading to an inefficient compromise to use relay systems to link the different banking IT systems together. All three banks had been prestigious banks at the height of the Japanese economy, and management at the banks had a sense of pride in the banks. This resulted in promotions being based on which bank one was from, and factions being formed by members of each bank. The resulting merger of equals led to poor corporate governance and clashes within the bank. Mizuho was also caught up with the government-mandated task of dealing with its NPL portfolio. Management of the three banks had not considered the potential risk and losses which could arise from IT systems integration. The bank already had issues leading up to the merger, but the management of the banks was never notified.[xliii]

As the head leadership position was taken up by someone from Fuji Bank, friction between the three bank factions surfaced. Management from Fuji Bank complained about Fuji Bank taking the blame for the IT system mishaps. Dai-Ichi Kangyo Bank was also in charge of the systems integration of the three banks.

Takenaka Plan

Prime Minister Koizumi Junichiro brought on well-known economist Takenaka Heizo as Minister of State for Economic and Fiscal Policy to revitalize the economy by resolving the banks' non-performing loan issue. He was the architect of the Takenaka Plan in 2002. The Takenaka Plan aimed to accelerate the disposal of NPLs to half by 2004 by introducing a more stringent approach to the write-off of NPLs. The plan had three principles, stringent asset valuation, strengthening capital, and strengthening bank governance. In economics, the old school of thought's argument was that the weak economy results in NPLs, and thus the weak economy must be solved first. However, economic studies had shown that NPLs lead to a credit crunch, impeding economic growth, and thus must be solved first.[xliv] Takenaka was an advocate of this newer school of thought. He wanted the banks to adhere to the three principles so that banks would start intermediating the flow of capital in the economy and stimulate economic growth. The plan was developed by a project team consisting of private-sector experts and was later incorporated into the broader Financial Revitalization Program. The first principle of stringent asset valuation included requiring banks to use the discounted cash flow method of discounting future cash flows to calculate the balance of NPLs. Previously, banks had used the probability of default based on past default data.[xlv] With the new methods of calculating capital and NPLs, Mizuho was said to need JPY 2 trillion to cover losses and would be below the Basel requirement of 8%. Consequently, raising capital became a life or death situation, and Mizuho started to raise capital via preferred share sales from 3,400 of its clients including Itochu Corporation, Marubeni Corporation, and Kyushu Power. Mitsubishi Tokyo raised its capital through common stock offerings, SMBC received a capital injection from Goldman Sachs, and the three megabanks were able to avoid capital injections by the government.[xlvi] Through the Takenaka Plan, banks were able to reduce NPLs in March of 2002 from 8.4% to 2.9% in May 2005. However, the tremendous amount of capital and resources used on resolving the NPL and capital issue led to investments being diverted from the initial plan of integrating the IT systems of the three banks and moving on from the old STEPS system. In the 2008 Lehman Crisis, Mizuho also had the most losses out of the three Japanese megabanks at JPY 580 billion, while also investing USD 1 billion into Merrill Lynch,[xlvii] again depleting resources to invest in its IT infrastructure. This led to the next wave of scandals for Mizuho Bank.

Corporate Culture: Habatsu (派閥)

The "merger of equals" led to many problems for Mizuho Bank. Whenever scandals arose, management was enthusiastic to throw other bank factions under the bus. In the 2002 failure, former IBJ and Fuji Bank members blamed former Dai-Ichi Kangyo members, and most were removed from IT positions, leading to disciplinary action for 117 people including CxO suite members.[xlviii] The gutting of the IT department and related management members also led to further scandals as people who knew the system and worked on the execution of the systems integration and the clean-up afterward were demoted. Former Fuji Bank members were put into management positions overseeing the day-to-day operations of the former Dai-Ichi Kangyo Bank system STEPS. Thus, the management did not fully understand the problems and potential risks that the "fossil-like IT systems designed in the 1980s" posed.[xlix]

The three banks merged to avoid nationalization. They had no other choice but to merge due to ties to the keiretsu and zaibatsu systems. Tokyo Mitsubishi Bank, Sumitomo Bank, and Sakura Bank were all Mitsubishi, Sumitomo, and Mitsui zaibatsu family banks, and would not consider an idea of a merger with a Fuyo zaibatsu family bank. Fuji Bank would never consider a merger with the non-zaibatsu Sanwa Bank as its management was sure the bad news and rumors spreading about Fuji Bank in the market were coming from Sanwa Bank management.[l] Hence, the three banks had no other choice but to merge.

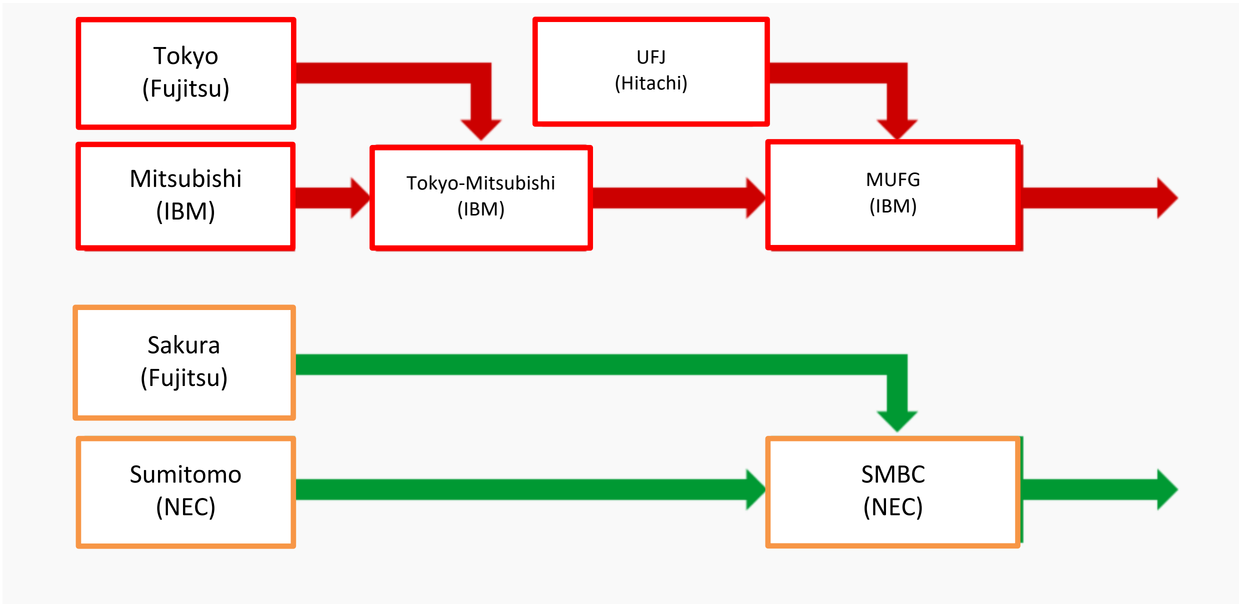
Leading up to the merger, the three banks competed with each other. The restructuring initially had all three banks under Mizuho Holdings, before they were restructured into Mizuho

Bank and Mizuho Corporate Bank. The three bank branches would compete in all markets domestic and overseas for the most loans outstanding. The competition had begun even before the restructuring to see who could establish the dominant position before the merger took place.[li] Mizuho would inadvertently encourage this as the vice presidents of the banks were balanced, i.e., they made sure management was represented equally by all banks.[lii] This encouraged faction and support building within the bank and reinforced the three-bank faction culture.

2011 System Failures

As foreshadowed, Mizuho faced a second wave of large system failures in 2011 for which the FSA issued an order to improve business operations.[liii] After the March 11th, 2011, earthquake and tsunami in the Tōhoku region displaced more than 450,000 people and killed over 15,000.[liv] TV channels called for donations via televised charity events, through accounts they held at Mizuho Bank. The influx of donations pouring into the Mizuho bank accounts, as well as people stockpiling groceries and withdrawing cash for emergency use led Mizuho's system, developed in the 1980s to be overloaded, causing an IT system failure at a time of emergency for Japan. This led to increased media coverage of Mizuho's ATM and IT system failures, leading to political backlash and the eventual FSA improvement order. The system disruptions interrupted salary payments and withdrawals, disrupting 500,000 settlements for a total of JPY 650 billion.[lv] The IT system failures of 2011 were caused by the lack of investment and improvement of the systems in the 2000s. The lack of management and corporate governance to identify the potential risks posed by the systems was missed due to the high turnover in the business departments in charge of overseeing the IT systems. Also, the Takenaka Plan and the restructuring of NPLs were the main focus in the 2000s, although they should have been on integrating the business operations of the three banks. The system failures led Mizuho to develop a new system, MINORI, starting in 2012. However, Mizuho assigned four IT system architect companies to develop the new system, which is rare in the industry. Most other banks have only had IBM(Mitsubishi) or NEC(SMBC) do all of the architecture (See Figure 1), as splitting up the work between different architects who pass onto Tier 1, 2, 3and + IT system vendors complicates the process. Mizuho chose this structure as Japan has a severe lack of human resources in the IT project management space, Japan Post Bank was also upgrading its system infrastructure at the same time, and one company did not have enough resources to execute the project by itself.[lvi] This would lead to the most recent system failures in 2020-2021.

Figure 1: Other Megabanks System Integration[lvii]



Anti-Social Forces Scandal

Mizuho also had scandals in 2013 relating to loans to "Anti-Social Forces", a commonly used term in Japan to refer to Yakuza and other criminal groups. Mizuho had extended loans to Yakuza-related groups in 2013 for a total of JPY 200 million through its consumer-credit affiliate, Orient Corporation.[lviii] The FSA again ordered Mizuho to improve its business oversight, compliance, and business operations on September 27, 2013.[lix]

2020-2021 System Failures

Mizuho most recently had scandals related to its IT systems, with a total of 11 system failures in the period of February 2021 to February 2022.[lx] It published a report titled, "Identifying the cause of IT system failures at Mizuho Bank and preventing further incidents"[lxi] on June 15th, 2021, but the bank had seven system failures after the report was published, resulting in two business improvement orders being issued by the Financial Services Agency (FSA). Out of the three megabanks, Mizuho has had the most administrative actions ordered by the Financial Services Agency. Mizuho had a total of 23 administrative actions from 2002 onwards, with ten being 200 from 8 onwards (Table 1). Compared to Mizuho, MUFG has had only seventeen actions, with two actions after 2008 and SMBC has had only thirteen with six after 2008.

