



Asia Program Policy Paper

2017 | No. 13

G | M | F The German Marshall Fund
of the United States
STRENGTHENING TRANSATLANTIC COOPERATION

COOPERATION IN TIMES OF UNCERTAIN LEADERSHIP

Daniel Twining, Peter Chase, Rod Hunter, Sarah Raine, Joanna Świątkowska
Edited by Sharon Stirling



COOPERATION IN TIMES OF UNCERTAIN LEADERSHIP

2017 | No. 13

Edited by Sharon Stirling

Introduction.....	1
<i>Daniel Twining</i>	
Japan's Chance to Lead in a Changing Trade Order	
<i>Peter Chase</i>	3
An Allied Response to Chinese Investment	
<i>Rod Hunter</i>	9
Brexit: An Agenda for U.K.-Japan Relations	
<i>Sarah Raine</i>	14
Information Warfare Is Not Just a European Problem	
<i>Joanna Świątkowska</i>	21

Introduction

The liberal world order that has been a central source of security and prosperity for the United States, Europe, and Japan is under assault. Polls suggest an American ambivalence about upholding the rules-based international system. A rising China wants to create a new global order that is not U.S.-centric, one in which smaller powers defer to bigger ones and norms of democracy and rule of law do not prevail. Populists are besieging governing elites in the West while Russia works strategically to destabilize European and U.S. governments through propaganda and proxies. North Korea has broken out of its nuclear box and threatens a non-proliferation order that has kept the world free from the horror of nuclear war. Meanwhile, the U.S. alliance system in Asia and Europe looks adrift while competitors in China and Russia appear to be on the march.

At a time when the future international leadership of both the United States and Europe looks uncertain due to internal political and economic factors as well as a shifting global balance of power, Japan is a key leader of the liberal world order that can step up to reinforce a system based on the rule of law, democratic norms of governance, peaceful resolution of disputes, free and open global commons, and a market-based international economy that is not subverted by state-sponsored mercantilism and protectionism. There is an urgency to trilateral cooperation between the United States and its transatlantic and trans-Pacific allies to shore up an international system that is rooted in common values, inclusive institutions, free markets for trade and investment, and a military balance of power that tilts in favor of the democracies.

This collection seeks to outline an agenda for Japan–Europe–U.S. cooperation on global trade, management of the political and economic risks of Chinese investment flows, engagement with a post-EU Great Britain, and defense against hostile influence operations and information warfare conducted by authoritarian states that seek to subvert democratic institutions. Since the U.S. alliance with Europe and the U.S. alliance with Japan have been traditionally strong, there is a particular

“ *There is a particular emphasis on enhancing the “third leg” of the critical strategic triangle of G7 democracies.* ”

emphasis on enhancing the “third leg” of the critical strategic triangle of G7 democracies by focusing on closer cooperation between Japan and Europe, including both the European Union and key European great powers like the United Kingdom. Given the uncertainties posed by President Donald Trump — an insurgent populist without previous political experience who now sits in the Oval Office — this volume also considers how core U.S. allies in Japan and Europe should engage with the United States to shore up the transatlantic and trans-Pacific alliances and to develop new agendas for cooperation on trade, Britain after Brexit, Chinese investment, and information warfare.

Japan as a Pillar of Global Order

Japan enjoys several advantages relative to its G7 peers. It enjoys stable leadership under a prime minister with broad authority and popularity, who is not constrained by the political gridlock and polarization evident in the great democracies of the West. Japan’s economy is growing (albeit modestly) and the country is short of workers, unlike in places like the United States where workforce participation rates are alarmingly low and the growth outlook is uncertain. Japan has a homogenous society that is not subject to the pressures of migration that the crises in the Middle East have injected into European politics.

But Japan also faces a set of systemic risks to its position in the international system. The Trump administration’s withdrawal from the Trans-Pacific Partnership trade agreement leaves Tokyo in an awkward position as China seeks to build a new economic bloc in Asia that excludes the United States. The United Kingdom, home to fully half of all Japanese direct investment in Europe, is leaving the European Union, upending both Japanese businesses’ strategy as well as the Japanese government’s political and economic engagement with Europe.

China is using its vast financial power — in 2016, Chinese outbound investment totaled nearly \$200 billion, with much of it going to Europe and North America — to make itself a global player, including by acquiring sensitive technologies that could enhance its military power in Japan’s near neighborhood. While China engages in cyber espionage, Russia is using forms of information warfare and propaganda to influence elections in both the United

States and Europe. They are reversing the long-held expectation that authoritarian forms of government were doomed in the Information Age, which seems to have empowered these regimes more than it has their civil societies.

Dangers of a Sphere-of-Influence World

The continuing erosion of the liberal world order built by Europe, Japan, and the United States — if not reversed — could otherwise produce a spheres-of-influence world, which authoritarian leaders hostile to a world governed by the G7 democratic powers find intuitively attractive. But were such an order to replace one based on global integration and leadership by the United States and its allies in the geopolitical cockpits of Europe and Asia, it would only engender insecurity and conflict.

In a spheres-of-influence world, great powers order their regions. The United States would go back to a “Monroe Doctrine” version of grand strategy; Russia would dominate the former Soviet space; China would pursue what its leaders view as their historical right to organize an Asian hierarchy in which lesser neighbors kowtow to Beijing. The problem with this kind of order is several-fold.

Too many spheres overlap in ways that would generate conflict rather than clean lines of responsibility. Japan would oppose Chinese suzerainty in East Asia, including by possibly developing nuclear weapons; India and China would compete vigorously in Southeast and South Asia; Russia and China would contest the resources and loyalties of Central Asia; Europe and Russia would clash over primacy of Central and Eastern Europe. The Middle East would be an even more likely arena for hot war between Saudi Arabia and Iran, and Turkey would pursue primacy in regions also claimed by Russia, Europe, and possibly China. Even Europe, shorn of its U.S. security umbrella, could revert to inter-state competition and conflict.

A spheres-of-influence world would also sharpen great power competition outside of each region. Regional hegemony is a springboard for global contestation. China would be more likely to challenge the United States out-of-area if it had subdued strategic competition in its own region. Russia, like the Soviet Empire before it,

would keep pushing west until it met enough hard power to stop it. (The fact that Russian troops marched through Paris during the Napoleonic Wars demonstrates that the limits of Russian power need not be confined to the former Warsaw Pact). American leaders from Woodrow Wilson to George W. Bush have long understood that a “Fortress America” approach is a source of national insecurity.

