

THE U.S.-JAPAN ALLIANCE

Getting Asia Right
through 2020



Richard L. Armitage
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February 2007



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The U.S.-Japan Alliance

Getting Asia Right through 2020

Richard L. Armitage and Joseph S. Nye

Introduction

At a time of global uncertainty and transition, enduring U.S. interests demand a clear-eyed look over the horizon to grasp the challenges ahead and the potential opportunities to best shape the emerging world order. With half the world's population, one-third of the global economy, and growing economic, financial, technological, and political weight in the international system, Asia is key to a stable, prosperous world order that best advances American interests. The goal of this report is to outline a vision that offers the best prospect for achieving "a balance of power that favors freedom."¹

Getting Asia right in this regard does not mean the imposition of U.S. values on the region, but rather encouraging an environment in which the region's leaders define their own national success in terms that are consonant with U.S. political and economic objectives. That means economic prosperity based on market principles, free and open trade, and protection of intellectual property rights, labor rights, and the environment. It means greater political freedom with liberal institutions to reinforce the economic successes the region now enjoys. It means transparency in the military field and greater application of national assets to the common good in areas of humanitarian relief and reconstruction. It means a region where the major powers cooperate to focus on transnational threats such as avian influenza or terrorism. It means a region where leaders choose to address the internal and external problems arising from troubled states, like Burma, rather than turning a blind eye based on an outdated concept of "noninterference in internal affairs." It means a region where nationalism and patriotism are channeled into efforts to solve regional problems for the greater common good. It

¹ See White House, "The National Security Strategy of the United States of America," Washington, D.C., September 2002.

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means collaborative efforts to extract and share natural resources rather than engage in mercantilist competition and geopolitical rivalry.

Central to realizing this vision will be cooperative relations among the major powers: the United States, Japan, China, Russia, India, and Europe. This will be critical to meeting the challenges of the post-9/11 world and shaping a peaceful and prosperous future. While countering Islamic extremism—lethal and deadly as it is—may be more urgent, the longer-term imperative to secure major power cooperation should be the organizing principle for a sustainable and effective U.S. foreign policy. America's future requires a robust, dynamic relationship with the new Asia of 2020, and the keystone of the United States' position in Asia remains the U.S.-Japan alliance.

Concerned about a post-Cold War drift in the bilateral relationship, a bipartisan group chaired by Richard Armitage and Joseph Nye issued a report entitled "The United States and Japan: Advancing Toward a Mature Partnership" in October 2000.² The report was developed and issued in the same bipartisan spirit that has characterized U.S. policy toward Japan for over a decade beginning during the Clinton administration and continuing today. It recommended specific steps to tighten cooperation in the areas of politics, security, Okinawa, intelligence, and economics and became a blueprint for the Bush administration's Japan policy.

When the United States was attacked by al Qaeda 11 months later, President George W. Bush and Prime Minister Junichiro Koizumi established an unprecedented personal and strategic partnership tested in the cauldron of Operation Enduring Freedom, the liberation and reconstruction of Iraq, the response to North Korea's nuclear breakout, the emergence of new tensions between Taiwan and China, and the massive response to the tsunami of December 2004. Of equal importance, the newly enhanced strategic relationship enjoyed broad bipartisan support on both sides of the Pacific.

The alliance is stronger after passing the tests of the past few years. But a new wave of global and regional challenges continues to build. Globally, key challenges include terrorism and much of the Muslim world's continued deficit in meeting the challenges of modernity, the proliferation of weapons of mass destruction (WMDs), and meeting the growing demand for energy while protecting the environment. Today, Asia is marked by the unprecedented simultaneous rise of two great powers, China and India, and a reawakened Japan; the legacy issues (Taiwan and the Korean peninsula); and competing nationalism. With these challenges, defining a regional architecture that will be consistent with U.S. interests will increasingly require attention and focus of U.S. policymakers.

But are the fundamentals of the alliance strong enough to deal with the array of significant challenges that will arise in the decades ahead?

² Richard L. Armitage et al., "The United States and Japan: Advancing Toward a Mature Partnership," INSS Special Report, National Defense University, Washington, D.C. (October 2000), http://www.ndu.edu/inss/strforum/SR_01/SR_Japan.htm.

For three generations, the U.S. bilateral alliance network has been East Asia's de facto security structure, benefiting Japan, the United States, and the region writ large. To ensure the same success for the following generations, this report considers the prospects for Asia through 2020 and the means by which the United States and Japan can work together now to positively influence Asia's future.

Asia through 2020

China

A profound transformation has been unfolding in China, one that points to the possibility of China emerging as the dominant regional power. Even factoring in the possibility of disruption, China will continue to be an engine of regional growth and global dynamism. China's growing comprehensive national power is already well reflected in its assertive diplomacy aimed at shaping the strategic environment around its borders. One key question for the United States, Japan, and all of Asia is: how will China use its newfound capabilities and resources as it matures as an economic and military power?

Since our October 2000 report was issued, perhaps the most significant event in the Pacific has been the explosive economic growth of China. China's trade-to-GDP ratio has nearly doubled in the past 10 years, making it much more reliant on the external sector—U.S. and Asian markets in particular and raw materials from Australia, North America, and increasingly the Middle East. While China's economic success presents opportunities for all, there are also emerging costs, such as a drawing away of capital and jobs that would have otherwise gone to its Asian neighbors—those of the Association of Southeast Asian Nations (ASEAN) especially.

China will grow, but its growth will not necessarily be a linear "rise" without complications. China has massive internal challenges that include an aging society, a weak social safety net, large and growing disparities in development, and systemic corruption—all of which have resulted in social unease. China's leaders also are faced with growing labor unrest, a weak banking and financial system, lingering ethnic disputes, environmental problems almost unimaginable to Westerners, and vulnerability to epidemic disease. Together, these challenges have caused Chinese leaders to focus internally, thereby putting a premium on external stability. China seeks a stable, peaceful international environment in which to develop its comprehensive national power. China needs to avoid any disruption of its access to national resources (particularly oil and gas) and foreign investment, and it can ill afford major diversions of resources to causes unrelated to the objectives of economic growth and public welfare.

That said, nationalism is growing in China, as elsewhere in the region. Among China's leaders, nationalism is likely viewed as a useful tool to muster support for the Communist Party, particularly should economic growth falter. Although reliance on nationalism poses risks for the regime, Chinese leaders will likely continue to tap into nationalist sentiment to bolster their own legitimacy. This

may place limitations on the quality of interactions the United States and Japan can expect with China for the foreseeable future.

Also limiting the quality of interactions are differences in values. The most profound of these relate to differences over human rights, religious freedoms, and political systems. The values gap matters in the most consequential form because it gives rise to a “trust deficit.” In the case of China, there is a growing body of evidence suggesting that the nexus between values and foreign policy could negatively affect U.S. interests. This is manifest in China’s behavior toward countries like Iran, Sudan, Venezuela, Zimbabwe, and Uzbekistan. It is evident that China is engaged in relationship building, which may enable continued irresponsible behavior on the part of other governments.

One of the key features of Chinese foreign policy is a requirement to establish secure, reliable access to energy resources that lay beyond China’s borders. Its large and rising energy deficit and lingering distrust of free markets foster a perception among Chinese leaders that increasing reliance on foreign energy creates vulnerabilities. In the hope of securing the energy required to support China’s domestic demand, especially Persian Gulf oil to meet future transportation demands, China has embarked on an effort to promote supply diversification as well as overseas equity investment. The United States, Japan, and others will be further affected by China’s surging demand for energy and raw materials. Some of the consequences will likely be negative: higher prices for foreign crude, increasing environmental degradation, and competition over disputed maritime boundaries. But there will also be new opportunities for cooperation on energy efficiency, “clean-coal technology,” and nuclear power. It may also be the case that China’s increasing reliance on the outside world will present the United States and its friends with foreign policy opportunities.