Table 1: Administrative Actions against group companies from 2002-2023[lxii]
①業務改善命令: Business Improvement Order
②業務停止命令: Business Suspension Order
③勧告: Recommendation
④改善措置命令: Corrective action order

グループ (Group)	金融機関名 (Institution Name)	回数 Times	①業務改善命令	②業務停止命令	③勧告	④改善措置命令
みずほ (Mizuho)	みずほホールディングス Mizuho Holdings	2	2	0	0	0
	みずほ銀行 Mizuho Bank	10	8	1	1	0
	みずほコーポレート銀行 Mizuho Corporate Bank	1	1	0	0	0
	みずほフィナンシャルグループ Mizuho Financial Group	5	5	0	0	0
	みずほインベスターズ証券 Mizuho Investors Securities	3	2	1	0	0
	みずほ証券 Mizuho Securities	2	2	0	0	0
	グループ合計 (Group Total)	23	20	2	1	0
MUFG	東京三菱銀行 Tokyo Mitsubishi Bank	1	1	0	0	0
	三菱 UFJ 証券 Mitsubishi UFJ Securities	3	2	0	1	0
	三菱東京 UFJ 銀行 Mitsubishi Tokyo UFJ Bank	4	3	1	0	0
	ＵＦＪホールディングス UFJ Holdings	5	5	0	0	0
	ＵＦＪ銀行 UFJ Bank	4	3	1	0	0
	グループ合計　(Group Total)	17	14	2	1	0
SMBC	SMBC 日興証券株式会社 SMBC Nikko Securities	2	1	1	0	0
	SMBC 日興証券 SMBC Nikko Securities	3	3	0	0	0
	大和証券ＳＭＢＣ Daiwa Securities SMBC	2	1	1	0	0
	SMBC フレンド証券 SMBC Friend Securities	1	1	0	0	0
	三井住友フィナンシャルグループ Sumitomo Mitsui Financial Group	2	2	0	0	0
	三井住友銀行 Sumitomo Mitsui Bank	2	1	1	0	0
	三井住友フィナンシャルグループ Sumitomo Mitsui Financial Group	1	0	0	0	1
	グループ合計 (Group Total)	13	9	3	0	1
全合計		53	43	7	2	1

Mizuho had just renewed its legacy system to upgrade to the MINORI system, completed in 2019 at JPY 450 Billion (~USD 4 Billion). Dubbed the "Sagrada Familia" of the IT industry in Japan, Mizuho had initially slated its new system to be complete in the spring of 2016. After two completion delays, it finally launched in July 2019.

The failure of the merger eventually led to Mizuho Bank's failure to act after its many system failures, resulting in FSA stepping in on September 2021 to provide oversight of their computer systems.[lxiii] In its oversight report, the FSA identified problems within Mizuho's work culture. Specifically, FSA and Mizuho identified 4 aspects central to the issue:[lxiv]

1. Deficient organizational capability to respond to crises;
2. Deficient IT systems management;
3. Deficient focus on the customer’s perspective; and
4. Issues with corporate culture.

The failures happened a total of 11 times between February 2021 and January 2022. Specifically pointing to #4, the FSA said “ Not saying what needs to be said, only doing what one is told.” The culture of not proactively acting on opportunities but only taking a defensive posture can be traced back to the birth of Mizuho Financial Group and also the structural reforms Mizuho announced in 2018, which led to the reduction in the IT workforce.

Peer Comparison

The lack of investment in IT infrastructure and proper corporate governance mechanisms through the merger in the 2000s has led Mizuho to become a laggard in the industry compared to key players MUFG and SMBC. The deployment of capital to deal with many different crises and scandals led Mizuho to reduce IT investments and IT resources.

Mizuho has worked on several initiatives to include digital strategies in its business such as the collaboration with LINE Corporation, a social media company, to develop LINE Bank. Mizuho has also worked with SoftBank to develop J Coin Pay, a digital currency service, as well as J-Score, an AI-based credit-scoring business.[lxv] However, most have failed to take off, with LINE Bank being shut down in March 2023 after they had a strategy re-think due to Mizuho's IT system failures. The bank itself was supposed to launch in 2020 but was delayed with difficulties in developing the system. With other companies such as Rakuten and Sony already competing for customers in the space, the competitive landscape had also tipped in their favor. [lxvi] Once again, Mizuho's digital strategy and investment for the future had been disrupted by its IT system failures, leading back to the impact of the Takenaka Plan and its merger of equals. Mizuho's joint venture to develop J-Score with SoftBank also failed as its operations were dissolved in 2022.[lxvii]

Compared to Mizuho, MUFG and SMBC have been able to aggressively pursue overseas M&A strategies. MUFG has notably purchased or invested in banks and financial institutions in Southeast Asia and the Americas.[lxviii] SMBC has invested in companies in Asia, as well as recently taking a strategic minority investment in Jeffries.[lxix] While Mizuho is distracted in dealing with IT system issues, other megabanks have invested in future growth areas. Mizuho slowed and stood behind.

In Figure 2, the stock price for January 5th, 2009 is indexed as 1 and it shows the percentage change in stock prices for the three Japanese megabanks until 2023. As of May 1st, 2023, we can see that Mizuho lags its competitors, at 0.7. MUFG is at 1.5 and SMBC is at 1.3. In market capitalization (by year), we can see the same trend in Figure 3. For Figures 4-6, in terms of efficiency ratio, return on equity, and return on assets, we can see that there is convergence in the industry and there is no clear leader in the efficiency metrics. However, when we compare the Japanese megabanks to the American average ROA, we can see that the Japanese megabank average is around 0.29% while American banks have 0.81%. For the analysis, I selected banks with a retail segment as well as investment banking services, similar to the Japanese megabank structure, such as JP Morgan, Bank of America, Citi, and Wells Fargo.

Conclusion

Mizuho now moves to secure stability for its business by assessing digital risks. However, Mizuho cannot catch up to a game it is already behind in unless it invests in the future. The current strategic plan is only until the end of the Financial Year 2023. In the next strategic plan, Mizuho will need to outline its strategy to invest in growth sectors, particularly how it plans to invest in digital banking with its alliance with LINE now severely weakened. Mizuho's main client SoftBank has also taken hits in the markets with its SoftBank Vision Fund, and Mizuho will need to diversify its revenue streams beyond traditional banking streams. Mizuho needs to emulate models that American banks are pivoting to, with products such as wealth management and investment banking fee-based businesses growing their share in the revenue. Mizuho must implement corporate governance reforms, and increase its talent management capabilities. With Japan's shrinking population, Mizuho must upskill its workers as talent acquisition of newer, younger hires faces headwinds. By laying out its digitization strategy and shifting towards fee-based business models, Mizuho can take back years lost to IT system troubles and regain the position it aimed for in its initial merger with one of the world's top 5 banks.

Figure 2: Stock Prices of Megabanks Indexed with January 5th, 2009 as 1.0

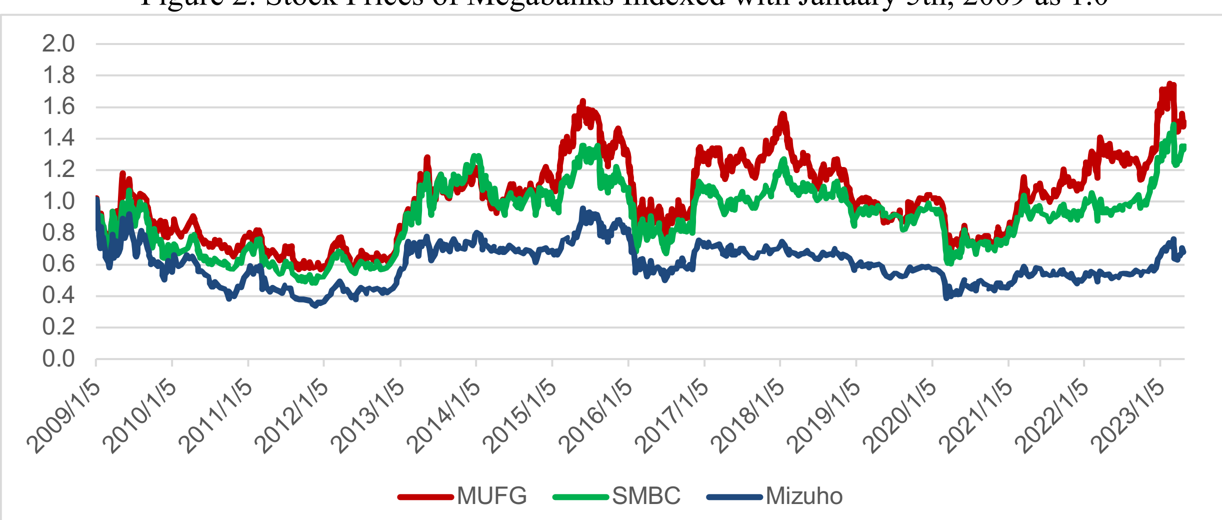


Figure 3: Market Capitalization of Megabanks 2008-2022

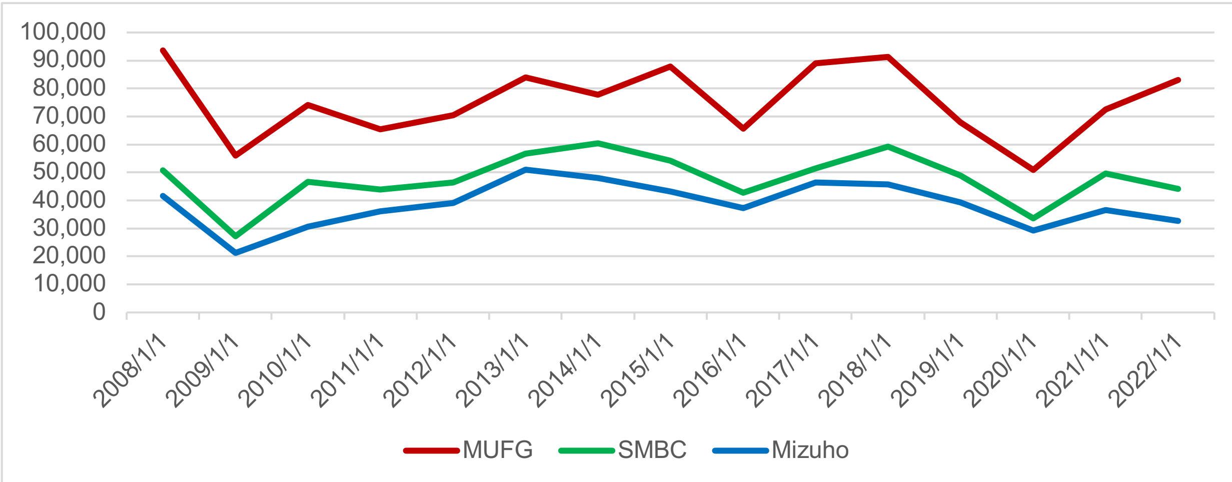


Figure 4: Efficiency Ratio of Megabanks 2011-2022
(American Average includes JP Morgan, BofA, Citi, and Wells Fargo)

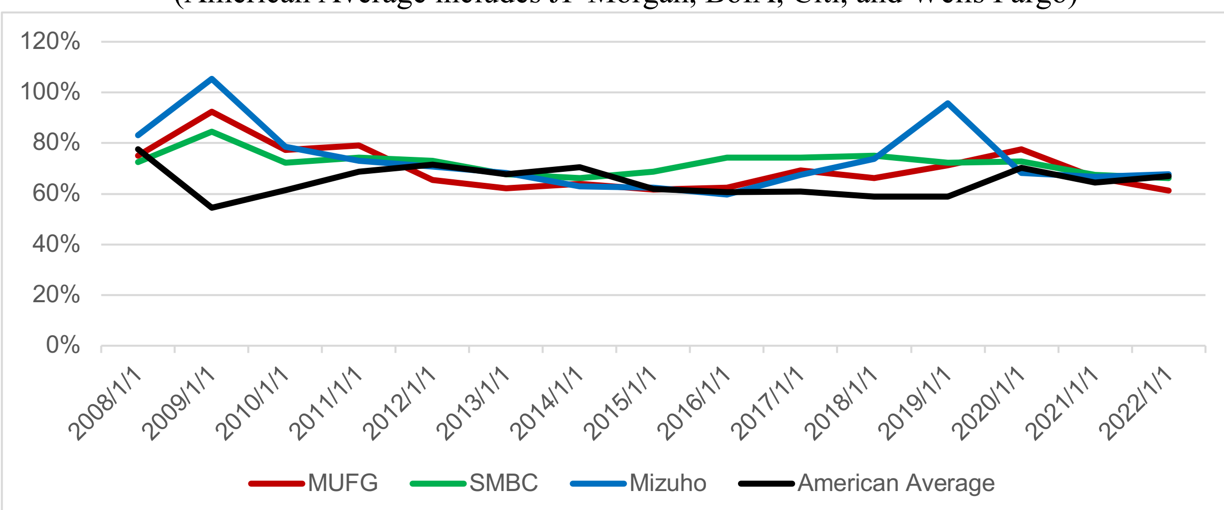


Figure 5: PBR of Megabanks 2008-2022
(American Average includes JP Morgan, BofA, Citi, and Wells Fargo)