A spheres-of-influence world would also crack up the integrated global economy that underlies the miracle in human welfare that has lifted billions out of poverty in past decades. It would replicate the exclusive economic blocs of the 1930s, which deepened the Depression and set the stage for world war. In the postwar period, enlightened leaders in Japan, the United States, and Europe promoted economic integration as a way to reinforce diplomatic alliances and produce a wider prosperity than any that is possible from protectionism, mercantilism, and other forms of government interference with market-based economic growth.

Agendas for Trilateral Cooperation

Contributors to this volume assess specific risks to Japan–Europe–U.S. cooperation to uphold the liberal norms and institutions that underwrite global security and prosperity. The authors propose policy agendas for deepening collaboration in light of these threats to international stability, in ways that leverage the strength and influence of the developed democracies. The dangers to the rules-based order are global in scope and are evolving rapidly — the national security implications of Chinese outbound investment, for example, are not a traditional source of concern for the transatlantic and trans-Pacific allies. Nor, until recently, were Russia’s information operations and the broader risks of cyber-war with China or North Korea considered top-tier security challenges in the face of more traditional dangers.

In “Japan and the Changing Global Trade Order,” Peter Chase, a retired American diplomat with decades of both government and private-sector executive experience, argues that Japan has an opportunity to step forward even more decisively as a defender of the rule of law in international trade. Protectionist and mercantilist instincts are on the rise — not only among competitors like China but among allies like the United States. The Trump administration’s withdrawal from TPP left Japan in the lurch after Prime

Minister Abe's bold leadership in joining TPP and stewarding a final agreement together with the Obama administration. Japan now has an even greater role to play in promoting a level playing field for international trade, including with the European Union, that preserves the goals of TPP and prevents China or other powers from pursuing more exclusive spheres of economic influence. Japan has been one of the lead beneficiaries of the open global trading order, which is now being buffeted not only by the aforementioned forces but by factors such as Brexit. Tokyo's ambitious trade diplomacy can begin to fill the void left by the U.S. retreat from multilateral trade liberalization under Trump, perhaps even moving forward with a TPP-minus-one strategy that the United States could join down the road. Even if they do not formalize new trading arrangements among themselves, Japan, the United States, the European Union, and Great Britain can forge a common front to prevent China from benefiting from unfair trade practices that destabilize the global economic order.

In "Trilateral Investment Policy Coordination," Rod Hunter, a former senior director for International Economic Affairs at the U.S. National Security Council, charts the extraordinary rise in Chinese outbound investment flows, half of which target the United States and Europe. Directed by a state-led strategy for investment in key sectors including information technology, advanced industrial machinery, and biotechnology, Chinese companies have aggressively sought to acquire sensitive assets in the United States and Europe in particular. This has led to a series of debates in the West about more carefully examining the national security implications of Chinese investment, as well as demanding reciprocity for American and European investors in China's internal market, which remains one of the world's most restrictive for foreign investment. Japan has a big stake in U.S. and European scrutiny of Chinese investments in their economies, including to create a level playing field for global investors but also to prevent China from acquiring sensitive dual-use technologies with military applications that could change the balance of power in East Asia. Hunter argues persuasively for more structured Japan-Europe-U.S. cooperation on investment policy, "to ensure that legitimate security interests are protected while using their joint leverage to encourage China to open its market for investment and trade." Indeed, managing Chinese investment with an eye on both national security and economic reciprocity

will grow in urgency as the tsunami of Chinese outbound financial flows grows in coming years and increasingly impacts on domestic politics in the United States, Europe, and Japan.

In "Brexit: An Agenda for UK-Japan Relations," former British diplomat and Asia expert Sarah Raine considers how Japan can engage with the more "Global Britain" after its departure from the EU. While many see Brexit as a tragedy, Raine argues that it creates opportunities for heightened U.K.-Japan defense cooperation in particular, more than a century after the Anglo-Japanese alliance of 1902 and in the wake of London's 2015 Strategic Defense and Security Review conclusion that Japan is its

“Brexit creates opportunities for heightened U.K.-Japan defense cooperation.”

"closest security partner in Asia." Brexit also potentially offers as well as new avenues for joint cooperation with the United States and U.S.-Japan-U.K. coordination to shape China's strategic choices in Asia and beyond. These three leading naval powers could usefully partner "in the protection of maritime security in Asia and the rules-based international order at sea." The fact that all three are among India's closest military partners also creates new equations for cooperation in light of Prime Minister Abe's "Free and Open Indo-Pacific Strategy," a welcome counterpoint to China's efforts to lock up the South China Sea and challenge Japan's sovereignty over the Senkaku Islands, as well as the right under international law of the United States and other navies to operate in Asian waters. However, Brexit will unquestionably create frictions that London and Tokyo, as well as Washington, DC, will need to navigate. In 2015, the top two foreign investors in Britain were the United States and Japan; the U.K. accounted for nearly half of Japanese direct investment in European Union. Brexit will transform Britain's access to the European single market and, by extension, the ability of Japanese companies operating in Britain to compete in Europe. Raine's wise advice as the Brexit negotiations proceed is for all parties, including Britain's Japanese and American allies, "to keep their disagreements focused on the technical and their eyes on the strategic."

In “Information Warfare is Not Just a European Problem,” Dr. Joanna Świątkowska, a leading European authority on cyber-attacks and information operations from a front-line state that has come under assault from both in recent years, argues for a global approach to the weaponization of digital tools by authoritarian great powers and rogue nations like North Korea. She distinguishes between the “soft information warfare” of propaganda and influence operations, such as those Russia conducted around the U.S. 2016 presidential election, and “hard information warfare” that attacks digital systems, such as the cyber-attacks North Korea has conducted against Japanese and American civilian and military targets, including critical infrastructure. Her essay illuminates the fact that new cyber tools give states the means to pursue aggression and war through means that stay below the threshold of military conflict but which are hostile acts that can transform both the internal balance of power in democratic societies — by influencing election outcomes — and the external balance of power, by rewarding the countries that launch such assaults given the difficulty in deterring and defending against them. Świątkowska praises Japan’s plans to open an Industrial Cybersecurity Promotion Agency and calls for new efforts in Europe and the United States to educate citizens to distinguish between fact-based news and analysis and the “fake news” promoted by media directed by authoritarian governments. Lest readers believe that Japan is less a target of influence operations than are the Western democracies, she also highlights how “the Senkaku Islands dispute is a perfect example of a political conflict where tools like manipulation, disinformation, and propaganda can be utilized to great effect,” and argues that democratic countries should execute strategic communications campaigns to counter those of their geopolitical competitors.