The spectacular economic growth of China has allowed it to make major investments in the military. China’s intensive military modernization efforts are focused on preparing for a possible conflict with Taiwan, and its efforts are paying off. China is developing the ability to fight a high-tech war along its periphery. China has, for example, developed remarkable coordination among critical military communities—those that do acquisition, training, logistics, doctrine/strategy, etc. Historically, such coordination has proven to be a formula for militaries to improve their capabilities quickly. China has also begun to break down some of the barriers between its services, although it has not yet developed the ability to conduct truly joint military operations. As China continues to expand its military capabilities, it is likely to place greater emphasis on the development of a blue-water navy. This flows in part from the perception that it needs to protect energy sources and sea lanes.

The modernization and growth of China will insure its power and affluence, but the direction it takes remains an open question. In 2020, China could be a responsible stakeholder, with increased political freedoms and liberal institutions

Energy Factor

According to the National Intelligence Council (NIC), growing demands for energy—especially among rising powers—through 2020 will have substantial impact on geopolitical relations. The NIC study, *Mapping the Global Future*, asserts the most important factor affecting energy demand will be global economic growth, particularly that of China and India.

China has embarked on a broad effort to mitigate the risks associated with its growing reliance on foreign sources for energy. Efforts aimed at developing supply diversification and strategic reserves and acquiring equity investments abroad are underway and are driving China's foreign policy and diplomacy in tangible ways. But through 2020, the core geopolitical feature of China's energy development will be an increase from 40 percent to 90 percent dependence on imported oil, mostly from the Persian Gulf.

Owning equity in oil and pipelines will not significantly diminish China's dependence on global oil markets: by 2020 Chinese firms at most may own 1.2 million barrels per day (bpd) of equity oil, but China will then be importing at least 7 million to 8 million bpd. Some in China are beginning to realize this. Nonetheless China's current distrust of markets leads it to pursue the military capability to protect assets abroad. Thus, some in China may believe that the ultimate guarantor of energy security is the People's Liberation Army and alliances with states of concern. China's military modernization has been quite effective. Chinese military leaders have placed an emphasis on developing a "blue-water navy" and associated power projection capability. By 2020, we can expect China to have advanced significantly in these areas. Meanwhile, safeguards against disruption, such as strategic petroleum reserves, should be a priority.

China is also investing in offshore exploration, which carries potential foreign policy consequences. Although major efforts to date have occurred in Chinese sovereign waters (the Bohai Sea in the largest project funded by China), China's appetite might be larger. In some cases a larger appetite for offshore exploration may lead to greater stability in Asia (e.g., China and Vietnam reached agreement for joint exploration in areas previously under dispute), but it may also tempt China to push its claims on other disputed territories. While none of the oil and gas in disputed territories is of a magnitude to change China's basic energy situation, understandably, this makes many in Japan feel uneasy after several incursions by Chinese vessels into Japanese territorial waters. By 2020, it is our hope that strong mechanisms will be in place to resolve these disputes short of relying on the military.

China's increasing consumption of oil, along with its sustained reliance on coal as its primary source for electricity (China remains both the world's largest producer and consumer of coal) combine to make China one of the world's largest producers of greenhouse gas emissions. As China (and India) continue to grow and modernize, it is essential that they play a prominent role in international discussions regarding global climate change.

It has become fashionable to discuss energy, in the context of Asia, as a growing problem. While it may be true that, on the surface, growing competition for a scarce resource, as well as some moves on the part of China, demonstrate a "zero-sum" mentality, it may also be true that energy security will ultimately prove to be an issue that draws countries closer together. Examples of potential cooperation include developing better energy databases, coordinating strategic reserves, combining research on alternate sources of energy, and cooperating on maritime security.

If addressed creatively, there is an opportunity to recast energy security issues. Growing needs for energy creates not just competition, but also a range of shared interests. The United States, China, Japan, and India have a growing shared interest in improved maritime security. There should be a convergence of views on nonproliferation and export control practices. And the four countries should share a keen interest in promoting stability in the Middle East, which remains the region generating the greatest oil production in the world. Much substance could be pursued under the banner of energy security. It should be our shared goal to involve China and India in joining positive efforts to promote energy security over the next 15 years.

that support economic openness and make for more responsible treatment of its people and its neighbors. On the other hand, China's conduct could be marked by mercantilism, with illiberal institutions, chauvinistic nationalism, and corruption that distort international norms and threaten neighbors. China will continue to face discrete decision points in the global arena. In such instances, it is important that China has incentives to make those choices that lead it down a path of peaceful integration and benign competition.

India

India's rise as a great power will rival that of China, and there is tremendous growth potential in India through and beyond 2020. Although India's growth rate currently lags that of China, by 2020 several factors suggest that India may surpass China. Demographic estimates for India show that its working-age population will continue to grow beyond 2020, as China's workforce will decline as a result of its one-child policy. Politically, India has made the right choices in terms of democracy and openness, thereby providing greater domestic stability. And economically, India—to a degree greater than China—has well-established legal and financial institutions. It also has world-class, international high-tech firms, enhancing its competitiveness in the global marketplace. With respect to energy security, India's impact on global demand for energy will track very closely with China's impact described in the previous section.

India's ultimate potential, however, may be affected by the fortunes of its neighbors. In Pakistan, success toward “enlightened moderation” will help India reach its global potential. Without the drain of possible war or terrorist threats, India can focus its resources and diplomatic efforts on more positive endeavors, such as building a world-class economy, attending to remaining social challenges, and establishing relationships that extend beyond the hyphenated issues associated with the long-standing India-Pakistan dispute. A slide into immoderation by Pakistan, however, would cut short India's potential and threaten broader U.S. and Japanese interests.

As India's economy and influence expand, its strategic culture remains in transition. It is possible that India may not completely move away from its traditional Non-Aligned Movement orientation, complicating the expansion of renewed relationships with the United States and Japan. Washington and Tokyo have both qualitatively improved their respective strategic relationships with India. However, both should move forward based on the assumption that India will not act as either Japan's or the United States' counterweight against Beijing, mindful that India has its own synergies with China. New Delhi is cautious with respect to Beijing and is not interested in raising tensions with China. That being said, New Delhi's Look East Policy is particularly appealing to Asia, and its growing economic, political, and cultural ties to East Asia will make it a larger part of the region's strategic equation. For Japan in particular, India's successes in democratic practices add buoyancy to Japan's own diplomatic weight founded on common values.

The Korean Peninsula

The inevitable transition to a unified Korea will reshape the strategic balance in Northeast Asia. There is a high probability that this process will reach fruition by 2020. The critical issue is how unification occurs. One reunification scenario involves instability in North Korea, which would raise difficult challenges with respect to controlling the North's WMD arsenal and possibly burden the Republic of Korea so heavily that its own democratic institutions and economic prosperity would be put at risk. Of course, our calculus must also include the possibility that North Korea will continue to build nuclear weapons to 2020 and beyond. It appears increasingly likely that the North Korean nuclear problem will be finally resolved only upon reunification, perhaps in a manner similar to that of Ukraine after the collapse of the Soviet Union. The United States and Japan must be prepared for all of these scenarios, each requiring unprecedented agility in terms of diplomacy and deterrence.

Our bottom-line assessment is that Pyongyang's behavior since 1990 strongly suggests that it is trapped in its own political and economic system. Despite support and encouragement from Beijing and Seoul, North Korea has only haltingly dabbled with reform, has continued its "military first" policy, has withdrawn from the Nuclear Non-Proliferation Treaty, and is betting its future on nuclear and missile capabilities that threaten international stability.

North Korea has spurned overtures from two extremely accommodating South Korean presidents and from the Clinton administration. It prefers splendid isolation and life support dependent on the kindness of strangers (principally China and South Korea). While unable to develop an economy to meet the basic needs of its own people, it has nonetheless managed to develop missiles and nuclear weapons. To furnish the elite with creature comforts, it exports methamphetamines, counterfeit hundred-dollar bills, and knockoff consumer products. It has abducted citizens from Japan and South Korea, secretly held them for decades, and failed to account for its actions.