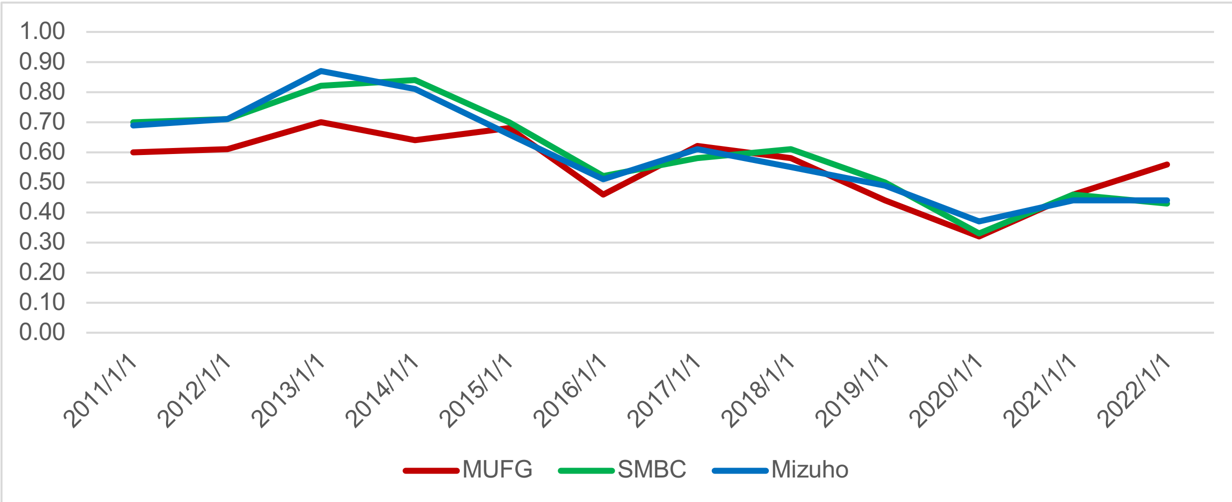


Figure 5: ROE of Megabanks + American Banks 2011-2022
(American Average includes JP Morgan, BofA, Citi, and Wells Fargo)

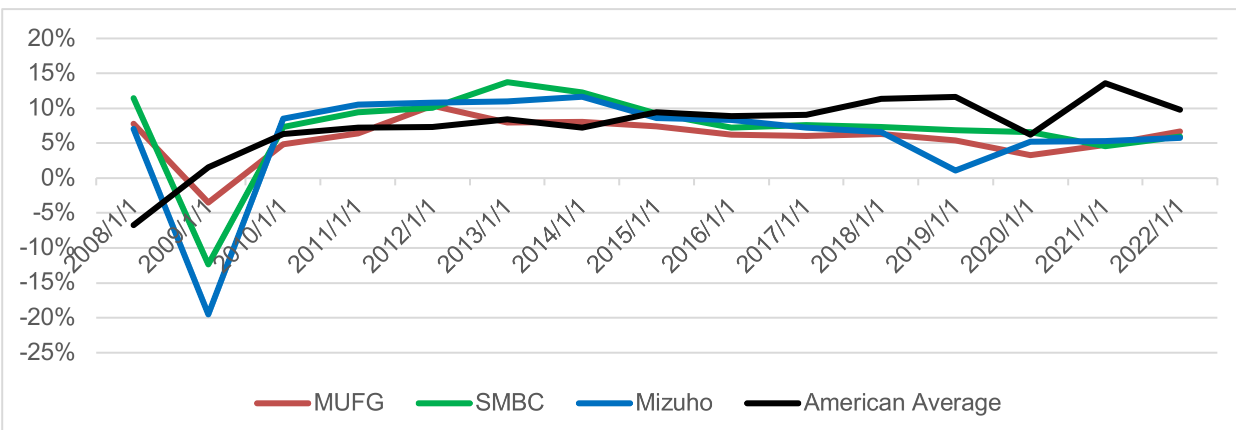
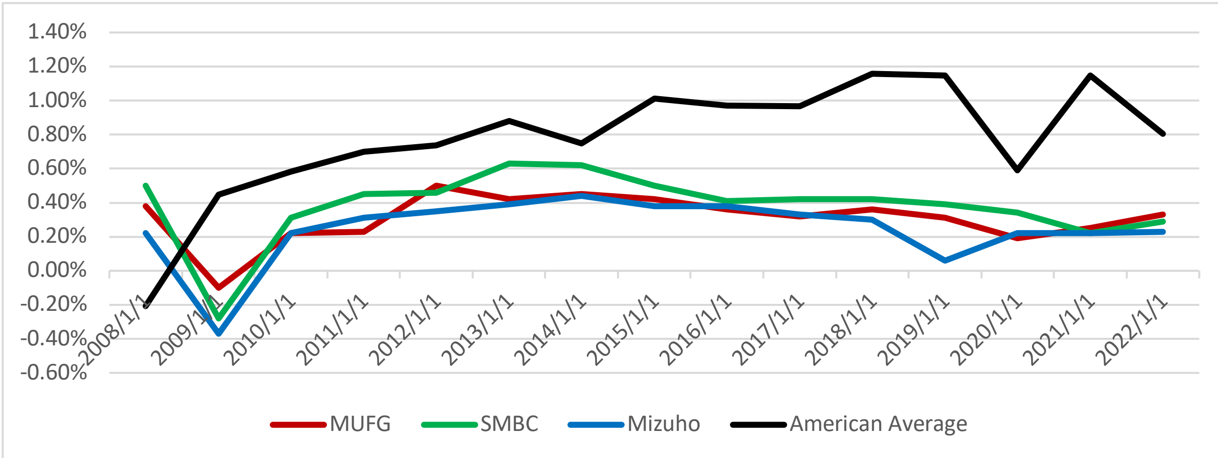


Figure 6: ROA of Megabanks + American Banks 2011-2022
(American Average includes JP Morgan, BofA, Citi, and Wells Fargo)



Endnote

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Bazooka or Peashooter?
Bank of Japan Monetary Policy Under Kuroda Haruhiko, 2013-2023

by Justin Feng

Introduction

The Japanese economy once generated enough fear in the United States to sustain a cottage industry of books and articles such as *The Japanese Challenge* (1970), *The Emerging Japanese Superstate* (1970), *Japan's Revenge* (1972), *Japan as Number One* (1979), *The Danger from Japan* (1985), *Containing Japan* (1989), and *The Coming War with Japan* (1991).[i] These titles seem quaint today because Japan's economy has been mired in economic malaise since its early 1990s asset price bubble burst.[ii] Over the past three decades, the same institutions that oversaw Japan's postwar "economic miracle" have failed to reverse its sluggish economic performance.

Japan's struggles to deliver economic reforms during the post-bubble "Lost Decades" coincided with a series of "revolving door" prime ministers. From August 1993 to December 2012, thirteen different prime ministers took turns governing. Between 2006 and 2012, Japan switched its prime minister annually. This political dysfunction finally gave way to a long period of political continuity under the second premiership of Abe Shinzō (2012-20), who became Japan's longest-serving head of government since Japan adopted a parliamentary cabinet system in 1885.

Abenomics—Abe's eponymous economic policy agenda—promised to reverse Japan's economic trajectory through its three arrows of quantitative easing, fiscal expansion, and structural reform. To carry out the first arrow of Abenomics, Abe's government appointed Kuroda Haruhiko to serve as governor of the Bank of Japan (BOJ) in March 2013. As a leading proponent of "unconventional monetary policy" in Japan, Kuroda experimented with a variety of policy tools—such as quantitative and qualitative easing (QQE), negative interest rates, and yield curve control (YCC)—to tame deflation and achieve the government's two percent inflation target. On April 9, 2023, Kuroda retired after leading the BOJ for a decade. Kuroda's retirement provides analysts the opportunity to conduct an assessment of his entire tenure and legacy for Japanese monetary policy.

This paper finds that under Kuroda, the BOJ successfully halted deflation and helped boost Japanese stock prices. However, Kuroda struggled to sustain a two-percent virtuous inflation, respond to severe global challenges in 2022 (e.g., commodity market volatility that created harmful supply-side inflation and the U.S.-Japan interest rate gap), foster economic growth, and preserve the country's long-term fiscal health.

The remainder of this paper proceeds as follows. Section Two details key developments in Japan's economic and political landscape that led to Kuroda's appointment as BOJ governor, as well as his policy objectives and mandate from Abenomics. Section Three explains the major Kuroda-era BOJ monetary policies enacted from 2013-23. Section Four then evaluates the Kuroda BOJ's policy successes and shortcomings. Finally, Section Five discusses the implications of Kuroda's policies for his successor Ueda Kazuo.

Background

The Plaza Accord, Bubble Economy, and Bank of Japan Reforms

The Japanese government launched the BOJ in 1882 as part of its Meiji-era modernization drive and in 1949 created the Policy Board to formulate and supervise the central bank's monetary and credit policies. During the early postwar period, the BOJ primarily conducted monetary policy via "window guidance"—credit controls to steer bank lending toward strategic industries. Combined with industrial policy guidance from the Ministry of International Trade and Industry (MITI), BOJ credit controls helped turn Japan into an exporting powerhouse.

These state-led economic development approaches caused the United States, Japan's security guarantor and top trading partner until 2004, to begin suffering large bilateral trading deficits. To alleviate its current account deficit and depreciate the U.S. dollar, which Washington policymakers believed had appreciated excessively against other major currencies, the United States signed the Plaza Accord with Japan, the United Kingdom, France, and West Germany in September 1985. This joint agreement significantly depreciated the U.S. dollar in relation to the Japanese yen, British pound, French franc, and German mark.[iii]

To counter yen appreciation—which would hurt Japanese exporters—following the Plaza Accord's forced exchange rate readjustment, the BOJ pursued an expansionary monetary policy by implementing lower interest rates and increasing liquidity in the financial system. Easy credit access and low borrowing costs quickly led to a surge of speculative real estate and stock investments that fueled massive asset price inflation. Compared to their values at the time of the Plaza Accord's signing, the Nikkei 225 Index tripled by the end of 1989 while the Japanese Urban Land Price Index rose nearly four-fold.[iv] In the early 1990s, however, the asset bubble collapsed, and Japan entered a prolonged period of stagnation and deflation known as the "Lost Decades."

In response to these economic difficulties, the Japanese government attempted to improve its monetary policy framework through the 1997 BOJ Law, which granted its central bank greater independence and expanded the Policy Board to include more external members. Despite its legal independence, the BOJ continued to be influenced by the powerful Ministry of Finance (MOF), which controlled senior personnel secondments and budget allocations.[v] The reformed BOJ made several attempts to reverse Japan's stagnant and deflationary slump—such as the adoption of a zero interest rate policy (ZIRP) in February 1999 and moderate QE in 2001—but stopped after 2006 when it deemed the economy to have "recovered."