A New Agenda

These essays highlight how a new agenda for trilateral cooperation — in trade and investment, amidst the fracturing of European unity, and in cyberspace — can supplement the more traditional agenda of collaboration through institutions like NATO, long-standing diplomatic dialogues, and coordination in international institutions. Both are important. But as the global balance of power is transformed by new powers and new technologies, it is vital for the advanced democracies, from West and East, to come together not only to defend traditional values and

interests, but to develop new avenues of cooperation that are relevant to the future that lies ahead. The transatlantic and trans-Pacific allies should do so confident in the belief that their open societies — characterized by free citizens, accountable institutions under law, free flows of information, and market-based innovation — are surer sources of security, stability, and prosperity than the tools used by brittle authoritarian regimes to control their people, stifle dissent, and pursue dominion over other nations through the use of strategies designed to subvert the liberal international order.

About the Author

Daniel Twining is counselor and director of the Asia Program at The German Marshall Fund of the United States and a former U.S. government official.

Japan's Chance to Lead in a Changing Trade Order

PETER H. CHASE

After two decades of slow growth, Japan seeks to promote economic reforms — and its competitiveness relative to China — in part through liberalizing trade, including through trade agreements with the United States and the European Union. These efforts are now in question with the U.S. withdrawal from TPP, “Brexit,” and China’s efforts to assert itself as the new leader of the global trade order.

To address these challenges, Japan needs an assertive trade policy, including working with the other TPP partners to bring it into force; negotiating firmly with the EU on agricultural, digital and investment issues, while insisting on a reasonable resolution to Brexit; and working with the United States and the EU to ensure China plays by the rules. In so doing, Japan can become a new and forceful advocate for the global trade order from which it has long benefited.

The world of international trade is changing, and few countries sense this as acutely as Japan. Long embedded in the global economy, but suffering from nearly two decades of anemic growth, Japan under the leadership of Prime Minister Shinzo Abe has sought to promote reform and competitiveness in part through an active liberalizing trade agenda, including by concluding trade agreements with the United States and the European Union that should improve Japan’s relative position against its main competitors: China and Korea. These efforts are now in question, as the new U.S. administration under Donald Trump has rejected the Trans-Pacific Partnership (TPP) agreement and as the United Kingdom’s decision to leave the European Union changes the nature of Japan’s counterpart in the negotiations while undermining the substantial investments its companies have made in the U.K. to serve the broader European market. At the same time, China is asserting itself as the new leader of the global trade order.

To address these challenges, Japan needs to continue to develop and implement its own assertive trade policy. It must begin by defending the rule of law in international trade. It can and should press the United States to return to TPP, including in particular by working with the ten other TPP partners to bring it into force, which can more easily be done now that the United States has withdrawn its signature. The United States will then, unfortunately for it, need to re-negotiate its terms of accession. It should also continue to negotiate firmly with the EU on agricultural, digital and investment issues, while insisting on a reasonable resolution to “Brexit.” Finally, Japan must work with the United States and the EU to ensure China plays by the rules. In so doing, Japan can become a new and forceful advocate for the global trade order from which it has long benefited.

Tokyo's TPP Triumph

Just over a year ago, on February 4, 2016, Japan, the United States and ten other Asian and U.S. countries that line the Pacific coast signed the Trans-Pacific Partnership agreement in Auckland, New Zealand.¹ The agreement was settled in principle in October 2015, just two and a half years after Japan formally entered the talks in May 2013.

The conclusion of the agreement represented something of a triumph for the Abe administration, which tied Japan's trade and investment liberalization to the "Abenomics" program of severely needed domestic economic reforms. Many observers had been skeptical about Japan entering the TPP negotiations, questioning whether Japan was ready to meet the tough demands for agricultural market access that would be expected from Australia, Canada, New Zealand, and above all the United States. Yet in the end, despite concerns from many in his own Liberal Democratic Party that TPP goes too far, the prime minister and his negotiating team were able to preserve some protections for the agricultural sector² while phasing in liberalization in a way that arguably corresponds to the planned reforms for this highly sensitive, yet dangerously geriatric, sector of the Japanese economy.³

Further, Japan and its negotiating partners can take pride in the fact that TPP is the most ambitious and comprehensive trade agreement negotiated to date. While Japan accepted liberalization in agriculture, TPP also gave it new FTAs with Canada, New Zealand, and most importantly the United States, and considerably enhanced its existing agreements with all other TPP countries.

1 The other (Austro-) Asian countries are Australia, Brunei, Malaysia, New Zealand, Singapore, and Vietnam, while the other American countries are Canada, Chile, Mexico, and Peru.

2 Japan retained protections for its "five sacred products" — rice, wheat, beef/poultry, dairy and sugar — but offered some liberalisation in each. Tariffs on chilled and frozen beef fall from 38 percent to 9 percent, phased in over 15 years. In the other 'sacred' products, Japan offered differentiated tariff-rate quotas (TRQs), with 33 quotas available to all TPP partners (covering wheat products, barley, dairy products ranging from butter to condensed milk, candies and food preparations containing cocoa and sugar, and a 500 million ton quota for sugar, available on a first come first served basis) and 25 country-specific quotas, for which United States, Australia, Canada, and New Zealand are the only beneficiaries. The tariff-free quota for rice rises from 56,000 metric tons to 78,400 for the United States and Australia in year 13, while the quota for wheat from Australia, Canada, and the U.S. increases to 253,000 metric tons in year 7. For pork, Japan's tariff declines from 482 yen per kilogram (YPK) to 125 YPK in the first year after entry into force, and to 50 YPK in year 11.

3 See, e.g., "Japan Revitalization Strategy: Japan's Challenge for the Future," Office of the Prime Minister of Japan, revised version, June 24, 2014, especially sections relating to "Nurturing industries to become new growth engines and support regional communities: Developing aggressive agriculture, forestry and fisheries," pages 11-15 and again on pages 26-28. See also James McBride and Beina Xu, Council on Foreign Relations Backgrounders: "Abenomics and the Japanese Economy," updated February 10, 2017.

