



Asia's Great Powers and Regional Stability: A New Trilateral Dynamic between the United States, China and Japan

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I. Introduction

The Forum on Asia-Pacific Security (FAPS) of the National Committee on American Foreign Policy (NCAFP) hosted two days of Track 1.5 meetings in Beijing from October 19-20, 2015.

This report is not so much an effort to summarize the rich discussion at the trilateral meeting, as it is an effort to analyze the complex and fragile nature of trilateral relations today and to offer suggestions to all three sides for improvement in their ties with each other. In contrast to our May report, which focused on the structural changes in the balance of power and the strategies of China, Japan and the United States, this meeting focused on the interactions between and among the bilateral relationships that comprise this trilateral and the policy agenda for cooperation in ensuring stability in the Asia Pacific during this time of geostrategic change.

The participant list for the trilateral meeting appears in the appendix.

II. Context

The U.S.-Japan-China trilateral meeting took place as diplomacy between Japan and China was progressing slowly towards a restoration of trust and predictability between the two governments. Political and business leaders from Japan were increasingly visiting China to repair ties, and a third meeting between President Xi Jinping and Prime Minister Shinzo Abe was anticipated for the fall. U.S.-China ties, however, were strained at the time of our meeting. While President Xi and President Barack Obama had met in September in Washington, DC, the summit was largely focused on the difficulties in the relationship, including sensitive issues of cyber attacks on the U.S. government and commercial entities, the continued tensions in the South China Sea and the growing U.S. concern over the Chinese discussion of a more restrictive NGO law that suggested a crackdown on foreign journalists and NGOs and could even impinge upon U.S.-China people-to-people exchanges, including students. At the time of our meeting, the issue of the U.S. Navy's plans to conduct Freedom of Navigation (FON) operations in the vicinity of Chinese-claimed islands in the South China Sea was a conspicuous source of concern,

not only for China but also for Japan. Allied expectations of U.S. leadership in opposing China's land reclamation in the Spratley Islands (what Chinese refer to as the Nansha Islands) were high, and the Obama Administration's delay in conducting FON operations until after the summit meeting frustrated many in Tokyo.

As the May report of our trilateral discussion in New York suggested, the changing balance of power in the region puts new pressures on the major power relationships of Asia. Governments of all three – Japan, China and the United States – are finding it increasingly difficult to find common cause, despite the sense that they all share an interest in maintaining and sustaining a prosperous and stable Asia Pacific. Tensions and strains in both the China-Japan and China-U.S. relationships seem unlikely to disappear despite efforts by leaders in all three capitols to improve ties. Moreover, the U.S. and Japan are also finding that geostrategic change is transforming their alliance, and raising new questions in Tokyo about Washington's ability to manage a rising China.

This year, the United States and China were at odds over a number of policy differences. Xi's visit to Washington in September created some hope for resolving these differences, but some important challenges remain. In particular, tensions in the South China Sea highlight just how sensitive many in Japan have become to how the United States manages its strategic relationship with China, and demonstrates the policymaking challenges inherent in managing these relations among these three Asian powers. While the state of bilateral ties between them remains an important and immediate focal point for improvement, the increasingly complex interactions between and among these bilaterals should not be overlooked or underestimated. The following report is an effort to provide some context for assessing and analyzing the trilateral relationship.

III. Increasing Difficulties in Sino-American Relations

Since our last meeting, the United States and China have added new troubles to its policy agenda. A cyber attack on the Office of Personnel Management (OPM) and growing tensions in the South China Sea topped the list of concerns discussed during President Xi's visit to the United States in September. American reaction to the hacking of personal records on an unprecedented scale has been harsh. Prior to Xi's visit, President Obama spoke openly of the strain this placed on the US-China relationship, and even suggested that the United States was prepared to sanction China for commercial cyber activity against U.S. companies.¹ In the South China Sea, land reclamation by China on islands contested by others in Southeast Asia also drew American attention. The Obama Administration called on Beijing and other claimants in the South China Sea to "stop land reclamation, construction of new facilities, and militarization of

¹ "Remarks by the President to the Business Roundtable," The White House, September 16, 2015. <https://www.whitehouse.gov/the-press-office/2015/09/16/remarks-president-business-roundtable>.

outposts on disputed areas.”² U.S. naval leaders in the Pacific openly accused China of creating a “great wall of sand” in the waters of Asia,³ and continue to demonstrate U.S. interest in activities there⁴.