Monetary Orthodoxy within the Bank of Japan

Why did the BOJ not do more to counter stagnant growth and deflation in the two decades after the asset bubble burst? Gene Park and his coauthors (2018) note the BOJ's persistent adherence to entrenched policy ideas that emphasize "placing a premium on price stability (even in the context of very low inflation), skepticism about the efficacy of monetary policy to spur economic growth, a belief that monetary easing could have adverse side effects, and an interpretation of independence that made it suspicious of acting in concert with the executive and the MOF."[vi]

These entrenched policy ideas, or monetary orthodoxy, were born out of the BOJ's experiences with high inflation from 1973-74, the early 1990s asset bubble burst, and the bank's complicated relationship with the MOF. Once entrenched within an institution whose culture encourages insider groupthink and a preference for institutional knowledge over economic theory,[vii] monetary orthodoxy can be extremely difficult to displace even when other central banks are moving in the opposite direction. For instance, the BOJ remained cautious and largely stayed the course during the Global Financial Crisis even as the U.S. Federal Reserve and other central banks in advanced economies immediately adopted radical expansionary measures.

Since the 1990s, leading Western economists such as Paul Krugman, Milton Friedman, Ben Bernanke, and Adam Posen have called for Japan to lower interest rates through government bond purchases and commit to Keynesian-style fiscal stimulus.[viii] Inside Japan, however, mainstream BOJ and MOF orthodoxy continued to prioritize price stability and insist that monetary policy did not have a leading role to play in fighting deflation. The dominance of monetary orthodoxy in Japan lasted until Abe Shinzō made an unexpected political comeback in 2012 and forced a paradigm shift within the BOJ.

Abenomics and Unconventional Monetary Policy

After several cabinet scandals and a personal health scare abruptly ended Abe's first premiership in 2007, he appeared relegated to joining postwar Japan's long list of revolving-door prime ministers. As a political princeling, prominent North Korean security hawk, and vocal denier of historical Imperial Japanese wartime atrocities, Abe could confidently count on continued support from the dominant Liberal Democratic Party's (LDP) conservative nationalist wing.[ix] In order to return to the prime minister's post, however, Abe needed an attractive economic platform that appealed to median voters.

The genesis of Abenomics can be traced to May 2011, when Yamamoto Kozo —a former MOF official turned LDP politician—convinced Abe to chair the awkwardly-named Association Seeking Reconstruction Funds Not Coming From Tax Increases.[x] The reconstruction association represented over two hundred lawmakers calling for the government to fund the 2011 Tōhoku earthquake and tsunami reconstruction through disaster bonds that the BOJ would purchase instead of relying on tax increases. This bond purchase proposal originated from economic views championed by Yamamoto and other "reflationists" advocating bolder BOJ actions, such as introducing an inflation target and coordinating with the MOF on fiscal and monetary stimulus, to reverse the deflation depressing Japanese growth.

Abe's decision to lead the reconstruction association and adopt Yamamoto's economics finally gave Japan's marginalized "reflationists" a national-level leader with the political capital to overturn orthodox policies. On the political front, Abe's sudden embrace of "reflationism" enabled him to tout a new, energizing policy agenda to voters beset by two decades of economic malaise. In September 2012, Abe won the LDP's leadership election to regain his former position as party president.[xi] Campaigning on Abe's promise to revive Japan's economy, the LDP and its coalition partner Kōmeitō won a landslide victory over the beleaguered Democratic Party in the December 2012 general election to retake the House of Representatives after three rare years out of power.[xii]

On the night of his victory, Abe vowed to target deflation as his top priority, revive the economy through massive stimulus, and reduce Japan's growing trade deficit by driving down the yen.[xiii] In his inaugural policy speech to the Diet on January 28, 2013, Prime Minister Abe reiterated these priorities and strongly rebuked BOJ orthodoxy, arguing that "it will be impossible for us to break free of deflation and the appreciating yen by dealing with them in ways that are an extension of what we have done thus far."[xiv] During the speech, Abe laid out the three arrows of Abenomics: quantitative easing (QE), fiscal expansion, and structural reform.

To achieve QE, Abe directed the government and BOJ to coordinate in their respective areas of responsibility and bring "a two percent price stability (inflation) target into reality in the earliest possible time."[xv] On fiscal expansion, Abe emphasized responsible spending and aimed "to achieve a surplus in the primary balance in order to put public finance on a sound footing over the medium to long term."[xvi] Finally, structural reform would require the government to "formulate and then implement a growth strategy in which private-sector investment and consumption expand continuously."[xvii] In the following months and years, Abe would add other priorities such as increasing female workforce participation to the third arrow of structural reform.

Kuroda is Appointed Bank of Japan Governor

To reverse the country's prolonged deflation, the first arrow of Abenomics utilized an aggressive, or "unconventional" in Japan's case, monetary policy known as quantitative easing (QE), where the central bank purchases securities from the open market to reduce interest rates and increase the money supply. This provides local banks with more liquidity and in turn encourages higher levels of lending and investment that lead to economic growth. Abe's QE strategy aimed to push interest rates to extremely low—even negative—levels to combat persistent deflation and depreciate the overly strong yen.

For QE to be successful, Abe first needed to reshape the BOJ. With his strong electoral mandate, Abe managed to get a joint statement from the Cabinet Office, MOF, and BOJ in January 2013 affirming his 2 percent inflation target.[xviii] However, to ensure that the BOJ would faithfully implement his vision, Abe required a reliable supporter at its head. Incumbent BOJ Governor Shirakawa Masaaki (2008-13), an orthodox economist, believed that structural reform would be enough to end deflation and argued monetary policy should not play a leading role. With Shirakawa's term set to expire, the Abe government searched for a successor that would wholeheartedly adopt unconventional monetary policies to end deflation at all costs.

On March 20, 2013, Abe appointed Kuroda Haruhiko—President of the Asian Development Bank (2005-13) and a fervent QE advocate—to succeed Shirakawa. Additionally, two outspoken BOJ critics, Iwata Kikuo and Nakaso Hiroshi, were chosen as deputy governors. Kuroda's appointment had an immediate effect on markets due to his long history of advocating for more aggressive monetary policy, such as sustained QE and setting an inflation target. As a firebrand MOF Vice Minister during the early 2000s, Kuroda repeatedly criticized BOJ policies in his opinion columns and even called out Shirakawa in a 2005 book for "championing the BOJ's mistaken policies."[xix]

In a research note published soon after Kuroda's appointment, Paul Sheard—then-Chief Global Economist of S&P—observed that if a central bank confidently signaled to the public its inflation target, then half the battle had already been won.[xx] On the other hand, timid central bank authorities—such as Kuroda's predecessors during the 2000s—claimed an inability to end deflation would validate the public's deflation expectations and create a self-fulfilling phenomenon.[xxi]

Under Kuroda, the BOJ frequently signaled its ironclad commitments to the public. In his first speech as BOJ Governor, Kuroda pledged that the central bank would "do whatever is necessary to overcome deflation," take responsibility for achieving the 2 percent price stability target within around two years, convey its strong policy stance to market participants, and "enter a new phase of monetary easing both in terms of quantity and quality."[xxii] Kuroda's quantitative and qualitative monetary easing (QQE) went beyond traditional expansionary monetary policy by aiming to raise inflation expectations through explicit inflation targets and purchasing a wider range of financial assets.

Kuroda-era Bank of Japan Policies

Quantitative and Qualitative Easing

Following up on Kuroda's bold rhetoric, the BOJ unleased a massive QQE program on April 4, 2013, worth 134 trillion yen ($1.4 trillion) by ramping up its purchases of Japanese government bonds (JGBs), exchange-traded funds (ETFs), and Japan real estate investment trusts (J-REITs).[xxiii] Under its new QQE program, the BOJ pledged to purchase JGBs at an annual rate of 50 trillion yen ($519 billion), ETFs at 1 trillion yen ($10.4 billion), and J-REITs at 30 billion yen ($311.4 million).[xxiv]

The scale and Intensity of Kuroda's QQE had never been attempted by the BOJ before. For reference, during its 2001-6 QE program, the BOJ set modest targets of 35 trillion yen for its current account balance and 1.2 trillion yen for monthly JGB purchases.[xxv] The first wave of QQE announced in April 2013 was magnitudes larger than previous programs and earned the moniker of "Kuroda's bazooka." Despite breaking with longstanding BOJ monetary orthodoxy, Kuroda's April 2013 QQE policy managed to receive unanimous support from the Policy Board, which still had holdovers from the previous regime.

In April 2014, the Abe government raised the consumption tax from 5 to 8 percent to help pay off Japan's colossal public debt.[xxvi] To offset the consumption tax's negative effects on growth and ease the way for a further tax hike to 10 percent, the BOJ announced an expansion of QQE in October 2014. This second QQE round increased the BOJ's asset purchasing commitments to 80 trillion yen ($755 billion) for JGBs, 3 trillion yen ($28.3 billion) for ETFs, and 90 billion yen ($850 million) for J-REITs.[xxvii] In contrast to the first round of QQE, the April 2014 expansion faced greater skepticism and barely passed through the Policy Board by a vote of 5 to 4.[xxviii]

Negative Interest Rates

On January 29, 2016, the BOJ suddenly announced a negative interest rate policy to complement its enormous asset-purchase program.[xxix] This came as a surprise to markets since Kuroda previously indicated that he had not been considering a negative interest rate.[xxx] By adopting a negative 0.1 percent interest rate to spur greater bank lending, the BOJ joined the

European Central Bank (ECB), Denmark, Sweden, and Switzerland as the world's only central banks to push select rates below the zero bound.

According to the BOJ, the decision to adopt negative interest rates was based on volatility in global markets and declining crude oil prices, rather than any problems with the Japanese economy.[xxxi] Similar to the second QQE program, the negative interest rate policy generated controversy among monetary policymakers and only managed to pass the Policy Board on a close 5 to 4 vote.[xxxii] The negative interest rate policy complemented prior rounds of QQE since the BOJ could run out of JCBs to purchase in the future so it required another strategy that had no quantitative limit.

Yield Curve Control

In September 2016, the BOJ shifted its monetary policy focus from expanding liquidity to controlling interest rates with the announcement of yield curve control (YCC).[xxxiii] Under its new YCC framework, the BOJ targeted long-term interest rates by setting a yield target of around zero percent for 10-year JGBs. To maintain the rate, the BOJ would intervene in the bond market through purchases or sell-offs when necessary. In theory, ensuring stable ultra-low long-term interest rates should support greater lending activity, economic growth, and price inflation.

To smoothly control the yield curve, Kuroda also introduced new tools such as fixed-rate Japan Government Bond (JGB) purchase operations.[xxxiv] The intent behind purchasing JGBs at predetermined prices is that it would serve as a cap on long-term interest rates when deemed necessary by the BOJ. Kuroda's shift to YCC, which some economists interpreted as further evidence that BOJ monetary policy had been stretched to the limits of its effectiveness, underscored the difficulty of reaching the two percent inflation target.[xxxv] For reference, other central banks generally only set rates for overnight instruments instead of dramatically targeting notes and bonds of all maturities.

Since the announcement of YCC in September 2016, the BOJ has made several minor adjustments. On July 2018, the BOJ slightly widened the band for 10-year JGB yields to allow movements up and down 0.2 percent around zero.[xxxvi] In December 2022, the 10-year JGB yield was allowed to move 50 basis points (0.5 percent) on either side of the BOJ's 0 percent target.[xxxvii] These tweaks were conducted as a fine-tuning of existing policy rather than a policy change. From September 2016 until the end of his governorship in April 2023, Kuroda remained steadfast in his commitment to YCC.