Some 75 percent of tariffs (mainly industrial products) drop to zero on entry into force, while 99 percent will be eliminated when the agreement is fully implemented. Under a "freeze and ratchet" approach, countries are prohibited from introducing any new barriers to cross-border services imports from other TPP countries (such as accounting services supplied over the internet), and any new measure that facilitates such imports becomes the new, more liberalized, level of commitment. Importantly,⁴ TPP also includes significant new disciplines on government interference with the Internet that allows these services to be traded in the first place. (TPP, for instance, prohibits governments from imposing requirements that all data be stored only in that country.)⁵ As with services, any government restrictions on foreign investment from the other TPP countries must be explicitly spelled out and are subject to the "freeze and ratchet" mechanism noted above. A number of countries also raise thresholds for investment approvals and some commit to actual liberalizations. Non-discriminatory access to government procurement for firms from other TPP countries is expanded; Brunei, Malaysia, and Vietnam accept strict disciplines on government procurement for the first time. The provisions on good regulatory practices, especially for food safety and technical standards, are stronger than those in the WTO, and encourage cooperation among the regulators of the countries. Finally, TPP significantly strengthens rules in other areas, including intellectual property (where a number of countries agree to raise the copyright term from 50 to 70 years and provide protections for new "biologics" medicines for the first time), state-owned enterprises, the environment (where TPP introduces major disciplines on fishing subsidies, illegal logging and trade in endangered species) and labor rights.

“ TPP includes significant new disciplines on government interference with the Internet.”

4 Only three countries end up with less than 99 percent tariff elimination at the end of the 30 year phase-in period — Canada (97 percent), Japan (95 percent) and Vietnam (97 percent) — while the US tariffs on cars (2.5 percent) and trucks (26 percent) from Japan remain until the end of the 30-year period.

5 TPP requires Parties to allow cross-border data flows, prohibits data-localization requirements, forbids customs duties on digital goods (e.g. software, mp3, picture or video), limits sales and value-added taxes to levels imposed on domestic goods and services, precludes favoring local suppliers of digital goods/services through taxation or blocking of foreign websites, and prohibits requiring access to source code as a condition of market access.

Like all trade agreements, TPP is first and foremost an instrument to strengthen economic and commercial ties among its parties. But it also had a major geo-strategic rationale. While not directed “against” China, China was notably not included in the negotiations. The TPP countries wanted to first write what they considered the appropriate rules for regional economic relations, and many questioned whether China would have the same view on many of these, including in particular on market access, investment liberalization, government procurement, state-owned enterprises, labor, and the environment. To encourage Beijing to join in the effort, and accept this new, more ambitious, rules-based approach, they opened TPP to accession by any member of the Asia-Pacific Economic Cooperation (APEC) forum, including of course, China.

Trump and the TPP Demise

After lengthy debate, the Diet completed Japan’s ratification of the Trans-Pacific Partnership agreement on Friday, January 20, 2017, just as Donald J. Trump was being sworn in as the 45th President of the United States. The next working day, on Monday, January 23, in his first act as president, Mr. Trump instructed the Office of the U.S. Trade Representative to withdraw the U.S. signature from the agreement.

This was not totally unexpected. Trump had in many ways run against TPP as he campaigned for president, elevating “unfair” trade and “lousy” trade agreements like TPP and NAFTA to a major theme in the elections. His rhetoric resonated with many in the “rust-belt” states that propelled him to the presidency. And after winning the race, he affirmed his intent to withdraw from TPP even as he and Mr. Abe met “informally” in New York in mid-November.

But there was some hope that he might relent, as in many ways TPP was designed as a response to his *bête noir* of unfair trade, China.

That the China argument did not prevail does not mean Mr. Trump is protectionist, or isolationist. Rather, he and his trade advisors are mercantilist. They see exports as good, and imports as bad. And they have a highly-developed sense that the United States, with its relatively open market, has been taken advantage of by others, as exemplified by the bilateral trade deficits the United States runs with many countries, including in particular

China, Japan, and Germany. In this, they focus in particular on trade in manufactured products rather than agriculture and services, where the United States runs trade surpluses.⁶

The level of this resentment cannot be underestimated. Dan DiMicco, who oversaw the administration’s transition team at the U.S. Trade Representative’s office, was formerly CEO of Nucor, a U.S. steel company that filed numerous complaints against imports from China, Japan, India, and others.

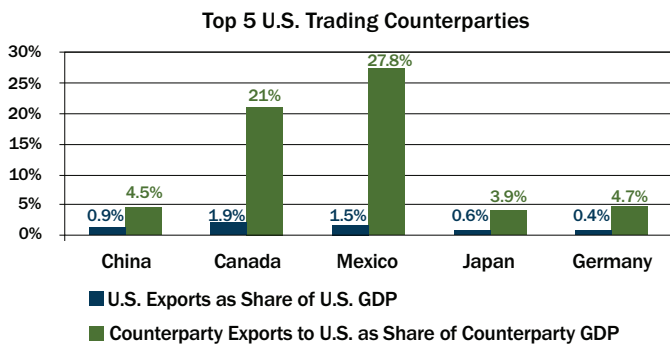
“**The level of resentment cannot be underestimated.**”

Mr. Trump’s nominee to be the U.S. Trade Representative, Robert Lighthizer, was Deputy USTR under the Reagan administration in the 1980s and negotiated so-called “voluntary restraint agreements” to curtail imports from Japan and others on steel, automobiles, motorcycles, and semi-conductors. The Coalition for a Prosperous America, on whose board DiMicco sits, in a recent piece on “Why a Trade War Won’t Happen — But We Would Win if it Did,” echoes Mr. Trump’s Commerce Secretary Wilbur Ross in noting that the importance of the U.S. market to its trading partners places the balance of power in Washington:

“We have the power of being their largest customer. Globally, our “edge” is \$502 billion annually, i.e. the value of last year’s trade deficit. That’s how much more we spend on foreign goods and services than foreigners spend on ours. Other countries rely upon the US for export revenue much more than we rely upon them. Figure 1 compares U.S. trade dependence between the U.S. and our top five trading counterparties. Our two NAFTA neighbors, Canada and Mexico, rely on us for exports worth more than 20 percent of their GDP! We rely on them to take exports worth less than 2 percent of our GDP. Any effort by the U.S. government to restrict trade to those two countries could have a far larger impact on their economies than ours.”⁷

⁶ As the head of Mr. Trump’s newly-established National Trade Council, Peter Navarro, told the Association of Business Economists on March 6, 2017 in explaining this emphasis on bilateral deficits in goods trade, “While services are a critical part of our economy and an essential part of trade — as is our incredibly productive and equally important agricultural sector — the production of manufactured goods tend to have both a higher job multiplier and command higher wage levels.”

⁷ Jeff Ferry, “Why a Trade War Won’t Happen ... But We Would Win If It Did,” Coalition for a Prosperous America, March 7, 2017.