Our conclusion is that the Kim regime would prefer to muddle through, despite the dim future for 21 million North Koreans, than to take the risk of opening up à la Deng Xiaoping. Thus, the often touted "Grand Bargain" is likely to remain elusive because Kim Jong Il harbors deeply ingrained distrust of the United States and tends to view proffered U.S. economic incentives as a "poison apple." Nonetheless, the September 19, 2005, joint statement codifies a reasonable offer. It is possible that North Korea could implement a Six-Party Agreement, but that remains difficult to imagine given its behavior to date. Its October 2006 nuclear test was a provocative action that seriously calls into question Pyongyang's interest in implementing the September 19 statement. It should be noted, however, that the Six-Party Process can have value if it helps contain or even freeze North Korea's nuclear weapons development. The Six-Party Process itself has put in place an innovative framework that may prove important to managing change on the Korean peninsula and promoting security in Northeast Asia in the future.

Managing Differences with South Korea

For the current government of the Republic of Korea (ROK), instability on the peninsula is viewed as a greater threat than North Korea's nuclear weapons program. This aligns Seoul's threat assessment more with that of China than the United States and Japan (the ROK's strategic concerns regarding China's growing power notwithstanding). Seoul's assessment reflects the influence of the reform-minded "386 Generation" and the maturation of South Korea's democracy. Many current leaders cut their political teeth in the struggle against an authoritarian South Korean government backed by the United States. They are too young to have experienced directly the Korean War, and many of them still harbor suspicions of U.S. motives. The challenge for Washington and Tokyo is to maintain a close working relationship with South Korea to insure that in the case of either a negotiated outcome of the North Korean nuclear crisis or a strategic surprise/discontinuity, there is a coordinated response protecting the interests of all the allies.

It is worth remembering that whatever short-term differences exist among the United States, Japan, and South Korea on how best to deal with the threat posed by North Korea's nuclear ambitions, we are united by common values and shared economic and security interests. The United States and South Korea share an alliance forged in bloody struggle against common enemies, and we have been modernizing our alliance to ensure that it remains relevant to the new challenges we face. South Korea will play a leading role and the United States a supporting role in the alliance of the future, and the force structure and command arrangements will reflect this partnership. U.S. forces will be realigned, consolidated, and reduced in number, but their capabilities will actually expand thanks to the introduction of new technologies.

The bilateral economic relationship is huge in scope. South Korea is the United States' seventh-largest trading partner. U.S. firms have invested many billions of dollars in the Korean economy, and Korean firms account for one-quarter of all foreign firms operating in the United States. Further, well over 700,000 Koreans a year visit the United States, and approximately 100,000 Americans are resident in Seoul.

It is in this context that the U.S.-ROK free-trade agreement negotiations are proceeding. This is the largest bilateral trade negotiation that the United States has undertaken since Canada long ago. The United States has an ever-widening network of free-trade agreements (FTAs), and the trend has intensified with the recent setbacks in the Doha Round of global negotiations. These FTAs, particularly as care has been given to ensure consistency with Doha obligations, can be highly positive for the economies of each of the countries involved. We believe that would be the case with a U.S.-ROK agreement.

But the reality is that this complex negotiation faces diminished support in South Korea and an extremely tight negotiating schedule in Washington. Korean automobile and agriculture interests are imposing tough requirements on the ROK government, which appears to be losing enthusiasm for the FTA. In Washington, both the Bush administration and the Congress oppose including goods

manufactured by South Korean firms operating at the Kaesong Industrial Complex inside North Korea in any FTA—a stiff rebuke to the current government, which strongly supports the Kaesong initiative. Moreover, growing popular anxiety about the impact of global trade on the U.S. economy has sapped congressional support for trade agreements. Finally, the negotiation is under a strict time limit because the president's authority to negotiate trade agreements and have them voted on by Congress without amendment expires in the summer of 2007. (The legislative process is called trade-promotion authority—formerly fast-track authority.)

Failure to conclude the FTA and have it approved by Congress, which seems to be increasingly likely, may be worse than if the FTA negotiation had not begun. It may, among other things, feed protectionist and mercantilist tendencies that are continuing to rise in Washington. It will also affect, we fear, the perception of the value of a broader U.S.-ROK alliance.

Southeast Asia

Southeast Asia will remain of great importance to the United States and Japan. The nations of Southeast Asia hold over 600 million people, with a combined gross domestic product of almost \$800 billion, both of which can be expected to grow quickly. In addition to its economic importance, Southeast Asia holds strategic importance as it sits astride the sea routes from the Persian Gulf and Indian Ocean to the Pacific, through which flow 30 percent of the world's trade and over 50 percent of the world's energy shipments.

China's large and growing economic and political weight is an important factor in the region. China's rapid economic development over the past two decades has brought new opportunities and challenges to the countries of Southeast Asia. China's trade with the members of the Association of Southeast Asian Nations grew 30 percent last year alone. While most of ASEAN has benefited from the expanded trade and investment opportunities with China, there has been considerable debate in Asia over how China's economic rise will change the economic, political, and security landscape.

The United States and Japan share an interest in promoting a Southeast Asia that is a partner in the development of democracy and human rights and an engine of economic growth. Both our countries also need the full cooperation of Southeast Asian nations in fighting terrorism, proliferation, and infectious diseases.

Democratic institutions remain fragile in Southeast Asia, and groups opposed to democratic reforms, such as Jemaah Islamiya (JI), are growing in strength. State-to-state conflict among the ASEAN member states seems remote as a possibility today, and with further ASEAN integration it will be even more remote in 2020. However, the "ASEAN way" may prevent the region from addressing internal challenges such as JI, military rule in Burma, or weak governance in Laos and Cambodia. ASEAN has yet to consolidate its expansion, which brought Burma, Cambodia, Laos, and Vietnam into its fold, and fissures

among ASEAN states could grow and be exploited by terrorists. The challenges ahead for ASEAN include achieving genuine economic and political integration, continuing democratic reforms, and developing diplomatic weight to balance outside forces.

The key to ASEAN's success will be that of its major components. The success of the new, democratic Indonesia is a special concern for the United States and Japan, with enormous implications both regionally and globally. Our robust security and economic relationship with Singapore remains critical to the U.S. regional and global forward posture. Though U.S. relations with Thailand, Malaysia, and the Philippines are strong and multidimensional, the pillars of democracy—rule of law, free media, free and fair elections—all need investment. Perhaps the greatest opportunity over the next 15 years lies in Vietnam, where political reforms need to complement the economic reforms already well underway if the nation is to reach its potential and contribute more to the overall effectiveness of ASEAN. ASEAN has been central to the fostering of a regional consciousness and is a driver of proliferating pan-Asian groupings.

Australia

Responding to the attacks of September 11, 2001, Prime Minister John Howard invoked the ANZUS Treaty in support of the United States. The prime minister's subsequent decision to support the United States in Operation Enduring Freedom and in Operation Iraqi Freedom has served to strengthen an already strong alliance relationship.

Nevertheless, skillful political management will be required to keep the alliance strong. Within the alliance, major problems stem from differences in perspective, with the United States placing a greater emphasis on the global context, while Australia seeks to balance its regional and global interests. Close to home, Australia is faced with a number of security challenges, including the fate of East Timor, West Papua, Papua New Guinea, and the Solomon Islands, each making significant demands on Australia's limited defense resources. Within the alliance, problems also arise with respect to asymmetries in the size of defense forces and in defense spending.

Going back to its participation in World War I, Australia's national security thinking remains focused on "coalitions." Australia's history, geography, and national interests serve to define Australia as a regional power with global interests. While operating on a global scale to secure its regional interests, Australia at the same time works with regional powers, while managing relations with the United States. Australia's acceptance of its role as a regional leader marks a fundamental change in its strategic thought. After Iraq, Australia will return to the Asia-Pacific region as a regional leader. This is an evolution the United States must be aware of and respect.