Covid-19 Pandemic Policies

During the spring of 2020, international economic activity suffered a devasting blow as the Covid-19 pandemic spread around the globe. Under Kuroda, the BOJ responded by continuing its monetary easing and adopting measures to maintain financial market stability and incentivize credit provision. Measures included a 20 trillion corporate paper and corporate bonds purchasing program, a 90 trillion-yen corporate financing scheme, and a general ramp-up of JGB, ETF, and J-REIT asset purchases.[xxxviii]

In addition to domestic measures, the BOJ under Kuroda also engaged more eagerly with international actors than it did during the Global Financial Crisis when then-Governor Shirakawa refused to join coordinated interest rate cut efforts in October 2008.[xxxix] For instance, during the initial global outbreak in March 2020, the BOJ, U.S. Federal Reserve, European Central Bank, Bank of England, Swiss National Bank, and Bank of Canada enhanced global U.S. dollar liquidity through existing dollar swap arrangements.[xl] Additionally, the BOJ also remained internationally engaged by signing a bilateral local currency swap agreement with Thailand in late March 2020 and extending their currency swap deals with China in October 2021, Australia in March 2022, Singapore in November 2022, and Thailand in March 2023.

Assessing Kuroda

Policy Successes

In March 2013, Prime Minister Abe appointed Kuroda to the position of BOJ governor with a two-part mandate: end deflation and achieve two percent inflation.[xli] Kuroda clearly succeeded in the first objective. Prior to the second Abe administration, the Japanese inflation rate averaged negative 0.28 percent from 1999 to 2012.[xlii] In other words, the economy was largely in a deflationary state. Under Kuroda from 2013 to 2019, that figure rose to a positive 0.81 percent average.[xliii]

In a speech to the International Monetary Fund in July 2019, Kuroda confidently stated that “Japan’s economy is finally no longer in deflation owing to the powerful monetary easing.”[xliv] Although deflationary fears are still ingrained within Japan to a certain degree, as evidenced by Prime Minister Kishida Fumio’s warning in January 2023 that a return to deflation could not be ruled out,[xlv] it is fair to say that its economy has successfully emerged out of the consistent deflationary state Kuroda inherited in 2013.

In addition to halting deflation, the Kuroda BOJ also pushed up corporate profits, especially for companies with large stock holdings. The significant improvement in investor sentiment during the Kuroda years is evident in the Nikkei 225 Index shown in Figure 1, which tracks the performance of 225 publicly traded companies across various sectors listed on the Tokyo Stock Exchange. Even among nonfinancial Japanese companies, pretax profits reached a record 28.3 trillion yen ($203 billion) in the second quarter of 2022.[xlvi]

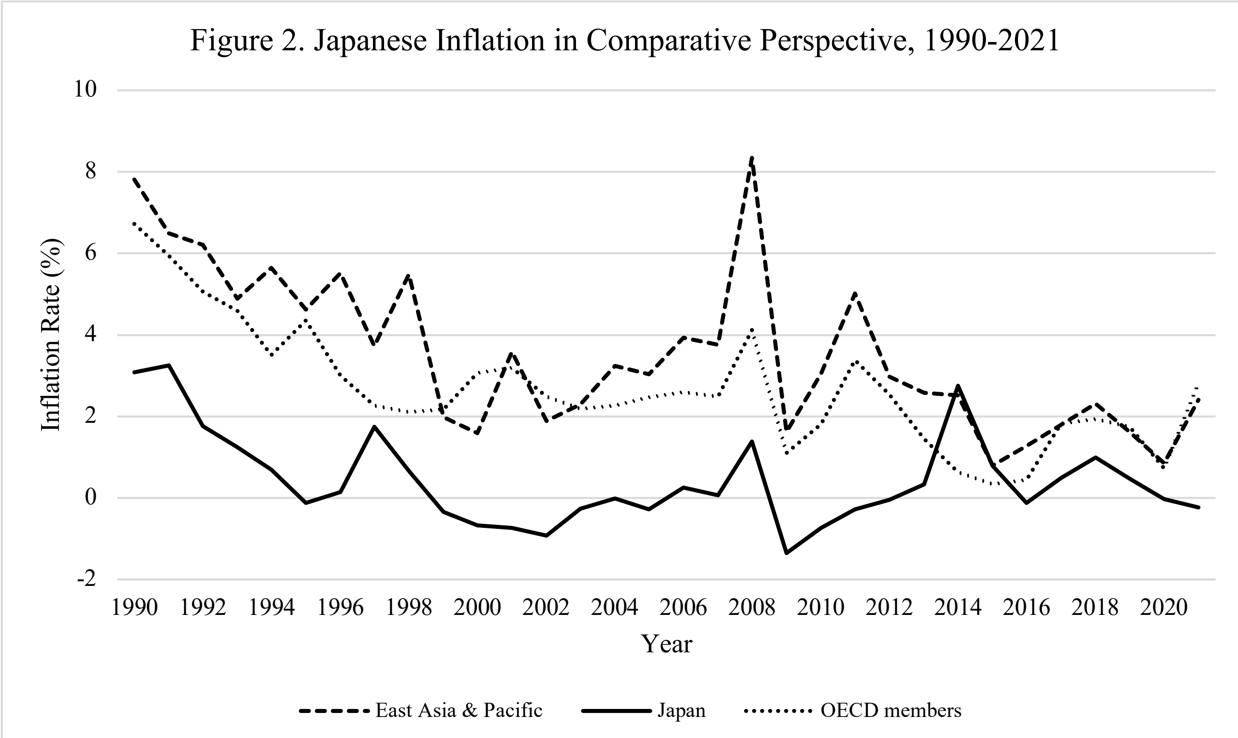
Figure 1. Nikkei 225 Index During Kuroda's BOJ Governorship

Source: (Bloomberg Terminal)

Under the Kuroda BOJ, Japan also enjoyed very low unemployment. From 2013 to 2022, unemployment fell from 3.59 percent to 2.64 percent.[xlvii] These figures are not surprising since expansionary monetary policy tends to stimulate economic activity and consumer spending, both of which foster job creation. It should also be noted that expansionary monetary policy worked alongside fiscal expansion during Kuroda's BOJ tenure as the first and second respective arrows of Abenomics.[xlviii]

Policy Shortcomings

Although the Kuroda BOJ successfully tamed deflation, it never sustained the desired two percent inflation. Except for 2014, no annual average managed to reach the two percent inflation goal.[xlix] Furthermore, as Figure 2 displays, Japan's inflation figures continued to fall well below the averages for its region and the Organization for Economic Co-operation and Development (OECD) after 2012. These observations are supported by economists who credit QE for halting deflation, lifting stock prices, and weakening the yen, while cautioning that Japan's consumer price index (CPI) measures indicate inflation is nowhere near the BOJ's two percent target.[l]



Source: (World Bank)

Although the Kuroda BOJ publicly demonstrated a clear and consistent resolve to stick by its policy commitments, the constant delays in its inflation target deadline may have hurt its public credibility to a limited degree. After Kuroda came into office, the BOJ initially projected that it would reach the two percent inflation target in two years (April 2015). When it failed to reach the target by April 2015, the BOJ successively extended the projected target to the first half of 2016, the second half of 2016, the first half of 2017, sometime within 2017, sometime around 2018, and finally sometime around 2019. Finally, in September 2016, the BOJ abandoned its stringent inflation target timeline altogether.[li]

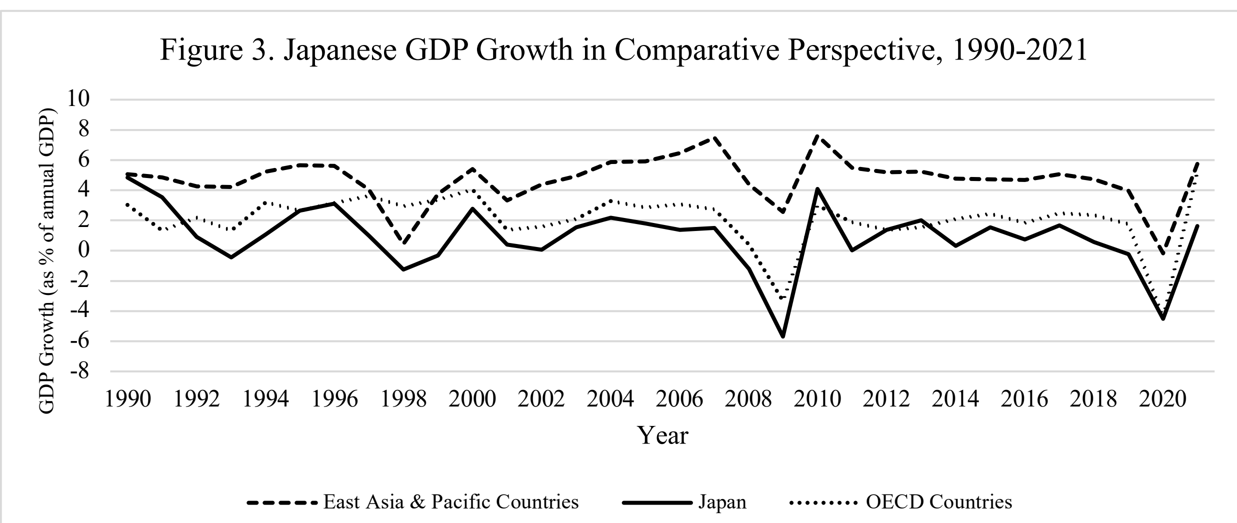
Since April 2022, Japan's inflation rate has been consistently above two percent, with a peak of 4.3 percent in January 2023.[lii] However, this recent surge of inflation has less to do with BOJ policy than global commodity market volatility. As one analyst accurately pointed out, "the idea behind Kuroda's target was to create a so-called demand-driven virtuous cycle in which higher-paid workers go out and spend more, pushing up demand, leading to new investment and then higher wages. Instead, the higher costs from overseas will push up prices and prompt consumers to buy fewer goods, not more."[liii]

Volatility in global commodity markets—accelerated after the Russian invasion of Ukraine in February 2022—is especially harmful to Japan, which imports around 60 percent of its food and 95 percent of its energy from overseas.[liv] Rather than achieving the type of virtuous inflation that drives up wages along with prices, Japan's current supply-side inflation is simply reducing its purchasing power.

In March 2022, the U.S. Federal Reserve began a series of interest rate hikes to curb skyrocketing inflation. Meanwhile, the BOJ continued its loose monetary position, which created an interest rate gap between the two economies. By October 2022, the yen-to-dollar exchange rate eclipsed 150 to 1 for the first time since June 1990.[lv] The yen's shocking depreciation against the dollar sunk Japanese wages relative to the United States and raised costs for its importers. Although an ultra-weak yen would have been a boon for Japanese exporters in the past, the results are decidedly more mixed now due to Japanese industry's diminished global competitiveness. Given Japan's higher costs of imported goods, less globally competitive exporters, and relatively stagnant wage growth, many analysts have concluded that the cons of a weak yen today vastly outweigh any pros.[lvi]

In response to the U.S.-Japan interest rate gap's negative consequences, Tokyo had to quickly prop up its currency. However, Kuroda refused to raise the country's ultra-low interest rates. His decision was understandable to some extent, since raising rates would increase the costs to service Japan's enormous debt and hurt economic activity around a House of Councilors election in July 2022. In the end, the MOF conducted a stealth currency invention in October 2022 that reportedly cost $43 billion, which successfully strengthened the yen against the dollar.[lvii]

Under Abenomics and the Kuroda BOJ, the Japanese economy experienced minimal growth and continued to be eclipsed by its peers as shown in Figure 3. In March 2015, Kuroda claimed that "overcoming deflation itself will contribute to raising Japan's growth potential…achieving an economy and society in which economic entities take action on the assumption of 2 percent inflation will revive firms' and households' animal spirits. If that happens, people will start to take more risks and invest in new ventures, which in turn is likely to give rise to innovations."[lviii] However, taming deflation never led to economic growth. From 2013-19, Japanese gross domestic product (GDP) growth averaged a paltry 0.95 percent and underperformed even the "Lost Decades" (1990-2012) era's 1.09 percent average.[lix] To be fair to Kuroda, the third Abenomics arrow of structural never truly materialized, which greatly hindered Japan's growth potential.