Source: U.S. Department of Commerce

In lieu of TPP, the Trump administration has reportedly offered to negotiate a bilateral free trade agreement with Japan. Abe has both indicated that he does not particularly want to enter into bilateral negotiations and has been more ambiguous about the issue, perhaps knowing that the United States would ask for more agricultural market access, would increase the rules of origin requirements for autos, and might insist on enforceable currency “manipulation” provisions.⁸ The issue will be explored further in the context of a strategic economic dialogue established between the two countries; the first session between Deputy Prime Minister and Finance Minister Taro Aso and Vice President Mike Pence is anticipated for April.⁹ At the same time, the administration has taken steps to assure Japan of its support on key security issues such as the Senkaku Islands in the East China Sea and North Korea’s nuclear ambitions, both with an early February visit by Defense Secretary James Mattis and, importantly, in the joint statement following the Abe–Trump summit.¹⁰

Opening to the EU Too

Just before formally joining the TPP negotiations, Japan in March 2013 started talks toward an Economic Partnership Agreement with the EU. Despite a marathon negotiating round in December 2016, the two sides were

unable to come to an agreement before the end of the year, as leaders had pledged. They are now hoping to do so “as early as possible.”¹¹

Part of the difficulty was undoubtedly caused by the uncertainty surrounding TPP under the then-incoming Trump presidency. Further, the EU negotiating team under Deputy Director General for Trade Mauro Petriccione (who also negotiated the EU–Canada Comprehensive Economic and Trade Agreement, CETA) made clear they wanted a “TPP+” outcome, including agriculture. While Japan had clearly reserved additional market access for the EU in cheese,¹² the Abe government is unenthusiastic about further significant opening of its rice, wheat, beef and pork markets to the Europeans. In the wake of the recent European Court of Justice ruling against the U.S.–EU “Safe Harbor Agreement,”¹³ Japan is also deeply concerned about the potential impact of the EU’s “General Data Protection Regulation,” which prohibits the transfer of personal data from Europe to countries not providing “adequate” protections. While it understands the Japan–EU agreement will not directly address this issue, it understandably wants an EU commitment to provide an adequacy ruling for Japan before the agreement goes into force.¹⁴ Finally, Tokyo has serious reservations about the EU’s desire for a new “Investment Court System” to replace the traditional approach to settling disputes between foreign investors and host governments, which is enshrined in numerous UN Conventions.

The Brexit Angle in Japan–EU Talks

While each of these three considerations (and a few more, on for instance, differences over government procurement) are issues in the Japan–EU negotiations, the bigger issue potentially overshadowing them is the United Kingdom’s intention to leave the European Union, “Brexit.”

⁸ See, e.g., Matthew P. Goodman and David A. Parker, “Global Economics Monthly: What’s Next for US–Japan Economic Relations,” Center for Strategic and International Studies, February 27, 2017.

⁹ Nikkei Asian Review, “Japan’s Strategizing Scores Big Win in Trump–Abe Summit,” February 14, 2017.

¹⁰ The White House, “Joint Statement from President Donald J. Trump and Prime Minister Shinzo Abe,” February 10, 2017.

¹¹ “Japan–EU Leaders Meeting,” Japanese Ministry of Foreign Affairs, March 21, 2017.

¹² “Japan–EU Leaders Meeting,” Japanese Ministry of Foreign Affairs, March 21, 2017.

¹³ Recently replaced by the “Privacy Shield,” under which the US government agreed to significant new disciplines concerning US government agency ability to access personal data held by private companies.

¹⁴ Japan and the EU made significant progress toward addressing this issue of Japan’s “adequacy” in protecting personal data on the margins of Prime Minister Abe’s March 20 visit to the CeBIT Trade Fair in Hannover, Germany; see the Press Statement by Hiroshige Seko, Minister of Economy, Trade and Industry (et al) and Commission Vice President Anders Ansip and Commissioner Vera Jourova, March 20, 2017.

Japanese firms, like those from the United States and many other countries, have used the U.K. as their springboard to the enormous EU market, economically virtually equal in size to that of the United States, but encompassing nearly 200 million more consumers. Thirty-one percent of the \$288.6 billion Japanese companies have invested in the EU went into the U.K.; the U.K. also absorbs nearly 20 percent of its \$73.6 billion in exports of goods to the EU, just behind Germany. Japanese auto and other producers are deeply invested in the U.K. and depend on supply chains that include their other European operations as well as imports from Japan.¹⁵

Little wonder then, that Japan has questions about what a trade agreement with the European Union would look like should the U.K., nearly 20 percent of the EU economy, leave the fold possibly as soon as April 2019. In a September 2016 position paper,¹⁶ the Japanese Ministry of Foreign Affairs spells out a number of specific concerns Japanese businesses have about Brexit, including the need to avoid imposing tariffs on U.K.–EU trade, ensuring the ability of Japanese financial firms headquartered in London to provide services throughout Europe, and facilitating adequate migration of skilled labor between the U.K. and the continent.¹⁷

This issue was at the front of Prime Minister Abe's mind when he visited Brussels, France, Germany and Italy this year on March 19-22.¹⁸ Although he did not receive definitive answers, many observers believe that the pressure to conclude a Japan–EU agreement will only grow as the prime minister needs to visit Europe again twice in the first half of this year, for the May 26-27 G-7 Summit in Italy and the July 7-8 G-20 Summit in Hamburg.

¹⁵ Japan External Trade Organization, Japanese Trade and Investment Statistics, accessed March 11, 2017.

¹⁶ "Japan's Message to the United Kingdom and the European Union," Ministry of Foreign Affairs, undated but reported on in early September, see, e.g., Jim Edwards, "You Should Read Japan's Brexit Note to Britain — It's Brutal," Business Insider U.K., September 5, 2016.

¹⁷ Japan's business federation Keidanren is considering another statement on Brexit; see, for example, "Government, Japan Inc. Trying to Assess Brexit Impact on UK Operations," The Japan Times (from Kyodo News Service), March 30, 2017.

¹⁸ See, e.g., The Japan Times, "Abe to Meet with European Leaders Later this Month," March 10, 2017.

And the China Connection

Japan's interest in the trade deals involving the United States and Europe are in the first instance domestic; the leadership in Tokyo faces an imperative to get the economy moving again. But they also have an external aspect, concerning in particular

Japan's competitive position vis-à-vis China and Korea, and more significantly, concerning the security concerns a more resurgent China appears at times to pose to Japan directly in the East China Sea, as well as to maritime routes through the South China Sea.

“ Japanese firms have used the U.K. as their springboard to the enormous EU market.”

Even as TPP was meant to offer China an option to join a rules-based approach to economic relations in the Asian region, China's President and the leader of the Chinese Communist Party, Xi Jinping, was in Davos in January 2017 offering China — post-Trump and post-Brexit — as the new spokesman and defender of the global trading system.¹⁹

In a sense, Xi's statements should be a welcome recognition of the way China has benefited from the global trading order both before and following its 2001 accession to the World Trade Organization, as literally hundreds of millions of China's people have been lifted out of abject poverty on the back of the country's export drive.