Australia, like Japan and the United States, remains transpacific, as opposed to pan-Asian in orientation. This complementarity offers an opportunity for

cooperation among the three countries to foster openness across the Asia-Pacific region.

Russia

Although it is more focused on Europe, by dint of geography, history, nuclear weapons, and UN Security Council status, Russia is a factor in the Northeast Asian equation. Its lack of economic and political/diplomatic involvement in a region where economic growth is the top priority underscores that it is a marginal actor. But for all the above reasons, it is part of the regional balance, and its choices influence key issues, as underscored by its participation in the Six-Party Talks on Korea. Moreover, as the world's second-largest oil exporter with the world's largest natural gas reserves, Russia can be an important contributor to regional energy security. Energy development in Sakhalin and much-discussed oil and gas pipelines highlight Russia's potential importance to Northeast Asia's energy future.

Russia's current statist/nationalist policies constrain its prospective integration into Northeast Asian energy markets, but the region's major consumers—China, Japan, and the ROK—are looking to Russia's Siberian oil and gas both to diversify sources of supply and to integrate Russia economically into the region. Recently there have been very troubling trends in Russia's record of governance that reveal threats to basic human freedoms and further democratic development. Russia's drift toward a sort of "authoritarian democracy" poses serious questions about what sort of actor it will be in East Asia and underscores the point that it holds the potential to enhance or complicate stability.

Taiwan

Taiwan and the success of its democracy are important to the United States and Japan. Sustained democracy in Taiwan is the best chance for better governance and freedom for the people of Taiwan, enhancing the prospects for bilateral and regional cooperation with Taiwan as a like-minded friend and preserving Taiwan as an example for other countries in Asia aspiring to liberalize their respective political systems.

In February 2005, the United States and Japan announced through the two-plus-two minister's statement a common strategic objective to "encourage the peaceful resolution of issues concerning the Taiwan Strait through dialogue." This sensible objective could well serve as our guiding principle through 2020—or for as long as the two parties have unresolved political differences.

Embedded in such an approach is the recognition that the United States and Japan share an interest in creating and maintaining an environment that is conducive to a peaceful resolution of issues through dialogue. To advance this interest, the United States has adopted the policy of "dual restraint," deterring the use or threat of force by China while simultaneously discouraging unilateral Taiwanese steps toward independence. For the United States, this means supporting Taiwan's legitimate defense needs, maintaining the capacity to resist

force, and opposing any attempt to resort to force as a means for resolving differences, while also adhering strictly to a one-China policy. Japan should understand these obligations of the United States and seek to adapt as an alliance partner in ways that are appropriate to the maintenance of peace and stability across the Taiwan Strait. For both the United States and Japan this means encouraging positive and constructive interactions between the two sides, discouraging provocative rhetoric and other unhelpful political maneuvering, and resolutely opposing military intimidation and coercion.

Also embedded in this approach is an assumption that the people of Taiwan support a vision similar to that of the United States and Japan for how best to promote an environment conducive to peaceful cross-strait dialogue. If over time, however, through a democratic process, Taiwan chooses a different path, the United States and Japan would need to reevaluate how best to pursue our shared interests in the region. Over the near term, Taiwan should take steps to strengthen its own defenses, improve its democracy and governance, and develop a plan for positive engagement with China including approval of direct links. Such steps would send the right signals to the United States, Japan, and the region.

Regional Integration

The World Trade Organization (WTO) estimates that by 2020 intra-Asian trade will be \$1.2 trillion. The United States will continue to be an important, but not primary, end market for regional goods. Intra-Asian trade (51 percent of the total) is already more cohesive than that of the North American Free Trade Agreement (NAFTA), and there is every reason to expect the trend lines to continue in this direction. But transpacific trade and investment has also continued to grow, albeit at a slower pace. The proliferation of Asian fora (ASEAN, ASEAN + 3 Ministerial, Asian Bond Fund, Chiang Mai Initiative, Asian Cooperation Dialogue, and East Asia Summit) is a logical outgrowth of the rapid growth of pan-Asian trade and investment patterns. These fora also point to a growing sense of still inchoate, but evolving, Asian identity. The policy challenge is to find the proper nexus between intra-Asian and transpacific economic and institutional integration.

The Asia-Pacific Economic Cooperation (APEC) forum is the regional economic institution that is transpacific and consistent with global norms. APEC, however, has lost its early trade liberalization dynamism and is now facing competition from new fora such as the East Asia Summit and burgeoning efforts at pan-Asian FTAs. It will be critical for U.S. interests and Asia-Pacific stability that the region's leaders avoid blocs that distort trade and investment. A positive scenario for 2020 would be the emergence of a healthy array of mutually reinforcing institutions embedded in the global institutions, with APEC at the center. However, the region's architecture is emerging in fits and starts without the kind of strategic vision that guided the development of the European Union or North American Free Trade Agreement.

China is embracing multilateralism based on the principle of "noninterference" in the internal affairs of others and a "low bar." China's

participation is welcome, but internal affairs do matter in the process of integration and cooperation. It is essential to its own interests and those of the international trade system that China make every effort to implement fully its existing WTO commitments. While free-trade agreements can give added energy to multilateral trade liberalization, not all of them are of equal value. Preferential trade deals that do not cover substantially all sectors and do not create prompt commitments to new openings are a diversion of time and resources that may hinder Asia's move toward freer trade.

The region's agenda is just as important as who sits at the table. The United States will need to increase efforts with Japan and other like-minded countries to advance an agenda that supports democracy, rule of law, and modern norms for internal regime behavior.

There are, of course, significant obstacles to such integration in Asia, such as Sino-Japanese rivalry, historical neuralgia, different political systems, and natural resource competition. Nevertheless, a regional architecture is incrementally taking form, and out of the proliferating fora, its direction will be more evident in 2020. Shaping the outcome of this untidy process to minimize harmful impact on our interests is a challenge on which the United States and Japan must closely consult.

History

History has yet to end in Northeast Asia. Indeed, the past remains an unresolved issue in the domestic politics of Japan, China, and the Republic of Korea. Over the past five years, much of the debate over history has revolved around the visits made to the Yasukuni Shrine by Prime Minister Junichiro Koizumi. Since 2004, China had conditioned high-level bilateral interactions on the proper handling of the history issue and the ending of visits to the shrine by Japan's leaders. In October 2006, however, both Chinese and Japanese governments sidestepped the Yasukuni issue, and Koizumi's successor, Prime Minister Shinzo Abe, traveled to Beijing to meet with President Hu Jintao of China. In Beijing, Abe and Hu agreed to a joint commission of scholars to study the history of Japan-China relations. The commission held its first meeting in Tokyo at the end of December.

Today in Japan, there is intense political debate over the future of the Yasukuni Shrine and the future of the 14 Class A War Criminals entombed there in 1978, including wartime Prime Minister Hideki Tojo. Public opinion polls in Japan suggest a consensus is forming toward a democratic resolution of the issue. This is vital, as any sustainable outcome must reflect the will and support of the Japanese people.

We are confident that Japan, as a democracy, has the strength to deal with its past and to shape a cooperative future with its neighbors. That future, however, must be a two-way street with regard to dealing objectively with the past.

The United States and Japan: Leading by Example

As the United States considers the evolving structure of international relations in Asia in 2020, there are scenarios we should seek to avoid. In particular, with the rising power, influence, nationalism, and resource needs of Asia's major powers, it is clear that a unipolar U.S. management of Asia is not attainable, and its pursuit could prove counterproductive to adjusting the U.S. role in the region to emerging realities.

For some, a condominium between the United States and China seems the logical future structure for the region. However, as long as the United States and China have different value systems, and absent a clear understanding of our respective interests both regionally and globally, it is our view that such an accommodation overestimates the potential of U.S.-China relations. A condominium with China would put at risk the quality of relations with friends and allies across the region who are wary, if accepting, of China's growing weight and value to the United States, in part as key to achieving strategic balance in the region.