The summit in September created opportunity for direct discussion over these two sensitive security issues, and some initial effort to resolve these differences. On cyber, the United States and China reached an understanding on the need to prosecute those companies and other entities engaged in cyber attacks for the purpose of stealing proprietary information. A senior experts group will discuss norms for state behavior in cyberspace, and hold a dialogue on how to enforce domestic laws against commercial cyber attacks.⁵ While this marks a significant departure for Beijing in recognizing the seriousness of the cyber threat to its commercial relations not only with the United States but also with other global markets, the implementation of this agreement remains to be monitored. On the South China Sea, however, China has taken issue with these U.S. claims, arguing in particular that its activities are well within its rights given the building that has taken place on other contested islands in the Spratly’s. Nonetheless, at the end of his meeting with President Obama, China’s president noted that his country had no intention of “militarizing” the South China Sea.⁶ Just how each country defines militarization, and what behaviors the U.S. and China can agree are to be avoided, remains to be seen.

As more than one participant noted, there is a growing pessimism in the United States about the relationship with China. Obama and Xi found common cause in many other issues that received far less media attention, including an important agreement on how to manage military interactions in the air, the effort to prevent unanticipated or mistaken clashes between the American and Chinese militaries, progress on the bilateral investment treaty, and other mechanisms for regional and global cooperation, including HA/DR and Afghanistan. Yet there is a growing sense on Capitol Hill and beyond that U.S. and Chinese interests may not be reconcilable. Many in the United States see Beijing as pursuing a clear strategy of overtaking the United States as the dominant global power, while many in China argue openly for the accrual of political influence commensurate with China’s economic achievement. The assumption that these are the inevitable tensions between a rising and status quo power seem difficult to resist.

² Remarks by National Security Advisor Susan E. Rice on the “U.S.-China Relationship” at George Washington University, September 21, 2015. (<https://www.whitehouse.gov/the-press-office/2015/09/21/national-security-advisor-susan-e-rices-prepared-remarks-us-china>).

³ Simon Denyer, “U.S. Navy alarmed at Beijing’s ‘Great Wall of sand’ in South China Sea,” *Washington Post*, April 1, 2015. https://www.washingtonpost.com/world/us-navy-alarmed-at-beijings-great-wall-of-sand-in-south-china-sea/2015/04/01/dda11d76-70d7-4b69-bd87-292bd18f5918_story.html.

⁴ James Pearson and Ben Blanchard, “U.S. Admiral says his South China Sea surveillance flight ‘routine’” Reuters, July 20, 2015. (<http://www.reuters.com/article/2015/07/20/us-southchinasea-usa-idUSKCN0PU08720150720#xC5uMdb4ZzcliPVW.97>).

⁵ “FACT SHEET: President Xi Jinping’s State Visit to the United States,” The White House, September 25, 2015. <https://www.whitehouse.gov/the-press-office/2015/09/25/fact-sheet-president-xi-jinpings-state-visit-united-states>.

⁶ “Remarks by President Obama and President Xi of the People’s Republic of China in Joint Press Conference,” The White House, September 25, 2015. <https://www.whitehouse.gov/the-press-office/2015/09/25/remarks-president-obama-and-president-xi-peoples-republic-china-joint>.

Yet participants were convinced that the United States and China must avoid a Cold War type standoff, and must cultivate cooperation as a means of avoiding the Thucydides trap. As one U.S. expert noted, pessimism is always the wrong approach to policy, as it leaves no policy options. A Chinese expert noted similarly that there is much to be positive about, and argued that the Xi-Obama summit successfully stabilized bilateral relations. Nonetheless, he warned that the stability is fragile. Achieving progress on the issues that trouble the relationship the most will be important to preventing a return of suspicion and reaction in the U.S.-China relationship. Looking ahead, making demonstrable progress on issues of disagreement will be important. Issues cited during our discussion included cyber security, economic integration and especially bilateral investment treaty (BIT) and climate change.