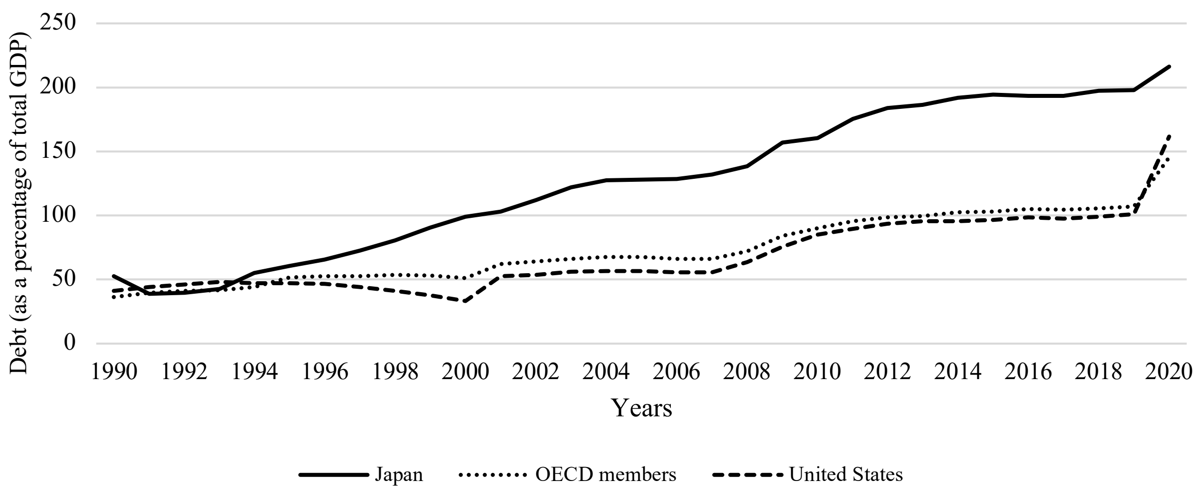


Source: (World Bank)

Any evaluation of a central bank governor's policies should also consider potential long-term consequences. One naturally wonders about the loss of fiscal discipline that occurs when a central bank is monetizing so much government debt, especially in this case with the BOJ's unprecedented JGB purchases. Additionally, QQE's boosting of stock prices could also lead to another asset bubble, encourage excessive risk-taking, and reduce bond market liquidity.

Finally, if recent supply-side inflation caused by global commodity market volatility continues, then servicing costs for Japan's massive debt (Figure 4) will rise. If Japan had virtuous inflation that generated economic growth, this might not be a problem since greater revenue would outweigh the higher debt servicing costs. However, Japan has failed to create real economic growth since the early 1990s as previously discussed. Without virtuous inflation or politically infeasible spending cuts, it will be extremely difficult for Japan to reverse its unsustainable debt levels moving forward.

Figure 4. Japanese Debt in Comparative Perspective, 1990-2020



Source: (World Bank)

Conclusion

Kuroda's BOJ governorship is an interesting case to examine given his long tenure (10 years), overturning of longstanding Japanese monetary orthodoxy, and utilization of unconventional monetary policies such as QQE, negative interest rates, and YYC. This paper's analysis finds that Kuroda's policies had a positive impact on deflation, Japanese stock prices, and employment. However, Kuroda struggled to sustain two percent inflation, address global challenges like commodity market volatility and the U.S.-Japan interest rate gap, foster economic growth, and improve the country's fiscal outlook. In the long run, Kuroda's unprecedented monetary easing, which earned "bazooka" analogies from the media, may only produce "peashooter" net effects for Japan's economic trajectory.

With Kuroda in retirement, the attention now shifts to his successor Ueda Kazuo, a career academic and former Policy Board member (1998-05) who is generally viewed as an ideologically flexible and pragmatic decision-maker.[lx] In contrast to his predecessors, Ueda did not rise through the BOJ or MOF (Figure 5), which may grant him greater decision-making autonomy but also hinder his leadership as an outsider. Although the BOJ left its interest rates unchanged in Ueda's first policy meeting as governor in April 2023, many analysts expect that the central bank will eventually widen its YCC band further or scrap the Kuroda-era policy entirely.[lxi]

Figure 5. The Previous Affiliations of Bank of Japan Governors (1969-2023)

Name	**Term**	**Previous Affiliation**
Tadashi Sasaki	Dec 1969 – Dec 1974	BOJ
Teiichiro Morinaga	Dec 1974 – Dec 1979	MOF
Haruo Maekawa	Dec 1979 – Dec 1984	BOJ
Satoshi Sumita	Dec 1984 – Dec 1989	MOF
Yasushi Mieno	Dec 1989 – Dec 1994	BOJ
Yasuo Matsushita	Dec 1994 – Mar 1998	MOF
Masaru Hayami	Mar 1998 – Mar 2003	BOJ
Toshihiko Fukui	Mar 2003 – Mar 2008	BOJ
Masaaki Shirakawa	Apr 2008 – Mar 2013	BOJ
Haruhiko Kuroda	Mar 2013 – Mar 2023	Asian Development Bank[lxii]
Kazuo Ueda	Mar 2023 – present	Academic

Source: (Bank of Japan)

When projecting Ueda's monetary policy outlook, it is also important to bear in mind three critical external factors constraining the BOJ. First, Kuroda's unconventional monetary policies enjoyed the backing of Japan's longest-serving prime minister. Will Ueda or future BOJ governors have the same favorable surrounding political conditions? Second, Japan's downward demographic trajectory—an aging and shrinking population—will obviously limit its economic growth potential. Unless Japan fundamentally reforms its immigration system or raises the reproduction rate, its demographic death spiral will continue. Finally, global developments out of the BOJ's control, such as the conflict in Ukraine and growing de-dollarization, will also have massive effects on the central bank's monetary strategy.[lxiii]

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Japan's Contribution to Southeast Asia's Digital Transformation

By Jianjie Li

The current wave of digitalization in Asian countries is unprecedented both in its scale and in terms of diversity in levels of progress. ASEAN countries, particularly, with growing regional economic integration and regional political dialogues, are taking the lead in the new digitalization wave. At the same time, Southeast Asia has to decide how to adapt to nearby U.S.-China great power competition. U.S.-China geopolitical confrontation is certainly spilling over into the economic and technological development agenda of the region.

As a long-term player in economic co-development in Southeast Asia, Japan is lagging behind in digital transformation due to its comparatively weak domestic digital industry. The existing barriers in its domestic economic structure are difficult to dismantle and too rigid for start-ups to survive and flourish. Japan, however, would like to have a role in promoting the acceleration of digital transition in the region. Japan has three main goals for participation in Southeast Asian digital transformation: to remain a crucial player in emerging sectors in Southeast Asia, to revitalize its domestic economy by the business successes it has in those countries and to be involved in the formation of global and regional digital economic standards. Japan’s interactions with regional governments and companies, and its policy orientation all have an influence on how Japan can profit from the transition.

What is Digital Transformation? Background and Theory

Digital transformation is identified as a major engine of economic growth in the post-COVID-19 world.[i] The pandemic has intensified the transition process worldwide. The emerging technology sectors support enormous economic growth and create employment opportunities. The accelerating digital connectivity ensures the smooth functioning of trade and services provided worldwide as well as in Southeast Asia and thus create enormous market potentials and sustain relatively stable economic growth expectation despite the supply chain disruptions caused by multi-dimensioned global crises and unfavorable macroeconomic conditions.[ii] More specifically, rapid digital transformation-driven economic growth has outnumbered previous expectations. The 2016 Google, Temasek, and Bain joint studies predicted a $200 billion market valuation for the Southeast Asian digital economy in 2025, but the market reached that level by 2022.[iii]

As the ASEAN Digital Masterplan mentioned, digital transformation plans to enhance the daily life quality of residents and improve the business environment of the region. In particular, it is expected to boost cross-border trade among ASEAN member countries.[iv] ASEAN countries will also partner with countries outside of the region – due to ASEAN’s relative technological underdevelopment, regional countries will search for opportunities for cooperation with countries with advanced technologies.

In general, local enterprises practice two models to attain new technologies: the building-operation-transfer and the transfer-operation-transfer approach.[v] In theory, public sectors should take the responsibility to bridge the communication gap between policymakers and market participants to remove existing barriers to the lack of adequate digital economy agreements and competent institutions. In addition, government agencies are expected to create a favorable business environment for start-ups and small and medium-sized enterprises (SMEs) to survive and flourish. Except for the other governmental responsibilities of promoting awareness of the value of digital services among the public and elaborating on the regulatory framework, and strengthening healthy competition among market players while avoiding intensifying monopoly, regional governments' crucial role in the digital transformation rests on whether they can attract and maintain investment from the private sector and guide the foreign and regional capital flow into new technologies-driven industries, as well as to integrate ASEAN firms into the value chain of multinationals with technological advantages by offering favorable conditions and improving both the market openness in the treaty and in actual operation.

Digital transformation as a whole is a process too broad to discuss here, theoretically speaking. Practically speaking, the transformation is supported by three layers: infrastructure, service, and application.[vi] The infrastructure layer refers to the communication network and other facilities at the bottom level, including cell towers, broadband, data centers, and base stations – enterprises at the infrastructure layer have heavy assets because their businesses involve the construction and subsequent operation of these facilities, and also the manufacturing of digital equipment.[vii] The main participants of the industry are the local government-dominated enterprises and their foreign partners. For example, Viettel (operated by the Ministry of National Defence) in Vietnam dominates the design and manufacturing of terminal equipment, user access networks (AN), and other communication services. Meanwhile, Viettel searches for cooperation with foreign technology companies like Qualcomm to develop more advanced equipment such as 5G RAN platforms and individual operation equipment. [viii]

Due to national security concerns, Southeast Asian countries guide their state-owned or state-supported enterprises to partner with a variety of organizations from different foreign countries and intentionally exclude providers with prominent risks. For the service layer, the main participants are private companies, organizations, and technologically-advanced universities capable of developing software and operation systems that can then be used for other purposes. Southeast Asian countries lack the technological capacity and motivation to take a leading role in innovation. That is because these resources are often natural monopolies – since they are invented and structuralized, competitors are required to pay a substantial cost to replace existing systems. In addition, developing toolkits for the service layer are following the logic of open source with little profitability in the foreseeable future. Building on the previous two layers, in the past decade, the most active and profitable sectors undergoing digital transformation in Southeast Asian countries are in the application layer. These actors are highly visible to the general public. They include regional private companies, foreign digital platforms, and related investors that are cooperating and competing for market dominance and profitability. Due to the liberalizing trade landscape, consolidating data, and digital-related agreements in the region, participants are shaping the emerging market with young and affluent digital natives as consumers.