At the same time, however, a bipolar structure with only the United States and Japan facing China would be ineffective, because it would force other regional powers to choose between two competing poles. Some might side with the United States and Japan, but most regional powers would choose strict neutrality or align with China. Ultimately, this would weaken the powerful example of American and Japanese democracy and return the region to a Cold War or nineteenth century balance-of-power logic that does not favor stability in the region or contribute to China's potential for positive change. Stability in East Asia will rest on the quality of U.S.-Japan-China relations, and even though the United States is closely allied with Japan, Washington should encourage good relations among all three.

The best structure for Asia rests on sustained U.S. strength, commitment, and leadership in the region, combined with proactive participation in regional affairs by Asia's other successful powers. An open structure in which Japan, India, Australia, Singapore, and others are leading by example, based on partnerships with the United States and shared democratic values, is the most effective way to realize an agenda for Asia that emphasizes free markets, continued prosperity based on the rule of law, and increasing political freedom. The United States and Japan should also seek to build relationships with countries such as Vietnam, which has a growing interest in being a part of Asia's trading life, and New Zealand, which shares our values. All these efforts should be coupled with measures to expand areas of cooperation with China, while being candid with Beijing about areas of disagreement. Working within Asia in this manner, we believe, will be key to positively influencing the growth and direction of all of Asia, including China, thereby "getting Asia right."

The United States and Japan: Getting the Alliance Right

With the goal of “getting Asia right,” there is the question of where the U.S.-Japan alliance fits within this strategy. Some argue that if we rely too much on the U.S.-Japan alliance, we and Japan will be isolated in Asia. They point to the immediate tensions between Japan and China and between Japan and Korea over historical issues and advocate a shift in our long-term strategy to China. We believe this construct would needlessly weaken our greatest strategic asset in the region—the close U.S.-Japan alliance. The alliance can and should remain at the core of the United States’ Asia strategy. The key to the success of this strategy is for the alliance itself to continue to evolve from an exclusive alliance based on a common threat toward a more open, inclusive alliance based on common interests and values.

One thing is certain about 2020: the United States and Japan will still be the world’s two largest economies with democratic systems and shared values. That is why the U.S.-Japan alliance will continue to shape Asia’s future as it has its past—and be a critical factor in the global equation.

Consider Japan’s role today. Japan upholds international institutions as the second-largest donor to the United Nations, the World Bank, the International Monetary Fund (IMF), and the Asian Development Bank. Polls in 2006 of countries around the world demonstrate that, with the exception of China and Korea, Japan is the world’s most respected contributor of public goods. Japan upholds the balance of power in Asia through its own measured self-defense capabilities and support for U.S. presence. Japan provides relief in cases like the 2004 tsunami, with over \$500 million in grants and the dispatch of its Self-Defense Forces. Japan has become a positive model for economic development, democratic principles, and global cooperation.

The ability of the Japanese economy to sustain such high levels of financial support for the international system will likely decrease in relative terms by 2020, but after 50 years of passivity, Japan’s new leaders are arguing for a more proactive security and diplomatic role that will keep Japan’s weight in the international system high. The United States needs a Japan that is confident and engaged in that way. Turning away from the U.S.-Japan alliance or lowering our expectations of Japan would likely have a negative impact on regional stability and its role in the region. Instead of a Japan that underpins the international system in 2020, it may become comfortable as a “middle power” at best, and recalcitrant, prickly, and nationalistic at worst. Not to encourage Japan to play a more active role in support of international stability and security is to deny the international community Japan’s full potential. But if U.S. strategy continues to have high expectations for Japan that meld with Japanese national sentiment, Japan will stand as a powerful model for the region of what leadership based on democratic values means.

In this regard, we focus on two key elements of the U.S.-Japan relationship—economy and security—and put forth a bipartisan action agenda aimed at

achieving the high expectations we hold for the alliance and its ability to influence the future of Asia.

Economy

Japan is solidly on the road to sustained economic recovery and overcoming many of the nation's structural economic challenges. The arrival of Prime Minister Koizumi and his team of advisers in April 2001 marked a great turnabout in economic history. Nonperforming loans have largely been wiped off the main banks' balance sheets. Corporations formerly saddled with huge debts and unproductive assets made cuts to their balance sheets and today are in the strongest financial position since the early 1980s. Deflation both in terms of assets and consumer prices has largely gone by the wayside. The net result is that Japanese producers and consumers today are more confident in their economy than at any time since the bubble economy burst in 1991.

Three factors, however, still will weigh heavily on Japan's future as an international economic power if not addressed in the coming years.

- The first is government debt. Japan's debt to GDP ratio is steadily approaching 200 percent. If interest rates eventually rise, buoyed by the nation's solidly performing economy, financing this debt load will become increasingly difficult.
- The second factor is demography. Japan's population is in outright decline. By 2015 the percentage of the population over the age of 65 is set to exceed 25 percent, and with it, the difficulties of social support costs and the burden of a rapidly shrinking working population.
- Third, Japan will have to make considerable strides to boost productivity. Although Japanese manufacturers continue to set global standards for efficiency, their strength is offset by low productivity in the service and financial sectors. To boost overall productivity, continuing deregulation will be necessary to give industry a freer rein to innovate and allow the long underdeveloped service sector to expand. Additionally, enhancing returns on assets throughout its economy will be essential. Substantial Japanese investment in emerging areas such as hydrogen cars and fuel cells, nanotechnology, biotechnology—all of which will become new growth sectors in the economy of 2020—is critical.

The strength of China's booming economy over the past decades and its future prospects seem to trouble many Japanese and Americans. Some see the rise of China as a zero-sum game whereby China's gain is our loss. However, a more accurate perspective is that China's emergence as a manufacturing center, especially for U.S. and Japanese companies, has made it all the more dependent on the United States and Japan as its central sources of consumer demand, investment capital, and high technology. Despite China's heightened role as a destination for intra-Asian exports, much of what China imports from other Asian countries, be it raw materials such as wood or intermediate goods such as circuit boards, is then reexported in the form of manufactured goods that American,

European, and Japanese consumers buy. Domestic demand cannot sustain growth at this stage in China's development. Without the "energy" of our know-how, our capital, and our consumption, the "gears" of the great Chinese economic machine would have a hard time turning.

Well into the future, the United States and Japan will hold the keys to economic prosperity and stability in Asia. Our two nations have a primary responsibility to exercise leadership and wise stewardship over the international economic system of which Asia is a major driver. Likewise, we need to consider ways to help each other successfully overcome our respective economic, structural, and strategic challenges. With the Doha Round of international trade talks in disarray, it is all the more important that we consider ways to expand the density and depth of our economic partnership, keeping a clear eye not simply on economics but also national strategy. The United States and Japan need to move quickly toward promoting and ensuring the forces of free trade and economic integration by launching negotiations toward a bilateral free-trade agreement. This would become the hub for an emerging network of FTAs in Asia and provide energy to the whole world economy.

Some may argue that the grounds for a free-trade negotiation do not yet exist. True, much spadework remains to be done to bring Japan's regulatory system in line with its government's commitment to global standards, in turn enhancing market access for foreigners and native entrepreneurs in Japan. In sectors such as pharmaceuticals, telecommunications, medical services, agriculture, information technology, and energy, there are many specific barriers that could be reduced to improve efficiency and expand access. Even where there has been considerable progress such as in financial services, problems remain, especially in relation to the access foreigners have to market their products through, and eventually purchase assets from, the Japan postal system as it goes through privatization.

At the same time, there are powerful internal forces at work that augur well for free trade. For example, the demographic shift in Japan's agricultural sector alone compels a fundamental shift in protectionist policy. The Japanese agricultural sector is in decline, with its contribution to GDP falling by half from 2.4 percent in 1990 to less than 1.2 percent in 2004 (agriculture's contribution to GDP was only one-twentieth that of industry's). The vast majority of farmers are part time, with "agricultural households" earning only one-quarter of their income from agriculture. Moreover, the farming population is in steep decline with the number of farming households projected to fall from 2.9 million today to as low as 2.1 million in 2015. The percentage of farmers over the age of 65 is nearly double those between the ages of 15 and 64. The only segment of the farming population that is expanding in numbers is that over the age of 70. Incredibly, the average age of farm workers in Japan in 2015 will be over age 65, with the elderly especially concentrated in the back-breaking rice cultivation sector. In sum, Japan faces a demographic crisis in agriculture.