Yet the dissonance remained over two important issues. The first is the now well-known differences that have emerged over creating what the Chinese saw as a “new type of major power relationship,” and the ultimate U.S. rejection of this concept for thinking about the relationship. While at first, this approach seemed to suggest a mutual desire to avoid a Cold War standoff, with time it seemed clear that this phrase masked rather than resolved some of their critical differences over the future of the Asia Pacific. Obama Administration officials seemed willing to give the phrase a try,⁷ but it became increasingly clear to U.S. officials that this was being used by Beijing to discredit U.S. commitments to its allies and to suggest that the United States had in fact accepted quietly China’s role as Asia’s most leading power. Nothing could be further from the truth, and while China’s leaders, including President Xi continue to define their efforts at building closer relations with the United States in this way, the Joint Statement for the Xi-Obama summit included no such reference.

The second issue of continuing difference also relates to the future of the Asia Pacific, and this of course is the growing tension over the South China Sea. During the meeting, this difference emerged early—even prior to the discussion over regional security perspectives, demonstrating how much influence this issue has over the bilateral relationship. It is worth noting that the tensions in the South China Sea was highlighted most strenuously by a Japanese participant, revealing just how sensitive the maritime order in Asia is not only to China and the United States but also to many of China’s neighbors and U.S. allies. Our meeting took place just a little over a week before the USS Lassen (DDG-82) conducted its FON operation within the 12 nm of Subi Reef, one of the islands being built up by China⁸ The intention of the U.S. government to carry out this type of operation and the Chinese discomfort with this were fully discussed, with one Chinese participant warning that this would prompt China to declare its sovereignty and to draw base lines around the islands to define its territorial waters. Ultimately, the underlying concern about China’s growing coercive power leads to deepening suspicions as to what the land reclamation and building of structures on these islands is ultimately designed to accomplish. While Chinese participants emphasized the commercial aspects of these islands

⁷ “Remarks as Prepared for Delivery by National Security Advisor Susan E. Rice,” The White House, November 21, 2015 (<https://www.whitehouse.gov/the-press-office/2013/11/21/remarks-prepared-delivery-national-security-advisor-susan-e-rice>).

⁸ Jim Sciutto and Barbara Starr, “U.S. warship sails close to Chinese artificial island in South China Sea,” CNN, October 27, 2015 (<http://www.cnn.com/2015/10/26/politics/south-china-sea-islands-u-s-destroyer/>).

(as resorts and other tourism related businesses), others across the region see the beginnings of a more assertive military presence in the Spratley Islands. As the preeminent Asian military power, the United States is expected to counter this growing forward presence of China in the region and beyond.

A final issue that came up in our conversations was the extent to which U.S. policy towards China was predictable. The emerging debate among U.S. presidential candidates suggests that foreign policy, and indeed China, will feature prominently in the coming months as Republicans and Democrats seek to replace President Obama. Even Japanese participants wondered aloud as to the future of the Obama Administration's rebalance strategy and what the consequences of a change in government in Washington might mean for U.S.-China relations.

IV. Improving Japan-China Ties

Japan-China relations have improved over the past months, and Chinese and Japanese participants noted that their bilateral relationship was back on steady footing. As noted in the last report, Prime Minister Abe and President Xi had met twice at regional meetings, first at the APEC meeting in Beijing and again in June at the Bandung conference in Jakarta. Moreover, private leaders from Japan were visiting China, accompanied by large delegations from the Japanese business community.⁹ Another large delegation of Japanese industrialists led by Chairman of the Japan-China Association on Economy and Trade Muneoka Shoji, Chairman of the Japan Business Federation (Keidanren), Sadayuki Sakakibara and Chairman of the Japan Chamber of Commerce and Industry Akio Mimura was due in early November.¹⁰

Both Japanese and Chinese participants noted the accomplishments of this diplomatic effort for restoring ties between their two countries. Most noticeable have been the increasing evidence that the two economies are returning to their normal patterns of interaction. More and more Chinese tourists were visiting Japan, demonstrating the renewed confidence at the people-to-people level in the relationship as well as contributing visibly to Japan's economic growth. Thus far in 2015, it is estimated that 4,283,700 Chinese tourists have visited Japan,¹¹ helping Japan meet its 2020 target for expanded tourism well ahead of time. Moreover, spending by Chinese visitors accounts for nearly half of what foreign visitors spent in the country this year.¹² Japanese interest in investing again in China seems also to be increasing, although it remains below the rate of growth witnessed prior to the island tensions in the East China Sea in 2012-

⁹ "China's Xi offers hand in friendship toward visiting Japanese delegation," Asahi Shimbun, May 24, 2015 (http://ajw.asahi.com/article/behind_news/politics/AJ201505240018),

¹⁰ "Li Keqiang Meets with Japanese Business Delegation," Ministry of Foreign Affairs of the Republic of People's China, November 5, 2015 (http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1312511.shtml).