Japan's Contribution at a Glance

While the trend of digital transformation is meant to be a powerful economic growth engine for regional countries in different development stages, there remains a question of how Japan can efficiently assist the process and share the fruits of economic growth sustainably. Based on the three layers of digital transformation, Japan has diverse concentrations in infrastructure and application using its existing advantages. For the infrastructure layer, powerful Japanese conglomerates are assisting regional countries in the construction of smart cities. Southeast Asian countries' rapid urbanization is creating opportunities and challenges both for local governments and residents. The concept of developing smart cities exists to address emerging issues such as congestion and personal security – local governments are expecting Japanese companies' experience to relieve the damage caused by urbanization and achieve sustainable development of their expanding cities. To be specific, an adequate smart city should have digital resources-driven systems in transportation, payment, disaster relief, education, and personal data management.

The flagship project in Northern Hanoi under joint development by Vietnam's BRG Group and Sumitomo Corporation seeks to provide residents of the city with convenient and comfortable transportation and digital services and to maintain an urban ecosystem with zero-emission and a resilient power supply.[ix] Considering the size of the project, not only coordination between multiple companies but also a broader bilateral consensus is indispensable. After a thorough four-year feasibility research and ground clearance process, the project will move to actual construction work in 2023.[x] Similar projects with a smaller scale are under construction in many other cities across the region: Da Nang in Vietnam, Mandalay in Myanmar, Kota Kinabalu in Malaysia, Jakarta in Indonesia, and New Clark City in the Philippines.[xi] To summarize, at the infrastructure layer, the Japanese government and large Japanese construction companies associated with the big business association Keidanren, are successfully exporting their know-how and integrating themselves into local urbanization.

By contrast, at the application layer, Japanese companies and the national government strategy behind their overseas operations appear less accomplished. An apparent gap exists between the sectors that are flourishing during Southeast Asia's digital transformation and the sectors on which Japan is focusing. For regional countries, the most lucrative sectors at the application layer are e-commerce, transport, food, online travel booking services, and digital media platforms. To support these business operation practices, financial services, enterprise services (software as a service) and digital logistical systems are also becoming important emerging components of the transition.[xii] Business sectors in Southeast Asia are not only replicating the digital transition that happened in other regions and transplanting or introducing their existing business models, but also forming an integrated system and building the supporting ecosystem.

A fact-finding joint report issued in 2021 by Japan's Ministry of Economy, Trade and Industry (METI) and the consulting service provider Ernst & Young Global Limited identified three sectors with the most rapid growth rates and described them as "holding the possibility of further growth when combined with digital technology".[xiii] These sectors are agriculture, logistics, medical and nursing-care industries, and embedded fintech—the diversified finance tools tailored to the needs of various applications. The focus of the report has further implications for policy-making: The flagship overseas operation supporting project, the Asia Digital Transformation (ADX) Initiative, launched by METI, is also moving its policy support and financial resources to companies in these sectors with the motivation to expand their operations abroad.

Introducing a comparison of the key Digital Transformation (DX) sectors identified by Japanese economic institutions and the ASEAN countries' digital sectors with dominant advantages, the former lack society-wide influence and region-wide adaptability. For regional businesses, the platform economy will be a key feature of the digital transformation – diversified platform enterprises are fundamentally shaping the daily lives of regional residents in a prominent top-down level approach. By combining imported business models and adapting to regional users' preferences, platforms in multiple sectors (rail-riding, food delivery, online shopping, travel agents, and online entertainment) are achieving high penetration and regional market connectivity. Japanese companies' focus on digital transformation takes a different approach – micro innovation with incremental progress. In the agricultural sector, this approach involves case-by-case solutions taken by Japanese companies to establish crop data monitoring systems, remote irrigation control, and efficient agricultural product matching and selling channels. In specific cases, micro-innovation can assist in solving daily difficulties encountered by individual businesses, but it contradicts the crucial feature of the Internet economy – the economy of scale. It became more apparent during the pandemic that technology-driven growth in emerging digital sectors is less likely to falter, compared to traditional sectors, due to resilience and the large scale of their users. During the same period during the pandemic, the number of Japanese investments and business cooperation in the regional digital business suffered a sudden drop, after a nearly-decade-long gradual increase. Revitalizing to reach a positive growth trend to make up for the scarcity of Japanese companies and investments going to the region will be a priority in Japan's business promotion campaigns.

Japan's DT Policy: Domestic and Overseas

Triggered by the chaotic response to the pandemic, Japanese society is taking a more assertive approach to pushing the digital transition, both in government structural reform and in assisting Japanese companies' overseas operations. From the policy vision of the newly created Digital Agency, the general goals of the digital transition include reinforcement of international competitiveness and sustainable growth boosted by the digital sector's human-centric development, improvement in minority living conditions, daily life convenience, personal information security, and the revitalization of local economies by implementing vertical and horizontal communication in different levels of government.

Since the direct motivation to accelerate fully the process of digital transformation comes from the inability of the Japanese government at the central and local levels to deal with the spreading COVID-19 virus through digital measures, Japan is compelled to develop a new system for combatting public health emergencies through digital means. Other goals include improving enduring problems in Japanese society by introducing digital solutions: health, education, elder care, disaster prevention, and parenting. To achieve these goals, the Digital Agency planned a roadmap with a clear policy package. The ground layer is to build trust between the government, private sectors, and users. The concept of "trust" is at the core of the agency's policy package – it includes building an adequate disclosure mechanism and national digital identification system with diverse and high-quality personal data, carrying out profound government reform to improve evidence-based policymaking practices, and bringing citizens' trust in governmental agencies back. In exchange for trustworthy access to residents' data, the government is required to develop an integrated system for social services as a platform – an ideal function of the platform should also include industrial planning and disaster relief.

Using the trust and government data management platform as a cornerstone, the next-step objective of the Digital Agency is to form a mature data-flowing system– the base registry initiative. The data management model tags different priorities and security levels to industrial and personal data to improve social activity efficiency and refine administrative services. Meanwhile, the Digital Agency identifies the current lack of qualified tech talent in the education system as a major obstacle for digital companies. To ensure the sustainable development of domestic tech talent employment, the government should introduce data skill-related education in the school system and encourage more professional training programs in the workforce.[xiv] Due to the enduring sectionalism in the Japanese bureaucratic system, the digital agency's proposals remain highly separated and lack coordination with other bureaucratic institutions.

Apart from the Digital Agency, other Japanese governmental agencies are developing individual overseas digital policy agendas and flagship projects within their policy scope. The Japan International Cooperation Agency (JICA) is evolving gradually into Japan's main institution for official development assistance (ODA) programs, as well as concessional loan planning. It also provides international technical cooperation after merging with the lending department of the Japan Bank for International Cooperation (JBIC) in 2008.[xv] As for its contribution to digital transformation, JICA established bases of information and communication technology (ICT) with human resources development and industry creation. It plans to create a free and safe cyberspace through international cooperation and a human-centric development agenda. Practically, JICA supported domestic medical companies with digital transformation experience to export their know-how, sponsored local start-ups in South Asian countries by allocating funds provided by Japanese venture capital firms,[xvi] and assisted in digital human resources education in Southeast Asian countries.[xvii]

Though digital transformation is identified as one of JICA's prioritized development approaches, the agency appears less positive in finding emerging technologies. Another key bureaucratic institution dominating Japan's economic policies, the Ministry of Economy, Trade and Industry (METI) takes a more assertive role in assisting Japanese companies to find a niche in the overseas market during the trend of digital transformation. In the past decade, METI conducted routine discussions on future ASEAN-Japan cooperation, including digital technologies and digital trade. Meanwhile, Japanese companies with the motivation to operate overseas determine which sectors are high-priority and distribute financial resources, technology support, and policy benefits accordingly. METI's former affiliate, the Japan External Trade Organization (JETRO), a trade promotion and foreign-investment attraction agency, is coordinating with METI in the flagship Asia Digital Transformation (ADX) projects. The program coordinates support from Japan and ASEAN countries' government agencies and identifies companies as "having innovative technologies to solve socio-economic challenges".[xviii] The supportive policies include subsidies, knowledge sharing, local opportunity matching, and other conventional services offered by JETRO. As a project started in 2020, the ADX successfully attracted 57 company applicants last year and accepted 28 projects ranging from large companies to start-ups. The project sponsor required applicants to report their cooperation with local companies and governments, targeted socio-economic issues, and their expected outcomes. Due to strong adaptability and problem awareness of ground-level challenges, the project is increasingly becoming a stable channel for Japanese companies to expand their business in Southeast Asian countries.

Japan's overseas digital policies pursue two key objectives. The primary one is to revive the stagnant domestic economy, focusing on economic sectors that fail to launch qualified domestic-oriented economic stimulus due to the country's rapidly declining birthrate and aging population. Other goals of a digitalized business model include improving domestic productivity, and improving the efficiency of R&D, market implementation, cooperation with local enterprises through investment, and bringing knowledge and experience back to domestic markets from abroad.

While government agencies are trying to adopt the co-development model in projects such as the ADX, much of the model is still on paper rather than having become common practice. Ito Asei from Tokyo University described the model as a full-project development mechanism meant to overhaul the nature of project conceptualization, the establishment of research and design bases in Japan and the target country, market expansion, investment, opportunity-matching and strategic coordination, and the final step, bringing the benefits back to Japan.[xix] From each step during the development of the project, Japanese companies are guided to integrate themselves more into the operation of local firms, as well as into policymaking negotiation and coordination with regional governments. The ADX becomes a valuable attempt by guiding Japanese companies operating overseas to share their know-how, but it still lacks an established mechanism. In general, strong domestic obstacles are blocking innovative technological solutions to transform socio-economic practices. Even those companies operating successfully in the Southeast Asian market hesitate to introduce the new business model to their home market out of their persisting concern about the low probability of survival and social adaptability of domestic customers.

In the capital market, where the records of capital flow can reflect the taste of the market in real-time, the effectiveness of reform efforts remains unclear. As the dominant venture capital firm in Japan, SoftBank Group has established the Vision Fund to identify startups leading their respective fields based on technological advantages. With a similar approach to the government agencies' projects, the fund has an Asian focus but supports otherwise the expansion of overseas unicorn companies (successful startups that are not listed in the stock market) into Japan's domestic markets. To help foreign companies with technological advantages to implement their business models in Japan's domestic market, the fund not only provides sources of funding and necessary supportive services for startups to survive and expand in their home market, but it also enthusiastically encourages these companies to adjust their business model according to the requirements of the Japanese market.[xx] The Vision Fund widely invested in tech sectors across Asia and efficiently facilitated these companies' expansion, and successfully introduced some practices and business models to the Japanese market.

Before a Southeast Asian start-up can choose the Tokyo Stock Exchange to launch its initial public offering (IPO), it must implement gradual reforms to create a more favorable investment environment. It must follow the 2015 Corporate Governance Code to strengthen its emphasis on corporate governance and raise recognition from foreign investors. It must offer diversified options for exit strategies once the IPO succeeds, and make domestic investors interested in investing in foreign startups. Since December 2018, the Tokyo Stock Exchange set off to formally provide IPO services to countries in Southeast Asia and India, and there is already a start-up profiting from the reforms and revitalizing Japan's domestic capital market.[xxi] However, despite these reforms, more than five years later, Japan's venture capital investment still has failed to gain wide acceptance and lags behind other major economies in terms of venture capital's share of GDP. [xxii]Although the Tokyo Stock Exchange cleared the way for Southeast Asian startups to raise funds, and even set up a regional headquarters in Singapore to attract regional entrepreneurs, its capital market remains unattractive.

