



Oscar Wilde wrote, "When the gods wish to punish us, they answer our prayers." Perhaps this is how Kurt Campbell feels today.

Campbell, after all, as assistant secretary for East Asia in Hillary Clinton's State Department, was a key architect and proponent of the "pivot to Asia", which was meant to elicit satisfactory behavior from China - and, in the process, demonstrate US leadership and relevance - by confronting the PRC with a phalanx of Pacific democracies (plus Vietnam of course) determined to impose liberal security, economic, and human rights norms on the rogue superpower.

The inevitable result of US backing has been an increased willingness of the Philippines, Vietnam, and Japan to stand up to China, which has contributed a virtuous cycle of Chinese hostility and a further defensive cleaving of the smaller nations to the United States.



The less-than-desirable by-product has been the tendency of the pivot's designated junior partners to tug at the dragon's whiskers for national and domestic political reasons, secure in the knowledge that the United States must back them up, even if the confrontation runs contrary to long-term US interests and objectives for the region.

In the case of Japan, adventurism has gotten out of hand, and the US is responding with anxiety, a shift in policy, and a sea-change in nomenclature.

History will judge if Prime Minister Shinzo Abe is the architect of Japan's renaissance, or merely an opportunistic and short-sighted nationalist. In any case, he has already demonstrated a willingness to stir the Pacific pot in ways that excite the anxiety of the United States.

The United States' discomfort at Japan's eagerness to hype the Senkaku/Diaoyutai Island dispute as a useful point of friction with China has become palpable.

Kurt Campbell, now ensconced in the private sector on the board of the Center for a New American Security think tank, chose to reveal to the Kyodo News Agency that the US government had advised Japan against the nationalization of three of the Senkaku Islands, the provocation that sparked this year's Sino-Japanese brouhaha:

The Japanese government consulted with the State Department prior to the purchase, Campbell revealed, and was given "very strong advice not to go in this direction."

The US government, in urging Japan not to follow through with the purchase, stressed the action could "trigger a crisis" with China, which claims the islands for itself.

"Even though we warned Japan, Japan decided to go in a different direction, and they thought they had gained the support of China, or some did, which we were certain that they had not," Campbell said. [1]

Stroking the Senkaku fetish might be excused as an unavoidable political imperative for Abe, given the rise in anti-Chinese feeling in Japan. However, under Abe the Japanese government has unilaterally undertaken a series of other moves to strengthen the hands of Pacific nations seeking to counter China.

In recent months, the Japanese government has agreed to provide 10 patrol boats to the Philippines; enticed Taiwan to abandon its anti-Japanese stance on the Senkakus (which, as a matter of proximity, really belong to Taiwan) by granting Taiwanese fishing vessels the right to fish near the islands (though not within the 12 mile limit); offered its economic good offices as an alternative to China as a destination for Mongolian coal; and scheduled talks with Vietnam on cooperation in "maritime security", also known as the provision of patrol boats along the Philippine model.

The spectacle of the Japanese government cutting all sorts of anti-China deals in Asia on its own kick raises the specter of an independent Japanese security policy and, with it, the kind of destabilization that the US pivot to Asia was meant to pre-empt.

As Peter Ennis reported in Dispatch Japan, the Obama administration was determined to reign in Prime Minister Abe's anti-China shenanigans during his March visit to Washington: In a brief Oval Office appearance with Abe, Obama spoke not one word about the Senkakus, China, Okinawa, or even a "joint vision" of the sort announced with Noda. Abe tried his best to criticize China, very indirectly, but adhered to US desires to not rile-up Beijing. ...

Neither Obama nor Secretary of State John Kerry took the seemingly easy step of reiterating the January 18 statement by then-Secretary of State Clinton outlining American opposition to any effort at unilateral change of Japan's administrative control of the Senkakus. This was a far-cry from Abe's initial desire for a strong statement from Obama specifically mentioning China. ...

Obama embraced the US-Japan alliance, but did not embrace Abe. [2] Unfortunately for the United States - and the pivot - it looks like the Japanese military cat is permanently out of the bag, as a result of Japan's growing unwillingness to accept the second-class military status imposed upon it by its defeat in World War II.

The Abe government is determined to revise Japan's "pacifist" constitution and dilute its restrictions on military operations outside Japan's borders once the LDP gains expected dominance of the Diet's upper as well as lower house - and the ability to unilaterally amend the constitution - following elections in July.

Actually, a lot of nibbling has already taken place. Recently, the Japanese cabinet decided that Japanese ground forces could be dispatched overseas "to assist in the evacuation of Japanese nationals" from danger zones. Defense Minister Itsunori Onodera asserted Japan's legal right to engage in preemptive strike to forestall an imminent attack, while stating that Japan had not developed that capability "as yet".