Driven by demography, Japan has very strong reasons to liberalize agriculture further and few viable alternatives. Agriculture can and should be a central part of a U.S.-Japan FTA, with all sectors, including rice, on the table. However, such an

FTA needs to weigh the sensitivity of Japan's farmers and "rice culture." An elegant solution to the liberalization challenge could be to phase in a reduction in tariffs over the next 10 years, dovetailing with the retirement of farmers and the decline in the agricultural population. At the same time, Japanese need to realize that liberalization does not mean the obliteration of agricultural industry in Japan. As in the sectors where liberalization has already occurred, such as apples, beef, oranges, and produce, rice farmers will undoubtedly shift to high-quality niches, such as organic cultivation, as well as increase efficiency via economies of scale. Liberalization, even of agriculture, can be a win-win proposition for Japan.

For these reasons, the United States and Japan should declare intentions to commence negotiations on a comprehensive free-trade agreement as soon as possible. While the near-term expiration of trade-promotion authority makes this unlikely before the 2008 election, U.S. and Japanese leaders should nonetheless keep this goal in sight. This agreement would not only harmonize tariffs and customs procedures, it would reach far deeper, aiming toward convergence of the regulatory and investment environment, with the goal of significantly increasing productivity on both sides of the Pacific. An FTA, consistent with Doha obligations, could meaningfully level the playing field and enhance transparency across the board, significantly boosting opportunities for foreigners and newcomers in the Japanese market. Also, an FTA done right would undoubtedly open the door much wider for U.S. investment in Japan, in turn helping Japan meet the challenge of structural adjustment even in the face of an aging society. Over the next 20 years a U.S.-Japan FTA should aim to bring Japan's level of inward direct investment up from 2.1 percent of GDP to the U.S. level of 14 percent of GDP (even so, this would be below the G-7 average of 20 percent of GDP).

Finally, and critically, a WTO-compatible bilateral free-trade agreement could serve as the hub for a network of market economies in the region. In particular, a U.S.-Japan FTA could be part of a web of FTAs that the United States has or is negotiating with Singapore, Australia, South Korea, Malaysia, and Thailand. This would provide a powerful incentive for China to meet its WTO obligations and, importantly, also become part of this web of high-quality FTAs.

In sum, the direct economic benefits of a comprehensive U.S.-Japan free-trade agreement would likely be considerable. However, the political and strategic benefits for all of the members of the Asia-Pacific community would be even greater. For the United States and Japan to sign an economic alliance agreement—based on common core principles every bit as strong as those that underlay the U.S.-Japan Security Treaty—would send a remarkably powerful signal to the region and the world. It would show that, economically and politically, our two nations share the same dreams and aspirations for our people's future and for the stability and prosperity of the world.

Security

The security aspects of the U.S.-Japan alliance have matured significantly over the last several years. Prime Minister Koizumi's leadership and political will have

accelerated Japan's position onto the global stage with deployments to the Indian Ocean, Iraq, and other areas of the Middle East. In this regard, there are two noteworthy measures of the relative strength of our alliance. The first is based on a reflection of how far the alliance has come, and the second is based on its current effectiveness and what is necessary in order to maintain its effectiveness in the future.

There is no denying the advances made in our security relationship. During most of its existence, the U.S.-Japan security relationship operated under two fundamental principles: that the United States will defend Japan and areas under its administration, and that Japan would provide bases and facilities for U.S. forces in country for the security of the Far East. This, coupled with Japan's self-imposed constraints on defense, formed a security framework that compelled an inevitable junior-senior partnership until recent years. Japan's Self-Defense Forces deployments to the Indian Ocean in support of Operation Enduring Freedom and to areas in and around Iraq to assist in the reconstruction effort demonstrated Japan's initiative to make contributions well beyond the geographic scope of East Asia. Japan's active participation abroad better mirrored its global interests and helped to diminish the security hierarchy that typified the U.S.-Japan relationship in the past.

The United States and Japan also worked together in 2005 to make urgently needed military and financial contributions for humanitarian relief after the December 2004 tsunami disaster in Southeast Asia. Further, the United States and Japan, with India and Australia, established the "Core Group" to coordinate and manage the international relief effort until the United Nations was prepared to assume that role. Working with others, our alliance responded to this disaster of enormous scale with speed and with the required substance and magnitude.

To address the growing threat of missile proliferation in the region, the United States and Japan have cooperated to develop missile defense technologies and concepts. The United States and Japan are now in the process of producing and employing a missile defense system, sharing the technological capabilities of the world's two largest economies. By cooperating on this important venture, Japan will benefit from the synergies resulting from a missile defense command and control system, improving its joint operational systems and our bilateral ability to quickly share critical information. To produce and employ missile defense systems successfully together, Japan changed its prohibition on military exports, allowing such exports to the United States. Through all of these measures, the alliance made rapid progress in defense cooperation to meet challenges imposed by the existing security environment.

The second measure is based on our current effectiveness and what we must do to face future challenges. In this instance, even while reflecting on the positive changes that have taken place in the last five years, we recognize that much more can be done to advance our security relationship and thereby support a proactive and positive presence within Asia. What is necessary in this regard is not only greater collaboration on security matters, but a recasting of Japan's role and self-perception in such matters. Japan is a country with global influence. Yet, until

recently, it has strictly limited its reach on security. Although history can explain Japan's reluctance to stand out in this arena, the future demands concerted thought on whether this approach remains sufficient given the challenges ahead and Japan's own desire for a global leadership role.

Japan's peacekeeping, disaster, and humanitarian relief deployments have made significant contributions to the region and areas around the globe. Likewise, over the past several years, Japan's security environment has become increasingly challenging and complicated. The alliance is a key component of Japan's security. However, it is important that Japan shoulder responsibilities in providing for the mainstay of its own defense. This includes missile defense capabilities to protect adequately its people, its critical infrastructure, and areas of U.S. Forces Japan. Adequate defense on the part of Japan also includes effective joint operational command, control, communications, intelligence, surveillance, and reconnaissance (C3ISR) capabilities and capabilities to respond to a variety of contingencies. The United States will continue to be a key aspect of Japan's security; however, Japan must make the alliance more equal by adequately providing for more of the areas required for its own defense.

What Is Required of the United States?

We would be remiss if we did not also acknowledge that one of the most important variables affecting East Asia for good or for ill in the future relates to the positioning of the United States. Though there is little doubt that in virtually every measure of national power, the United States' preeminence will be sustained through 2020, we cannot discount the possibility that our relative influence for shaping events in Asia will be diminished over time. This is far from certain, but in order to keep a leadership role in the region, U.S. policymakers must remain vigilant to encroaching challenges to our influence. In other words, U.S. advantages in Asia are impermanent and should be treated as such.

First, the United States must view itself as an Asia-Pacific power and decide to take part in all aspects of life in Asia. At the best of times, the United States is seen by many Asians as a capricious power, too often driven by narrow domestic interests and ideological imperatives. But even worse in the minds of many is a tendency for prolonged inattention to Asia. Arguably, the United States presently suffers from a strategic preoccupation with another region of the world. If engagement in Asia remains episodic, or lacks sufficient senior-level involvement on the part of U.S. officials, a transition in the region's power hierarchy is possible. Even absent precipitous events, a gradual erosion of U.S. influence could occur if China continues to extend its reach and if the region as a whole loses confidence in the staying power of the United States.