Amid the Great Power Tech War

Southeast Asia is rapidly changing, and the deep involvement of great powers in the region is an important factor. In that context, the region's interaction with China and the U.S., in both the public and private sectors, is shaping the direction of digital transformation. Meanwhile, as their competition intensifies, the interaction pattern between the two great powers in their respective tech sectors is also experiencing fundamental change. About a decade ago, the Internet Freedom Initiative, an agreement to share the global internet with no intentional barriers and limits from sovereign states, was created. China could not shape the regional economic framework and primarily designed defensive toolkits and governance models. Moving forwards to the second decade of the twenty-first century, however, China began to search for a more assertive role in shaping the rules of the digital economy. Its tech firms are enthusiastically operating internationally while the internet freedom initiative dimmed, and a separated global internet becomes a more probable scenario. In addition, amid the tech war triggered by anxiety and pursuit for technology superiority, sanctions, competition for standards, and supply chain risk became usually heard narratives for regional countries.

Japan has a special role as great power competition intensifies. As a major economic power in the region, Japan has the bargaining power to shape the regional economic framework through trade and economic agreements. Japan still maintains a crucial role in the upstream supply chain with advantages in chipmaking and manufacturing equipment. Japan's attitude amid the great powers' tech war not only affects its potential to integrate interregional markets but also to change the trajectory of such competition.

Regional Economic Frameworks and their Provisions for Digital Economy

The overlapping and competing regional economic frameworks have become a main battlefield for the great powers to assert their agendas and beliefs on data-driven technologies. The digital economy now serves as an important chapter in free trade agreements and economic framework documents and gradually will gain importance in future negotiations. While the existing agreements cover related contents, their conditions vary, and they may fail to cover the difficulties encountered by companies as well as the concerns over cyber-security from both regional countries and external powers.

The Regional Comprehensive Economic Partnership (RCEP) is the prevailing trade agreement for regional countries signed in 2020. Chapter 12, which covers digital trade and e-commerce, has the feature of supporting small and medium enterprises in reducing their cross-border transaction costs. In general, it aims to create a favorable legal environment for E-commerce by severely undercutting pre-existing data localization prohibitions. Still, the RCEP contains no provisions on restricting data localization, leaving the detailed regulation to the discretion of regional countries. Meanwhile, the agreement largely neglects the need to protect individual data privacy, leaving the potential to be used by the tech giants to encroach on individual rights.[xxiii] On the other hand, it allows countries to force technology transfers through partnerships, downplaying the importance of intellectual property.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), as a high-standard trade liberalization agreement sponsored mainly by Japan, strongly promotes cross-border data flows and tries to lower the barriers to custom and non-tariff barriers for digital trade. It requires member countries to eliminate customs duties on electronic transmissions and prevent discrimination in the digital economic framework. What is lacking in the CPTPP is operation-level convenience: the provisions on electric voicing or electric payments, which largely limited improvements on the convenience of cross-border transactions and customer experience, as well as clear standards and conformity assessment for digital trade, raising the risk for grey industries. In addition, it fails to address the necessity of data openness and cooperation at the government level, reducing its potential to promote regional cooperation on the digital transformation and integration of the value chain in related industries.[xxiv] Since the CPTPP inherited the majority of provisions from the TPP and largely remained a sponsor for trade liberalization, its focus on digital trade lacks consideration of operation-level difficulties for tech companies.

Different from the previous two frameworks offering market access, the newly launched worker-centric Indo-Pacific Economic Framework aims at raising labor standards while also encouraging cross-border data flows. As an economic framework introduced in 2022, IPEF has renewed the approach to and discussion of the digital economy. It introduces the concept of trusted data flow into the framework and covers other heatedly debated topics that never appeared in the above free trade agreements, such as internet penetration and responsible usage of emerging technologies.[xxv] Since the frameworks are still under discussion and there are doubts from potential signatories on whether the U.S. can overcome opposition to the framework in Congress, it remains largely a question of whether its considerations regarding the digital economy can become codified in written form.

Great Powers' Agenda for Regional Digital Policy

The United States is reconsidering its main commitments to the global internet. As the birthplace and the main advocate for the global internet, the United States in the past regarded cyberspace as an ungoverned commons reflecting American values and business practices.[xxvi] It held the belief that some features, such as protection of freedom of speech, free flow of information, and development efforts from the tech community are deeply engraved into the global internet, and should be maintained in all countries. However, due to several severe failures and encroachments, including the Arab Spring and its chaotic subsequences, the very existence of China's great firewall, and Russia's incremental efforts to separate its domestic internet from the global one, Washington downgraded its expectations for an open and free global internet and limited its efforts to build such a system, accordingly. [xxvii]Since the U.S. is hesitating to launch a new initiative, it maintains its existing practices and continues to promote the data-free flow initiative as in the past, but with decreased assertiveness.

Moreover, domestic opposition against the high-standard regional trade agreement TPP and the impact of foreign imports further hurt the U.S.' image as an advocate of future digital trade agreements. Similarly, hardliners in the U.S. Congress continue to block a similar version of the General Data Protection Regulation (GDPR) in privacy and data protection. Their failure to implement such regulations in a domestic setting has undercut Washington's ability to influence negotiations on similar topics in a region where the two narratives are competing. Despite these existing disadvantages, Washington's willingness to cooperate with trusted partners in building digital trade agreements and to work together to gain technological superiority provides an opportunity for Japan to participate accordingly. While the United States develops its new agenda, Japan needs to consider the optimal strategy to use in coordination between the two countries.

China, as the other great power in the region competing for leadership in the digital economy, is also creating a potential niche for Japan to fill. China has the potential to carve out a bigger role in regional digital transformation. Chinese firms were the first to notice the huge, rapidly growing market in Southeast Asia. They then brought in their tested business model and rich financial resources to those countries expecting similar business success in their domestic environment. The Chinese government, though it lagged during this initial period, has already sensed the necessity of jumping into that market. It is using every diplomatic occasion to express its willingness to cooperate in the region's digital economy.[xxviii] Those efforts, however, have been largely on a case-by-case basis, for China still lacks an integrated narrative for the digital economy.

China first launched its "Internet Sovereignty" argument in 2015, setting up a narrative that "the Internet space is an extension of the nation's 'physical border'" as a defensive method against intrusion from the "global, open Internet" agenda promoted by the U.S. It focused on generating legal boundaries on cyberspace and claimed that any legislation passed in the process falls under the sovereignty of the country.[xxix] The narrative became a component of the Initiative to Build a Community of Shared Future in Cyberspace, issued in November 2022.

China next signed a dozen "Memorandums of Understanding on Digital Economies" as a component of the BRI program, It followed a nation-by-nation approach and focused on trade and operation cooperation and technology transfer, with no mention of "internet sovereignty." While that concept is still an important component of China's defensive measures, it ceased to serve as a central initiative in China's activities in the regional digital framework.[xxx] China is hesitant about which standard to adopt in order to balance between creating a favorable competition environment in its competitive digital sectors and maintaining its domestic dominance on national-security-related digital practices. The current situation serves as an important window for Japan to intervene. Japanese companies have cooperative experiences with Chinese counterparts in both low levels of standardized manufacture and high value-added industries such as joint development of platform services and infrastructure supporting orderly and secured data flow.[xxxi] While geopolitical instability can undermine existing efforts and future potential for the two countries to discuss a widely accepted regional digital-economy framework, Japan should manage any dispute in order to maintain the current connections.

Japan's Stance Between the Great Powers: the DFFT Initiative and Chipmaking

Even though China and the U.S. are leaving a vacuum in the region for Japan to fill by launching its own digital initiative, it remains a question whether Japanese companies can profit from the opportunity and achieve such an objective. Until recently, Japan used a bandwagon strategy in its tech policies and almost gave up its stance of trying to maintain a balance between China and the U.S.

The Data Free Flow with Trust (DFFT) initiative was at first a policy agenda introduced by Prime Minister Abe Shinzo. It was later transformed into a major international policy vision of the Digital Agency. The initiative sponsors a mechanism of free data flows across borders, based on layered and classified data types. Under that system, operational data for commercial use and public data in institutions addressing social welfare and the like should enjoy free flow in accordance with adequate disclosure rules. Private individual data should be stored within a country's borders. At the operational level, DFFT follows the structural reforms that the Digital Agency launched in domestic settings. The initiative gives more consideration to the effects of cross-border data flows. After classifying individual data, the initiative focuses on establishing adequate privacy and data protection mechanisms for individuals by closely enforcing the consent for privacy principle. It also plans to establish a technology framework to trace border data flows and strengthen law enforcement capabilities through cooperation with other governments.[xxxii]

At a more practical level, the agency also plans to introduce the principle of data-free flow into important trade agreements while ensuring discretion in regulations serving public interests. The related provisions in the CPTPP are an older example of the strategy. Kono Taro, as the Digital Affairs Minister, regarded the initiative as an intermediary between two different practices in the same camp (the West). He considered the European Union to be conservative, attaching too much emphasis on personal privacy. In the meantime, the United States adopted the data free flow principle to create a beneficial operating environment for its big tech firms.

In contrast, Kono thought that China, standing against liberal values and focusing on data localization, should be forced to change its current behavior.[xxxiii] Which standard will ultimately win remains uncertain. Meanwhile, the current level of cooperation on joint technology development remains low. In summary, the outcome of the race depends on how the two great powers finally decide their stance.

At the physical level, Japan is weaponizing its remaining advantages in semiconductor and chip manufacturing equipment to slow down China's speed. Tokyo launched a new round of export restrictions in March, to prevent its chipmaking technology from being used for military purposes and fulfilling Japan's responsibility to contribute to international peace and stability with its technological advantages. Although the official statement avoided picking any specific country as the target, the announcement hinted at a belligerent Russia as one main target of sanctions. However, Japan already expanded its Russian sanctions to include semiconductor equipment in January. Therefore, the current round of export restrictions is generally read as a move toward China.[xxxiv] Although China has not launched formal countermeasures against these restrictions, such a Japanese policy naturally limits the potential space for the two countries to carry out technological cooperation and joint development on advanced technological projects, whether in China or another region.

Closing Remarks

Japan's domestic technology sector is facing an urgent need to catch up with its international competitors, and digital transformation provides a crucial opportunity, maybe the most important one in sight. Japan's security alliance with the United States and its close economic ties with China give it a unique position amid the great powers' technology war to leverage its own core tech advantages. However, whether it fully leverages its advantages still depends on the Japanese government's capability to evaluate its policy orientation and make careful decisions. The following recommendations are split into three sectors: industry, domestic policy, and regional digital rulemaking.

Industry Focus:
Japan's economic bureaucratic institutions should recalibrate their concentrated efforts on ASEAN's digital transformation. More specifically, institutions should balance their aim to export existing domestic technological advantages and share that growth with prominent regional industries. In addition, the priority remains to encourage more companies to go overseas, strengthen cooperation to learn from advanced business models in the tech sector, and integrate Japanese firms into regional digital transformation at its initial stage of development.

Domestic Level:
A coordinated movement is necessary to establish a mature reflux mechanism in the capital market and bring knowledge gained abroad back to the domestic market. It is crucial to identify and remove the existing operational barriers blocking the import of new business models.

Regional Level:
The government should participate actively in international rulemaking and expand cooperation and discussion in the agenda-setting process to regional participants. It should also comprehensively analyze the profit and loss factor in launching the DFFT Initiative and semiconductor restrictions against China, which might prevent Japan from cooperating with China in the future.

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