During Prime Minister Abe's visit to the United States, the Japanese team also touted the concept of "collective self-defense", which states that the Japanese self-defense forces could come to the defense of an ally, ie fight a war outside Japan's borders as long as it was "defending an ally". To demonstrate the benefits of the collective self-defense posture, the Japanese team also suggested that Japan's missile defense network would be pleased to knock down a North Korean missile headed for the United States.

The Obama administration, while undoubtedly appreciative of the offer to shelter beneath Japan's missile defense umbrella, was perhaps more worried about Japan knocking down something else and starting World War III, and demurred.

In a relatively unnoticed but equally significant development, the Obama administration also objected strongly to Japan's plans to process its spent fuel rods domestically and enlarge its sizable stockpile of bomb-worthy plutonium metal. [3] Another indication that Japan has slipped the leash is in the area of "Abenomics".



It is safe to say that no governments outside of Japan are enthusiastic about the keystone of Prime Minister Abe's national economic rebirth strategy: a wild bet on quantitative easing twice the size of the US effort, one that will inject US\$1.4 trillion into the economy over two years and double Japan's money supply.

Officially, the objective of the policy is to boost inflation to 2%, thereby baking inflationary expectations into the economy, and stampeding "Mrs Watanabe", the prototypical Japanese saver, into buying a new car or bedpan-emptying robot right away, instead of waiting for another 20 years of continued deflation to bring the price within reach. Nobody knows if that will work.

Unofficially, the objective of the policy seems to be to drive down the yen and boost Japanese exports, which is already working.

To cite Oscar Wilde once again, export promotion is the quantitative easing consequence that dares not speak its name. Nobody who engages in quantitative easing - the United States, the European Union, or, now Japan - admits that the objective is to weaken the currency and keep factories humming with exports. Because once one country weakens its currency, everybody else will, and we're down the slippery slope.

Given the *fait accompli* Abe delivered to the financial markets, the Group of 20 decided to give Japan the benefit of the doubt with this less than ringing endorsement of its motives at the April 19 meeting of finance ministers in Washington: Japan's recent policy actions are intended to stop deflation and support domestic demand. Full stop.

The G-20 had a lot more to say about quantitative easing, as long as it didn't have to talk directly about Japan:

We will refrain from competitive devaluation and will not target our exchange rates for competitive purposes, and we will resist all forms of protectionism and keep our markets open. We reiterate that excess volatility of financial flows and disorderly movements in exchange rates have adverse implications for economic and financial stability. Monetary policy should be directed toward domestic price stability and continuing to support economic recovery according to the respective mandates of central banks. We will be mindful of unintended negative side effects stemming from extended periods of monetary easing. Concerned readers will be shocked, shocked! to learn that Japanese officials and sympathetic media outlets spun the G-20's leeriness about quantitative easing and its one-sentence shirking of criticism of Japanese policy into an endorsement of Abenomics. As in: G-20 understood Japan's policies to revive economy - BOJ's Kuroda. [4]

The Japan Times headlined with "G-20 finance chiefs back aggressive easing regime" and continued with a strategic use of the passive voice: Those comments were viewed as giving a green light to Japan's program, which has driven the value of the yen down by more than 20 percent against the dollar since October. [5]

As reported by the Guardian, concern over Japan's Abenomics plans was already widely acknowledged back in February:

Japan will escape censure from the G20 group of nations meeting in Moscow this weekend despite widespread unease at Tokyo's aggressive intervention into currency markets to drive down the value of the yen.

It is understood that pressure from the International Monetary Fund (IMF) and several prominent G20 members has kept any reference to Japan's attempts to depress the yen out of a communique due to be released on Saturday.

A draft communique seen by Reuters suggests that Tokyo would not be singled out for criticism, as had been suggested.

An unnamed delegate was quoted as saying: "There wasn't anybody putting Japan on the spot. That's quite frankly a bit of a surprise." [6]

For its part, in order to avoid explicit criticism in the Washington meeting, the Bank of Japan declared it would print money by purchasing Japanese government bonds, not directly purchasing foreign securities and thereby explicitly strengthening foreign currencies. [7]

Nevertheless, in the real world, a lot of that money is going to end up in foreign markets (and strengthening foreign currencies) anyway, simply getting laundered through private securities firms instead of flooding out direct from the BOJ. Bill Gross, the bond guru of Pimco - and Japanese QE skeptic-told the Wall Street Journal:

"This BOJ printing seeps out daily into global markets as Japanese institutions which have sold their Japanese government bonds to the BOJ look for higher yielding replacements," said Mr Gross in an email interview Tuesday afternoon with The Wall Street Journal. "Ten-year Treasuries to us look very low-yielding, but to them they yield 125 basis points more." [8] It is not out of line to speculate that Japan's announcement of its decision to join negotiations on the Obama administration's cherished Trans Pacific Partnership trade pact was also timed to ensure US forbearance on Japan's massive program of quantitative easing.