The challenges for the United States to remain active in the life of Asia are many. There are serious questions as to whether or not the United States will have the fiscal and military wherewithal to operate effectively in the region by 2020. Large budget deficits and a growing national debt, military overstretch, and the press of domestic requirements (everything from health care and social security

for an aging population to the need to rehabilitate public education) all could impact U.S. capabilities for influencing Asia, irrespective of Washington's intentions.

Nevertheless, there are solutions available for policymakers in the United States who are determined to retain influence in Asia. But only part of the solution will be found in the deft management of bilateral and multilateral relationships in the region. A sober-minded self-awareness with respect to our challenges is also required as we go forward. We must not only work to get our own economic house in order but must address our military requirements. We noted Japan's ability to bring soft power to the problems of the region and beyond. We recognize the need to improve our ability to bring both hard power and soft power to the table. The Asia-Pacific region is geographically dominated by great oceans, seas, and strategic straits. It is a naval service theater, which will require the United States to continue to pursue military procurements, as well as adopt the appropriate associated military strategies that fit a naval service theater.

Recommendations: An Agenda for 2020

We have divided our recommendations into four categories, primarily to assist interested readers of this report more easily to digest what would otherwise be a lengthy and unwieldy list. Our chosen categories should not imply prioritization, sequencing, or tradeoffs between one category and another. The list of recommendations should be taken as a whole and imply a wide and robust agenda. We offer recommendations for: Japan (unilateral steps for Tokyo to take); for the U.S.-Japan alliance (actions that are largely within the bilateral relationship); for regional policies (actions for the United States and Japan to pursue toward other countries in Asia, and with respect to multilateralism); and for global policies (actions for the United States and Japan to pursue with countries and/or regions outside of Asia and with respect to global/functional issues).

Recommendations for Japan

Japan will face many discrete decisions that are domestic in nature. Although very specific decisions regarding how Japan chooses to organize itself, resolve constitutional questions, and expend resources are decisions that Japan must make for itself, the United States, as an alliance partner with high expectations for U.S.-Japan partnership, has a strong interest in how Japan approaches such matters. It is in this spirit that we offer recommendations for Japan on what objective observers would rightfully note as internal Japanese decisions.

1. Japan should continue to strengthen its national security institutions and bureaucratic infrastructure to facilitate the most effective decisionmaking possible. Modern challenges necessitate that Japan have the capability to manage foreign and security policies, particularly during times of crisis, with speed, agility, and flexibility, while sustaining internal coordination and security of intelligence and information.

2. The ongoing debate in Japan on the Constitution is encouraging as it reflects increasing Japanese interest in regional and global security matters. The debate recognizes existing constraints on alliance cooperation, limiting our combined capabilities. While acknowledging as we did in 2000 that the outcome of this debate is purely a matter to be resolved by the Japanese people, the United States would welcome an alliance partner with greater latitude to engage where our shared security interests may be affected.
3. The ongoing discussion regarding legislation that would allow for the overseas deployment of Japanese forces based on certain conditions (as opposed to the current system, which requires ad hoc legislation in every case) is also encouraging. The United States wishes to see a security partner with greater flexibility to deploy on short notice when the situation warrants.
4. According to figures published by the CIA, Japan ranks in the top five in the world in gross defense expenditures, but number 134 in the world in terms of defense budget as a percentage of GDP. Though we have no particular view on what the right figure for Japanese defense spending is per se, we think it is extremely important that the Japanese Defense Ministry and the Self-Defense Forces are adequately resourced as they pursue modernization and reform. Resources are surely limited given Japan's budgetary environment, but Japan's growing regional and global responsibilities will necessitate new capabilities and support that should be provided.
5. The debate in Japan regarding its self-imposed constraints goes hand in hand with its desire to become a UN Security Council permanent member. As a permanent member, Japan would be a part of the decisionmaking body charged with compelling others to comply with its determinations, sometimes including the use of force. The inequity of participating in this decisionmaking without contributing to the full scope of possible responses is a matter that Japan should address as it seeks permanent membership. The United States should actively continue to support this goal.

Recommendations for the U.S.-Japan Alliance

Despite significant progress since our report in 2000, investment and work in the bilateral relationship must intensify to meet continuing changes in the economic and security environment. As noted in the introduction of the attached annex, we sought to preserve consistency in the nature of the recommendations contained in the main body of our report. Thus, we created an annex for the presentation of our recommendations in the military and security area, which are in many cases tactical, specific, and esoteric. What follows are recommendations that are broader in scope.

1. The United States and Japan should continue to strengthen military and security cooperation through a number of specific measures (see attached annex).
2. The U.S.-Japan global alliance remains a constant and positive force. The most fundamental aspects of our security commitments, including the U.S.

commitment to defend Japan from nuclear attack, should be reiterated and underscored by our senior-most officials.

3. The United States and Japan should declare intentions to commence negotiations on a comprehensive free-trade agreement. While the pending expiration of trade-promotion authority makes the achievement of an FTA in the near term unlikely, U.S. and Japanese leaders should nonetheless keep this goal in sight. A Doha-consistent agreement would have direct economic benefits for the United States and Japan, and the political and strategic benefits for all members of the Asia-Pacific community would be even greater.

Recommendations for Regional Policies

The U.S.-Japan alliance will continue to shape Asia's future. But it is possible to imagine two very different potential futures for Asia depending on how our alliance orients toward the region. One future, less optimal in outcome, would be marked by a narrow, limited, and insular engagement. A second, contrasting future would be defined by the alliance as a proactive force for positive development in the economic, political, and security life of the region. Our recommendation is to endorse and implement an activist agenda that rests confidently on the proposition that Asia and its people will be far better off for a U.S.-Japan alliance that embraces a robust agenda for shaping Asia.

1. The United States and Japan are arguably the two countries whose interests will be most affected by China's future direction—and they are also the two countries with the greatest influence to affect that direction. The United States and Japan should consult closely to develop a coordinated alliance approach to China. Part of this approach must acknowledge that China's interests are converging with those of the United States and Japan in certain areas and thus should seek trilateral cooperation where there are potential gains from such efforts. While Chinese interests may overlap with those of the United States and Japan, they are not identical. The United States and Japan should seek to illuminate a path for China to become a responsible stakeholder, with key points of demarcation requiring more active Chinese cooperation in urging regimes such as North Korea and Iran to change their behavior and employing only peaceful means in its approach to Taiwan.
2. The United States and Japan should strengthen their respective strategic partnerships with India and should seek appropriate opportunities for trilateral cooperation. A shared belief in democracy and human freedom can be the political foundation for strengthening ties. But the United States and Japan should also work to support and encourage India to deepen, qualitatively, market-based economic reform and deregulation as a key underpinning of its strategic posture.
3. The United States and Japan should continue to foster efforts at enhanced cooperation in security, with a near-term focus remaining on the Korean peninsula. In addition, the United States and Japan should be proactive in

identifying functional issues among the five major powers in Northeast Asia (the United States, Japan, China, the Republic of Korea, and Russia) that may be well suited for multilateral approaches at problem solving. If such efforts prove effective in advancing U.S. and Japanese interests, a Northeast Asia framework could evolve into a subregional component of any larger regional architecture.

4. The United States and Japan should encourage an integrated ASEAN—one that not only expands relations with the United States, China, and Japan, but one that addresses its internal business based on the norms and security practices the United States and Japan espouse. Key to ASEAN's future is the realization of its goal to establish a single economic and financial space. Leaders in Indonesia are thinking about such a future for ASEAN, but its latitude for cooperation will be affected by how well its own economy grows and its citizens prosper. The United States and Japan should support Indonesia's efforts to bring prosperity, democracy, and security to ASEAN countries.
5. Australia-Japan relations and U.S.-Australia-Japan trilateral cooperation are at a nascent stage but growing. The United States and Japan should intensify efforts to ensure we are fully leveraging the synergies available from trilateral cooperation among these three long-standing democracies, which are like minded on issues ranging from human rights and religious freedom to the spread of economic success. This trilateral cooperation should be political as well as operational.
6. The sea lanes are the lifeline of Asia. As maritime nations, the United States and Japan bring important capabilities to the fore on issues such as maritime security and antipiracy. As the region debates multilateral approaches to security of sea lanes and safety on the high seas, the United States and Japan should sustain leadership roles in the formulation and implementation of regional maritime security policies.
7. The United States and Japan should begin work now to set the stage for an effective APEC summit in Japan in 2010, the Bogor goals deadline for liberalization of advanced economies. This would be a stepping stone to realizing the U.S. vision for an Asia-Pacific free-trade area.³
8. The United States and Japan should work together to shape a complementary relationship between Pan-Asia fora, such as the East Asia Summit, and existing transpacific institutions, particularly APEC and the ASEAN Regional Forum. The United States and Japan should regularly caucus with one another, and with countries that share our values, to encourage regional organizations to promote agendas that support democracy and the rule of law.