¹¹ "Honichi gaikyakusuu (2015 nen 10 gatsu suikeichi) [The Number of Visitors to Japan (Estimated Number as of October 2015)]," Japan National Tourism Organization, November 18, 2015 (http://www.jnto.go.jp/jpn/news/press_releases/pdf/20151118_2.pdf).

¹² Jun Hongo, "Japan Likely to Hit 2020 Tourism Goal Early, Thanks to Chinese Visitors," *Wall Street Journal*, November 18, 2015. (<http://www.wsj.com/articles/japan-likely-to-hit-2020-tourism-goal-early-thanks-to-chinese-visitors-1447846034>.)

13.¹³ Chinese policymakers, including Xi himself, have again emphasized the benefits to their nation of a restored economic partnership with Japan, and regional municipalities in particular are anxious to gain access to greater Japanese investment.¹⁴

But participants also noted the continued strategic distrust between the two neighbors. The 70th anniversary of the end of World War II is coming to a close, but the discussion focused still on the divergence in perspectives on how to look back. Japanese attitudes towards the past are closely tied to this strategic distrust, as Chinese experts continue to point to what they perceive as a tendency in Japan to downplay their wartime responsibility. But both Chinese and Japanese also view contemporary military capabilities and behavior as another cause for concern. Japan's new military reforms drew particular attention from Chinese experts, suggesting that many Chinese see Prime Minister Abe as leading Japan on a new and dangerous path of military expansion. Japanese participants in contrast focused on what they see as assertive Chinese behavior in and around islands claimed by others in the region, as well as the broader expansion of Chinese maritime activities in the open seas.

V. Maritime Stability and the South China Sea

The most sensitive issue of the conference was the South China Sea. A Chinese participant issued a stern warning that the United States should not conduct FON operations near the islands under construction by China in the Spratleys, arguing that it would push China into a corner. The participant went on to point out that Beijing had not declared waters around these islands as territorial waters, and had not drawn baselines, but a US FON operation would require a response. In response, an American expert stated that the United States policy had already been made, and it was just a matter of time (days or weeks) before the FON operation would take place. A Japanese participant, while deeply critical of China for its island building in the South China Sea, expressed frustration that the U.S. Navy had yet to conduct such operations and stated his support for a Japanese FON if necessary. (As it turned out, the *USS Lassen* transited the waters of Subi Reef just 9 days after our meeting.) Beyond these exchanges over the anticipated U.S. FON operation, the larger question of Chinese military intentions and the anxiety produced by China's military activities continued to dominate the discussion. The United States and China have made progress on their military-to-military risk reduction agreements, as noted in our last report, but the Japan-China discussions on risk reduction in the East China Sea have yet to conclude.

¹³ Tetsuya Abe, "Japanese investment in China falls 16% in first half," *Nikkei Asian Review*, July 21, 2015 (<http://asia.nikkei.com/Politics-Economy/Economy/Japanese-investment-in-China-falls-16-in-first-half>). Historical data from 1995-2014 is available on Japan Trade External Organization (JETRO)'s website (<https://www.jetro.go.jp/en/reports/statistics.html>).

¹⁴ "China's trade minister concerned about falling Japanese investment - business delegates," Reuters, September 23, 2015 (<http://uk.reuters.com/article/2014/09/23/uk-china-japan-investment-idUKKCN0H118020140923>).