Yet whether China is truly prepared to assume its role as a "responsible global citizen" (in former World Bank President Robert Zoellick's phrase) remains to be seen. Some believe that the WTO's Doha "Development Round" faltered more because of developing country fear of China's export juggernaut than over traditional differences between Brussels and Washington, and China's over-investment during the past decade in steel, autos and heavy industrial goods production has created excess capacity in some sectors that surpasses global annual demand. The Trump administration's sometimes strident admonitions against China, the continued surge of WTO complaints by the United States, European Union, and others, and the reluctant stance of the other countries involved in the Regional Comprehensive

¹⁹ Xi Jinping, "President Xi's Speech to the Davos in Full," World Economic Forum, January 17, 2017.

Economic Partnership (RCEP) Asian FTA negotiations that China champions all point to the serious doubts held by other capitals.

No one's interests would be served by a "trade war" involving China, least of all Japan's. And in that sense Tokyo and others may have breathed a sigh of relief that President Xi's April visit to President Trump in the latter's Mar-A-Lago resort (where Abe reportedly enjoyed a good round of golf with the president in February) ended on a constructive note, as the two sides agreed to have their top economic policy officials work together over the next 100 days to find ways to reduce sources of tension, including, for instance, through some Chinese investment liberalizations. But this process postpones rather than defuses disagreements between the two Pacific super-powers, and it will remain in Japan's interest to work on both parties to avoid a confrontation.

“ **No one's interests would be served by a 'trade war' involving China, least of all Japan's.** ”

Japan Must Defend and Adapt

The global trade order that has been a major source of Japan's well-being is changing. The election of a mercantilist U.S. president, the withdrawal of the U.K. from the EU and the resurgence of an increasingly self-confident China are but three of the top-line indicators of this.

Japan, as a major beneficiary of this global trade order and as a major economic power in its own right, has both a right and an obligation to ensure that the rule of law underlying global trade endures, even as it adapts to these changes.

With all its major partners, Japan has every right to demand that they observe the obligations they have entered into in the WTO as well as other trade agreements. And it can and should unflinchingly hold them to account through the relevant dispute settlement procedures. But it must accordingly also observe those obligations itself.

On the Trans-Pacific Partnership agreement, Japan should work with the other parties to see that the TPP is brought into force. Perhaps ironically, the Trump Administration's decision to withdraw the US signature from the agreement makes this easier. The TPP parties agreed that TPP would enter into force when all the signatories had completed their respective ratification procedures, or, should that not have happened within two years of signature, when six countries representing 85 percent of the "combined GDP of the original signatories in 2013" had completed the ratification process. This was originally meant effectively to ensure that the United States and Japan would both need to ratify. But with the U.S. now having taken itself out of denominator by withdrawing its signature, Japan, Canada, Australia, and Mexico alone represent 90 percent of the GDP of the TPP-11 (excluding the United States).²⁰ Bringing TPP into force should be easy, and require nothing more than a letter stating the TPP-11 determine that the United States is no longer an "original signatory" in light of its decision to withdraw from the agreement. While of course many countries — including Japan — made "concessions" during the course of the negotiations in part in anticipation of the access the agreement would give to the U.S. market, the overall benefits of the agreement, the new access granted to other markets, and most importantly the new and stronger rules that TPP brings makes this "go it without the United States" gambit worthwhile.

Further, it turns the tables on the Trump administration. The United States, like any other APEC country, may at some time choose to accede to TPP. Should it do so, the TPP members would have every right to make demands concerning market access to the United States, and ignore as irrelevant "concessions" they had made to the United States during the course of the original negotiations.

Whether or not the Abe government should negotiate a separate bilateral agreement with the United States in this context is debatable. It could choose to do so, but its hand would be strengthened against extravagant U.S. demands to the extent that it has the TPP.

Tokyo's hand would also be strengthened by concluding an agreement with the EU. In the absence of an agreement involving the United States, it may well be in line with the Abe government's own domestic reform desiderata to give Brussels part of the agricultural market access it had originally promised the Obama administration.

²⁰ Brock R. Williams, "Trans-Pacific Partnership Countries: Comparative Trade and Economic Analysis," table 1, page 3, Congressional Research Service, July 7, 2015.

But it would be wise both to reserve part of that for an eventually more amenable U.S. counterpart, and to insist on its legitimate requests of the European Union on the critical issue of a data protection adequacy ruling.

Japan should further insist that the Japan–EU agreement be explicitly negotiated with an eye to the U.K.’s eventual departure. If this requires British officials to be somehow actively engaged in the negotiations (including in a “relay” fashion between Tokyo and London), so be it, the howls of protest from Brussels notwithstanding. Tokyo can and should insist that there be no gaps between the conclusion of its agreement with Brussels and its arrangements with the EU and the U.K. post-Brexit.

Finally, on China. This is a bigger issue that goes well beyond TPP and EU–Japan, and yet is fundamental to the global trade order Japan needs to fight to preserve. Japan, the United States, the EU and the U.K. must all agree on a common approach to China. At the most basic level that approach needs to involve an explicit acceptance from Beijing that it will play by the rules. More specifically, it needs to understand that it cannot “export” its excess capacity problem on the rest of the world. Whether this ends up coming in the form of a global voluntary restraint agreement (as opposed to one imposed by Washington for the U.S. market) or some other mechanism remains to be seen. But if the rules-based global trade order is to survive, China must accept its responsibilities in this.

“ ***This is Japan’s chance to be a global leader, a rules-maker rather than a rules-taker.***”

For all the uncertainty facing Tokyo today, this is also Japan’s chance to be a global leader, a rules-maker rather than a rules-taker. It should grasp that opportunity.

About the Author

Peter Chase is a senior fellow with The German Marshall Fund of the United States (GMF) based in GMF’s Brussels Office. His work focuses on the transatlantic economy with particular attention to trade and investment, digital and energy policies, and the EU’s economic relations with third countries.

An Allied Response to Chinese Investment

ROD HUNTER

Chinese investment is raising concerns across advanced countries. With Chinese outbound investment approaching \$200 billion in 2016, Chinese investors are increasingly seeking to acquire companies in sensitive industries, with investment patterns tracking Chinese government industrial policy. Meanwhile, the Chinese government restricts access for foreign investors to its own market, often imposing technology transfer obligations where investments are allowed.