³ In 1994 at the APEC meeting in Bogor, Indonesia, APEC leaders agreed to work toward the “the long-term goal of free and open trade and investment in the Asia-Pacific” to be effected “no later than the year 2020.”

Recommendations for Global Policies

The U.S.-Japan alliance has global reach and global impact. With increased capabilities and clear political commitment, the alliance stands to be a positive force on a wide range of global issues. By 2020, we expect the United States and Japan will remain two of the most significant democracies, with the economic and military wherewithal to affect life literally on every square foot of the globe. This carries burdens and responsibilities and, in our view, necessitates a sophisticated strategy for global engagement as an alliance.

1. The United States and Japan should strengthen energy cooperation. The dialogue of major energy consumers (the United States, Japan, China, India, and the Republic of Korea) should build an agenda based on shared interests as oil importers in support of market forces, energy efficiency, and technology, rather than territorial claims and resource competition that cannot meet the individual energy security requirements of any nation. The principle should be that energy security is not a zero-sum game. The appointment of a Japanese to head the International Energy Agency underscores the importance of integrating China and India fully into that agency, whose responsibility for coordinating energy security policies will grow in the future.
2. The U.S.-Japan alliance is well suited to strengthen and integrate national and regional efforts to address climate change, acting as a bridge between industrialized and developing countries in Asia and across the globe.
3. The global war on terrorism is a misnomer that fails to identify the problem accurately. It is in fact a fight against extremism only a small portion of which can be addressed by military means. In countering extremism and encouraging progress in the Arab world, as outlined in the UN Arab development reports, Japan's abundance of soft power could be directed at the long-term sources of extremism. Strategically setting its soft power—such as development assistance—to counter growing extremism and provide alternatives is a worthy global mission for Japan.
4. Japan is ideally suited to be a global leader in efforts to alleviate poverty and infectious diseases and should be encouraged to pursue this role. The United States and Japan should consult regularly on our respective foreign aid strategies to seek synergies where possible, as well as sensible division of labor.
5. The United States and Japan have special responsibilities within global institutions such as the World Trade Organization, the International Monetary Fund, the World Bank, and the World Health Organization. The United States and Japan should sustain their commitment to these vital institutions and should exert leadership in shaping their respective agendas to ensure they are fully leveraged to assist in alleviating global economic and health challenges.

Conclusion

In the report issued six years ago, we reflected on the history of U.S.-Japan relations, noting that for over 150 years, “U.S.-Japan relations have shaped the history of Japan and Asia—for better or for worse.” Looking ahead to the challenges of the new century, it concluded with the observation that the ways in which “the two countries respond individually and as alliance partners will define significantly the security and stability of the Asia-Pacific as well as the possibilities of the new century....”

That judgment still stands.

Indeed, the challenges of the new century—radical Islamic fundamentalism’s attack on Western values, international extremism including terrorism, the proliferation of weapons of mass destruction and their delivery systems, the rise of crossroads states—will require even greater efforts on the part of the United States and Japan, individually and as alliance partners. Our interest is in stability, to which the United States, Japan, China, and all countries in East Asia can play a supportive role. In particular, stability in East Asia will rest on a triangle of U.S.-Japan-China relations, which should be fostered in addition to our strong alliance with Japan. The cooperative efforts that marked Japan’s support for the United States in Afghanistan, its contribution to postwar reconstruction in Iraq, and its early participation in the Proliferation Security Initiative have set a firm foundation for closer future cooperation. We would conclude this report with the observation that to those to whom much has been given, much will be expected.

Annex: Security and Military Cooperation

We have a number of very specific recommendations aimed at improving the quality of security and military cooperation between the United States and Japan. Upon review of the long list of recommendations contained in this report, we observed a disconnect between the nature of recommendations in the military area and those in the economic, political, and diplomatic areas. Whereas the military recommendations are in many cases tactical, specific, and esoteric, our recommendations in other areas are more strategic and general. Thus, in order to preserve substantive consistency among the recommendations contained in the main body of our report, we agreed to create an annex for the presentation of our recommendations in the military and security area.

We recommend the following measures to improve the quality of security and military cooperation between the United States and Japan:

- The United States and Japan should increase capabilities to respond to urgent crises. Japan's capabilities for peacekeeping and humanitarian and disaster relief missions should also be strengthened. Japan should plan for hostage rescue and develop the necessary expertise. Japan should consider raising the priority of these mission areas outlined in its current legislation. Raising Japan's defense capabilities to adequately address these areas is necessary given Japan Self-Defense Forces deployments and the security environment it faces to 2020.
- Japan recently amended its so-called Three Principles on Arms Exports to allow for greater participation in U.S.-Japan missile defense programs. As a next step Japan should lift the remaining prohibitions. The Japanese government should also actively encourage greater involvement of its civilian industrial base in the development of homeland security and national defense technologies and allow funds from its large national science and technology budget to be dedicated to defense-related technology research programs. In particular, in light of recent events, Japan should consider developing a special budget for ballistic missile defense.
- The United States and Japan should consider opportunities for joint development of key systems, subsystems, and related technologies for the CG(X), the successor to the Ticonderoga Class, Aegis Guided Missile Cruiser. CG(X) is destined to play a critical role in both national missile defense and extended air defense against next generation threats.
- As the United States' and Japan's government-to-government and military-to-military relationships improve, we should also establish closer defense industry cooperation. Japan's determination to allow military exports to the United States presents an opportunity for greater efficiencies in the development, maintenance, and production of increasingly costly defense equipment and bolsters interoperability. Reaching an overarching agreement

to secure shared government-to-government classified information will be a key step in this direction. Further, the United States and Japan should develop a forum for the discussion of releasability issues.

- In the interest of better coordination, the United States should encourage the placement of a Japanese Defense Ministry representative at PACOM, and a U.S. military representative at the Joint Staff Office. This should be viewed as a first step toward enhanced operational integration in the region that should occur irrespective of Japan's internal decisions on collective self-defense.
- The Bilateral Coordination Mechanism developed during the Guidelines for U.S.-Japan Defense Cooperation is an excellent framework. However, bilateral coordination should expand to the operational level by fully exercising a Bilateral Joint Operation Command Center.
- Intelligence sharing has rapidly improved. Intelligence cooperation must increase even further to address nuclear and missile proliferation, extremism and terrorist activities, and other global contingencies. To better facilitate this, Japan should increase its capacity to receive and process greater quantities of intelligence products. The United States and Japan should be closely aligned in National Geospatial-Intelligence Agency activities.
- We welcome Japan's interest in the use of space to enhance security cooperation in the areas of communications, early warning, and intelligence, and note with interest the willingness of the Diet to discuss the matter.
- The United States should deploy a squadron of F-22s to Japan at the earliest possible moment. The United States should seek to ensure that the Japan Air Self-Defense Force (JASDF) has access to the most advanced fighter systems in the U.S. inventory, to include the F-18E/F, F-22, and F35 and/or upgrades to its existing F-15s.
- As the security environment evolves, as well as the manner in which we address our global interests, the alliance should undergo a review of roles and missions to strengthen bilateral cooperation, identify areas to increase capabilities, and improve our bilateral command-and-control systems.