The differences over the South China Sea in many ways highlight the security dilemma for the United States, China and Japan inherent in this moment of geostrategic change. For much of Asia, the shifting balance of power in the region is unsettling, and no issue creates more anxiety than the growing military power of China. How that power will be used, and to what impact on China's neighbors remains a deep concern. Chinese experts point to the fact that other claimants in the South China Sea have already built structures there. One Chinese participant pointed out that the U.S. did not take issue with those actions, and instead singles out China for criticism. U.S. participants emphasized that China seemed increasingly willing to assert its maritime claims rather than negotiate them, and this was perceived by many in the region as coercion. Japanese participants noted their concern with future maritime security in Asia. Was China increasingly going to challenge the norms and behavior of others through the use of its civilian and military maritime forces? All participants noted the recently concluded military-to-military agreements with the United States, and welcomed this effort to avoid miscalculation and reduce risk of inadvertent conflict in the region. One American participant asked for an update on the Japan-China military talks, but no progress report was forthcoming. But the smaller states on China's periphery have no military capabilities of their own and thus this approach is less appropriate. Instead, a regional forum for dispute resolution and peaceful negotiation of maritime interests is required. Can China move forward with others in the ASEAN on a Code of Conduct that includes a multilateral mechanism for dispute resolution? If not, will China embrace international regimes for resolving territorial and maritime differences, such as the International Court of Justice or the United Nations Convention on the Law of the Sea (UNCLOS)? The Philippine effort to encourage arbitration of these differences with China via the UNCLOS Tribunal, for example, offers the opportunity for third party adjudication of maritime boundary disputes in the South China Sea.

VI. Conclusions and Policy Recommendations

For some time, the idea of a formal trilateral discussion between the United States, Japan and China has been considered but not acted upon. Today, however, as the interactions among these three major powers carry such significant implications for the future of the Asia Pacific, the need for such a trilateral seems stronger than ever. Three aspects of the relationship between Beijing, Tokyo and Washington seem to argue for a formal discussion on what must be done to ensure the future prosperity and stability of Asia.

First, the security dilemma suggests that strategic distrust will be difficult to diminish through bilateral diplomatic effort alone. Moreover, discord in one bilateral often spills over to affect the health of another. When Japan-China relations deteriorated, U.S.-China relations were also affected. Similarly, when U.S.-China relations are strained, it puts stress on Japan-China diplomacy. While all three major powers may not be in sync at all times, the relationships have become much more sensitive to each other and the fluidity of the balance of power increases the propensity for policymakers in all three states to see their interests sacrificed in the service of improvements in the other bilateral. Our conversation in Beijing revealed that experts from all three of these nations continue to view each other with considerable skepticism, and

view the bilateral relations of the other two nations as potentially harmful to their interests. This kind of zero sum dynamic within the triangle of Japan-China-U.S. relations can only be mitigated through sustained attention to lessening the causes of the security dilemma.

Second, the implications of this security dilemma extend far beyond the three powers themselves. The state of relations between Japan, China and the United States will also determine the fate of Asia Pacific multilateralism. Strategic competition among them would likely end all serious effort to build a regional security and economic architecture. To date, the ASEAN-based multilateralism has served the region well, providing frameworks for confidence building and for building a consensus around the goals and behavior of all states in the region. Major power competition in the region, however, undermines the ASEAN effort and threatens to split Southeast Asian unity. The United States, Japan and China must invest in building these institutions and in giving them primacy in the task of resolving differences in regional governance. A trilateral effort to identify a path forward for regionalism in Asia would be a valuable accomplishment, and could signal the mutual commitment to resolving differences through negotiation and accommodation. It would, however, go a long way in regionalizing the effort to avoid the Thucydides trap.

Finally, all three nations depend on and sustain the economic dynamism of the Asia Pacific, a region that is rapidly becoming the core of the global economy. Together, these three leading world economies must sustain and promote the prosperity of Asia. Consultations on how to develop regional economic cooperation, particularly in investment and trade, will be critical, but so too will be careful consideration of best practices for meeting the infrastructure and development needs of other Asian economies. A trilateral conversation on how to develop complementarity between existing institutions, such as the ADB and APEC, and new initiatives, such as the AIIB and TPP, to coordinate their missions could promote the overall quality of economic cooperation in the Asia Pacific region.

The relationship between the Asia Pacific's three great powers—the United States, Japan and China—will define the international politics of the twenty-first century. It is impossible to imagine a stable, peaceful and prosperous Asia if there is strategic confrontation or conflict between the United States and China or between Japan and China.

Some degree of strategic rivalry between these three powers is perhaps inevitable. But it is not inevitable that this rivalry must lead to conflict.

The Asia Pacific's three great powers can and should work together to address rising tensions, shared areas of concern and areas of potential cooperation. As the three largest economies of the world and major military powers in the region, the three states have much to lose by not working together.

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