The influx of Chinese investment into advanced markets combined with restrictions at home is stoking concerns ranging from national security to fairness. Chinese investment brings benefits for advanced markets, but the Chinese state's involvement and the lack of reciprocity undermine support for the open investment regimes of advanced economies. Europe, Japan, and the United States should coordinate to address security, competitiveness, and reciprocity concerns.

Chinese investment has raised concerns across advanced markets as investors from China have sought to buy assets in sensitive and politically salient sectors ranging from semiconductors, to robotics, to food and agriculture. In 2016, outbound Chinese investment reached nearly \$200 billion, with roughly half of that amount going to Europe and North America.¹ The influx of investment into advanced markets has prompted concerns ranging from national security, to competitiveness, to lack of reciprocal access to the Chinese market, and even to food security. While the investment flows are a positive trend reflecting China's economic integration, Europe, Japan, and the United States should coordinate to address legitimate national security risks and to seek reciprocal access to the Chinese market.

Investment Flows, Stock, Restrictiveness

Chinese outbound investment is reaching new heights, and in many respects these investment flows reflect a normal balancing given the size of the country's economy. In 2016, \$94 billion in Chinese outbound investment went to the advanced markets of North America and Europe. Chinese investments in the United States tripled and in Europe doubled in 2016 over 2015. Before 2008, North America and Europe received less than \$1 billion per year.

In the United States, Chinese investment in 2016 concentrated on real estate (\$17.4 billion); transport, utilities and infrastructure (\$6 billion); consumer products and services (\$5.7 billion); and entertainment (\$4.8 billion); electronics (\$4.3 billion); and health and biotechnology (\$1 billion). In Europe, Chinese investors' biggest targets were information and communication technologies (\$13.7 billion); transport, utilities and infrastructure (\$12.2 billion); industrial machinery

¹ Michael F. DeFranco and Dr. Thomas Gilles, "Rising Influence: Assessing China's Record FDI Surge in North America and Europe," Baker McKenzie, March 7, 2017.

(\$6.2 billion); entertainment (\$2.9 billion); real estate (\$2.9 billion); and consumer products and services (\$1.9 billion).²

While the numbers are impressive, the Chinese outbound investment flows as a share of China's Gross Domestic Product are in conventional ranges. Looking at 2015 OECD data,³ Chinese outbound investment flows represented 1.73 percent of Chinese GDP, while the United States' outbound investment represented 1.79 percent. The European Union (3.22 percent of GDP) and Japan (3.13 percent) had higher outbound investment flow percentages.

A look at foreign investment stocks, or accumulated foreign direct investment, provides further context. 2015 OECD data on FDI stocks as a percentage of GDP indicate the following⁴:

European Union

- Outward FDI — 55 percent
- Inward FDI — 47 percent

Japan

- Outward FDI — 30 percent
- Inward FDI — 4 percent

United States

- Outward FDI — 32 percent
- Inward FDI — 31 percent

China

- Outward FDI — 10 percent
- Inward FDI — 26 percent

In short, given the size of its economy, China has a relatively low level of direct investment stock in other countries at 10 percent of GDP. While its inbound investment is at a higher level than Japan's very low four percent, it is also still relatively low at 26 percent when the international average is close to a third. The OECD's index of foreign investment restrictiveness may point to why China's inbound FDI is relatively low,

and why international businesses complain about lack of access. The OECD has collected data on the restrictiveness of countries toward foreign direct investment, taking into account foreign equity restrictions, discriminatory screening mechanisms, restrictions on key foreign personnel and operational restrictions.⁵ The OECD index rates countries on a scale of 0 to 1, with 0 being open and 1 being closed. Japan (0.052), the United States (0.089) and European countries (e.g. France at 0.045, Germany 0.023) all rate as open to foreign investment. By contrast, China (0.327) has one of the world's most restrictive investment regimes, surpassed only by the likes of Myanmar, Saudi Arabia and the Philippines. Even India is more open to foreign investment than China, according to the OECD index.

Benefits of Foreign Investment

There are good reasons for Chinese outbound investment into the advanced markets of Europe, Japan, and the United States. As noted, China's current stock of overseas investment, at 10 percent of GDP, is low relative to the size of its economy, so it is not surprising that there would be "catch-up" outbound investment. Moreover, for individual Chinese investors, there are many sound commercial reasons for such foreign investments: diversification of assets and markets, getting closer to consumers, creating production platforms behind tariff and other trade barriers, acquiring know-how to move up the value chain, etc.

Conversely, foreign investment brings important benefits to host markets. As the Obama administration outlined in 2013,⁶ value-added by majority-owned U.S. affiliates of foreign companies accounted for 4.7 percent of total U.S. private output in 2011. These firms employed 5.6 million people in the United States, about 4 percent of private-sector employment. These affiliates account for 10 percent of U.S. private investment and 16 percent of U.S. private research and development spending. Finally, compensation at U.S. affiliates is higher than the U.S. average. The positive implications of foreign investment in other markets are similar.⁷

⁵ OECD, FDI restrictiveness (indicator), 2017. doi: 10.1787/c176b7fa-en.

⁶ Office of the Press Secretary, "New Report: Foreign Direct Investment In the United States," October 31, 2013.

⁷ Mathur, Aparna and Robert J. Shapiro, "How India Can Attract More Foreign Direct Investment, Create Jobs, and Increase GDP: The Benefits of Respecting the Intellectual Property Rights of Foreign Pharmaceutical Producers," Sonecon, January, 2014.

² Ibid

³ OECD, FDI flows (indicator), 2017. doi: 10.1787/99f6e393-en.

⁴ OECD, FDI stocks (indicator), 2017. doi: 10.1787/80eca1f9-en.

Concerns with Chinese Investment

For all the benefits, Chinese capital flows have brought into high relief political and policy concerns, especially given the expansive role of the state in the Chinese economy. Security concerns have attracted attention of officials in the United States and in other advanced markets. For example, the U.S. President's Council of Advisors on Science and Technology (PCAST) released earlier this year a report on semiconductor innovation, competitiveness and security.⁸ That report outlined Chinese industrial policies to achieve, for economic and security purposes, the commanding heights of the semiconductor industry through government spending, including \$150 billion in public and state-influenced funds over a decade. PCAST recommended a series of policy actions, including closer scrutiny of Chinese investments in the tech sector.

Relatedly, President Obama blocked last year the sale of the U.S. assets of Aixtron SE, a German semiconductor-equipment supplier, to a Grand Chip Investment GmbH, a Chinese-owned firm. "The national security risk posed by the transaction relate[d], among other things, to the military applications of the overall technical body of knowledge and experience of Aixtron," according to the Treasury Department.⁹ While the Presidential order related only to the U.S. part of Aixtron, the Chinese firm ultimately walked away from the entire transaction after the German government reopened its own review process.