Japan may be enjoying some success in its public relations campaign to paper over widespread unease about its quantitative easing program, but massaging the national and financial press is not going to alleviate private US concerns about the immediate and less than beneficial impact of Prime Minister Abe's diplomatic and economic initiatives on another important pivot partner, South Korea.

In the framework of the pivot, Japan's disregard for the sensibilities and interests of the Republic of Korea, a frontline state in any effort to restrain North Korea and counter China, is well-nigh inexplicable.

Why split the anti-China alliance by fussing over the Dokdo Islands, provoking South Korea with unnecessary, symbolic affronts like Abe's offering to the Yasakuni shrine, the visit of almost 200 lawmakers to the shrine, or making statements like this?

On Tuesday during an Upper House session, Abe was asked to comment on the 1995 statement by then-Prime Minister Tomiichi Murayama, who straightforwardly apologized for Japan's "colonial rule and aggression," which "caused tremendous damage and suffering to the people of many countries."

Abe didn't elaborate, but he did claim that the definition of "aggression" in general has yet to be "firmly determined" by academic experts or the international community.

What is described as aggression "can be viewed differently" depending on which side you're on, Abe said. Major South Korean newspapers slammed Abe on their front pages Wednesday.

[9]

If Prime Minister Abe is unable to characterize the invasion of Korea and China as "aggression", Japan's neighbors are free to worry about how elastic his definition of "self-defense", collective or otherwise might be, once the constitution is revised.

In some circles, Japan's quantitative easing is seen as little more than a zero-sum game to juice the economy by benefiting Japanese exporters at the expense of their direct rivals in South Korea, pivot be damned:

[T]he Hyundai Research Institute predicted that if the yen reaches 100 or 110 to the dollar, South Korean exports will fall by 3.4% in the first case and 11.4% in the second.

The problem is the large degree of overlap with Japan in terms of major exports, which account for 60% of South Korea's GDP. An analysis by the Korea International Trade Association showed an overlap of about 50% between South Korea's top 100 export items and Japan's.

Indeed, Ministry of Trade, Industry and Energy (MTIE) figures on the first quarter growth rate for export items where South Korea competes with Japan showed an 11.3% drop from the previous quarter for steel and a 3.5% drop for automobiles. With respective ratings of 0.63 and 0.58, they were the second and third most competitive industries behind shipbuilding (0.75). [10]

South Korea experiences a double whammy at the hands of Japanese quantitative easing thanks to the ROK's status as a growing, emerging economy and, therefore, a hot money magnet, as William Pesek wrote for Bloomberg, while chronicling the ROK's \$16 billion stimulus counter to the 20% drop in the value of the yen:

Instead of spurring demand, ultra-low rates are creating a flood of hot money. All that cash has to go somewhere, and it's ending up in Chinese junk bonds, Philippine stocks, Australian real estate and the Korean won.

More bold steps may be coming. Korea is considering ways to insulate itself from capital-flow volatility, possibly by imposing taxes on financial transactions. Fifteen years ago, Malaysia became a pariah state when it limited the flow of money. Today, it is common-sense economics to protect your country from being overwhelmed by central-bank largesse.

Developing Asia once spread financial contagion from New York to London and Tokyo. Now, as the world's richest economies return the favor, Asian policymakers are grappling for ways to cope ? [11]

Ironically, one of the best ways for the US to restrain an increasingly independently minded Japan is by cozying up to China and redefining the pivot away from its China-containment (and provocation and destabilization-enabling) roots.

So Kurt Campbell emphasized the distance between Washington and Tokyo on the Senkakus, and - notably for someone who built a diplomatic strategy on confronting China - made the case in an op-ed for the Financial Times for increased cooperation between the US and China:

[T]he world's most important bilateral relationship is the one between the US and China. For that relationship to succeed, it must be embedded in a larger framework of US diplomacy in Asia, stretching from Japan to India, but certainly the US-China piece will be central for the 21st century. With new leadership in Beijing under President Xi Jinping settling in and President Barack Obama starting his second term, this is a defining period for the future of US-China relations. Both countries have challenging domestic agendas, but Washington and Beijing fully recognise the importance of their international interactions. [12]

The US media also made some ridiculous but significant efforts within the context of the North Korean crisis to shoehorn China into the unlikely role of America's pivot "ally". [13]

As part of the China reset, the Obama administration dispatched the chairman of the Joint Chiefs of Staff, General Michael Dempsey, to Beijing, where he labored to redefine the pivot as "not all about China" and, indeed, not even a pivot at all:

Economic, security, and demographic trends all lead to the Asia-Pacific region, he said.

"Furthermore, I tell them this wasn't about them, meaning China. Of course they're a factor, but this wasn't a strategy that was aimed at them in any way," Dempsey said.

The chairman added that military considerations are only part of the broader US regional strategy. "I pointed out to them that among the first visitors who came here after our ? rebalancing initiative was announced was Jack Lew, the secretary of the treasury," he said. [14]

For connoisseurs of government newspeak, it should be pointed out that apparently the "pivot", with its thrusty, aggressive connotations is "out" and the more gentle, conciliatory "rebalancing" is "in" as the description of what the US is trying to do to or with China in Asia.

Speaking of the finance side of "rebalancing", the Department of Treasury also quietly emphasized the implicit gap between Washington and Tokyo on quantitative easing while giving China some modest praise, as the German news outlet MNI reported:

If there was anything mildly unexpected in Lew's post-G20 comments, it was the highlighted praise aimed at China, increasing the emphasis on the positive beyond that of Lew's two most recent predecessors. ?

Lew's silence about Japan in his statement to his counterparts from around the world seemed to soften somewhat the emphasis placed only hours earlier by a senior Treasury official. The official had reiterated in response to a question from MNI that the US. will be watching closely to see if the expansion of quantitative easing in Japan actually does more to boost demand and inflation than it does to depreciate the yen. [15]

In another indication of US establishment umbrage, New York Times also weighed in with an editorial critical of Japan's Yasakuni Shrine antics titled "Japan's Unnecessary Nationalism". In a significant bit of reframing that probably irked the Japanese government, the New York Times pointed out that the recent heightening of tensions around the Senkakus was a bilateral effort (China was responding to a flotilla of Japanese nationalists), not merely an exercise in Chinese "assertiveness", as the Western media usually presents the issue: On Monday, South Korea canceled a visit to Japan by its foreign minister and China publicly chastised Japan. On Tuesday, tensions were further fueled when Chinese and Japanese boats converged on disputed islands in the East China Sea.

Japan and China both need to work on a peaceful solution to their territorial issues. But it seems especially foolhardy for Japan to inflame hostilities with China and South Korea when all countries need to be working cooperatively to resolve the problems with North Korea and its nuclear program. [16]

So, from the US perspective, maybe China is not the only big, bad guy in Asia anymore.

Add Japan, with its unilateral, damn the consequences (to others) security and fiscal aggressiveness to the list.

When one considers that the Japanese quantitative easing program could blow up the Asian and world economy in a replay of 1997 - or worse - there's even a case to be made that the genuine near-term threat to the world's well-being from Japan is perhaps greater than that from China.

As one finance guru told CNBC:

There are additional risks, the most glaring being that a big round of quantitative easing in Japan may be no better at stoking growth and the good kind of inflation there than it has been in the US. Despite the Fed's all-out efforts, unemployment remains elevated and inflation subdued, though stocks have soared. ...



"Monetary policy is being used as the policy tool to create demand. The question is, is this going to end in tears?" Prudential's Krosby said. "Is this going to end in worse calamity for the markets than what we had in 2008 and 2009?" [17]

Creating and then managing intractable problems through reshuffled nomenclature may be the ticket to full employment for practitioners of international relations, but for promoters of the US national interest, the realization that we are now wrestling with a second assertive, unpopular, and profoundly destabilizing power in the West Pacific is cause for concern, not celebration.

Notes:

1. U.S. warned government against buying Senkaku Islands: Campbell, Japan Times, April 10, 2013.
2. For Abe, talks with Obama came down to 'take what you can get', Dispatch Japan, February 26, 2013.
3. U.S. officials concerned about Japan's plan to reprocess nuclear fuel, R&D, April 22, 2013.
4. G20 understood Japan's policies to revive economy - BOJ's Kuroda, Reuters, April 22, 2013.
5. G-20 finance chiefs back aggressive easing regime, Japan Times, April 20, 2013.
6. G20 meeting: Japan won't be singled out for currency depreciation, The Guardian, February 15, 2013.
7. Finance ministers endorse Japan's easy money, USA Today, April 19, 2013.
8. Pimco's Bill Gross Turns Bullish on 10-Year Treasury Notes, Fox News, April 9, 2013.
9. Abe war comment roils S. Korean media, Japan Times, April 24, 2013.
10. Weak yen could mean trouble ahead for South Korean exporters, The hankyoreh, April 24, 2013.
11. Click [here](#).
12. Steps to improve US-China relations, The Financial Times, April 23, 2013. (Subscription only).
13. AP Thinks China is 'An Unreliable American Ally', China Matters, April 6, 2013.
14. China Visit Sparks Dynamic Engagements, Dempsey Says, US Department of Defense, April 24, 2013.
15. Click [here](#).
16. Japan's Unnecessary Nationalism, The New York Times, April 23, 2013.
17. US, Japan Now Global Allies in Money Printing, CNBC, April 8, 2013.

Peter Lee writes on East and South Asian affairs and their intersection with US foreign policy.

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