Chinese investments have also heightened industrial policy and competitiveness concerns, not least given the alignment of the investment patterns described above with industrial policies set out in Five Year Plans.¹⁰ Recent Five Year Plans have prioritized information and communication technologies, industrial machinery, and biotech, each being high on the U.S. and European acquisition tallies. Policymakers and businesses worry that Chinese companies, often state-owned or supported, are buying up technologies developed in advanced economies. Indeed, the German, French and Italian governments wrote to

8 President's Council of Advisors on Science and Technology, "Report to The President Ensuring Long-Term U.S. Leadership in Semiconductors," January 2017.

9 U.S. Department of the Treasury, "Statement on the President's Decision Regarding the U.S. business of Aixtron SE," December 2, 2016.

10 Larres, Klaus, "China and Germany: The Honeymoon Is Over," *The Diplomat*, November 16, 2016.

the European Commission in February 2017 arguing that EU member states should have broader latitude under EU law to block foreign acquisitions that are "unfair... because they rely on state funds or are aimed at buying up important technologies."¹¹

These concerns are exacerbated by the lack of reciprocal access to the Chinese market. As noted, the OECD investment restrictiveness index rates China as one of the world's most restricted markets. Advanced economy companies have found that whole

sectors are off-limits in China. Some sectors involving information technology that were open for competition previously have been effectively closed over the past five years. Lack of access to the Chinese market has led to calls for making access to advanced markets conditional on China (and other restricted markets) providing equal investment opportunities.¹²

There have been earlier waves of concern about foreign investment, certainly in the United States. In the 1980s and early 1990s, the focus was on Japanese and Middle Eastern investment. Indeed, President Trump was at the time critical of what he viewed as a lack of reciprocal access to the Japanese market for U.S. investors.¹³ Similarly, there have been periodic eruptions in Europe and Japan over foreign acquisitions. What makes Chinese investment so sensitive, however, is the role of the state and a perception that China is both an economic and security competitor.

“ Policymakers and businesses worry that Chinese companies are buying up technologies developed in advanced economies.”

Host Country Investment Regimes

Most advanced countries have some form of foreign investment vetting process, though there is wide diversity in the scope and structure of regimes across Europe, Japan, and North America. Some European countries have

11 Chazan, Guy, "EU capitals seek stronger right of veto on Chinese takeovers," *Financial Times*, February 14, 2017.

12 Pittenger, Robert et al., Letter to GAO reviewing CFIUS Report, September 15, 2016.

13 Plaskin, Glenn, "Playboy Interview: Donald Trump (1990)," *Playboy*, March 14, 2016.

powers to review and/or block non-EU origin investments in sensitive or strategic sectors such as defense production (see, e.g., France, Germany, and the United Kingdom), and policymakers in countries such as Germany, France, Italy and the United Kingdom have suggested it may be time to review those frameworks. Japan similarly has powers to vet acquisitions in designated sectors. The U.S. process focuses exclusively on national security threats, though there is discussion in Congress of modifying the review process to assess economic benefits or reciprocal access. Not only are the legal regimes different, but the approach of regulators varies, with some (e.g., in the United States) being exacting in their scrutiny and others less so.

Trilateral Cooperation

As President Ronald Reagan declared when issuing his international investment strategy in 1983, “[i]nternational direct investment plays a vital and expanding role in the world economy.”¹⁴ Market-driven investment flows benefit advanced economies as much as emerging markets such as China. Major countries — advanced countries and China included — understandably assess national security implications of investment. However, the Chinese government roles in guiding industrial policy and in restricting access to the Chinese market create a challenge for maintaining support for the openness so essential for the international economy.

Europe, Japan, and the United States should work together on investment policy, to ensure that legitimate security interests are protected while using their joint leverage to encourage China to open its market for investment and trade. The G7 could provide a useful platform for that coordination. First, security. While national security is best dealt with at the national level, there is an opportunity for advanced economies to align their review processes and to share assessments on security vulnerabilities and threats. Common approaches could ensure more effective protection of legitimate national security risks while allaying more far-fetched concerns that unnecessarily impede useful investments. The greater coordination could have the added advantage of creating greater regulatory certainty for Chinese and other investors over time.

Second, fairness and reciprocal access. As noted, China has one of the world’s most restrictive investment environments. Companies from advanced markets find themselves increasingly competing in advanced markets with Chinese firms while China limits access to the its market. Not surprisingly, this un-level playing field has undermined support for the international trading system. Advanced countries have individually sought to encourage China to provide market access. Japan has already negotiated bilateral investment agreements to facilitate investment, and both the EU and United States are working on their own treaties with China. Moreover, just as Congress is considering revising the U.S. investment regime, Germany, France and Italy have urged the Commission to consider modifications to EU rules to address lack of perceived fairness and access. Coordinating through the G7, the advanced economies could work together to encourage China to open its market to foreign investment, perhaps consolidating their investment negotiations with China into one process to increase leverage.

Advanced markets and emerging markets such as China benefit from the open trading and investment regime. That open international system ultimately depends on a sense of fairness and reciprocity among members. Just as Japan, Europe and the United States can strengthen their own security by coordinating more closely amongst themselves, they can also promote a sustainable open investment environment by working together with China to ensure a level playing field.

“ Coordinating through the G7, the advanced economies could encourage China to open its market to foreign investment.”

About the Author

Rod Hunter is a partner with Baker McKenzie and is a non-resident senior fellow with The German Marshall Fund of the United States.

¹⁴ Reagan, Ronald, “Statement on International Investment Policy,” September 9, 1983. Online by Gerhard Peters and John T. Woolley, The American Presidency Project..

Brexit: An Agenda for U.K.–Japan Relations

SARAH RAINE

The implications of Brexit extend well beyond its impact on those represented at the negotiating table. Japan has considerable economic, political, and strategic stakes in the conduct and outcome of Brexit, whilst the U.K.'s ability to protect and further develop its close relationship with Japan will be a key indicator of the substance behind the rhetoric of a post-Brexit 'Global Britain'.

As a close partner of both the U.K. and the EU, Japan can play an important role in the Brexit negotiations to come by encouraging all parties to keep their disagreements focused on the technical and their eyes on the strategic. Through Brexit and beyond, the U.K. and Japan must work still more closely together in defense of an open trading system, in support of continued, credible U.S. security commitments to their regions, and in the coordination of actions aimed at framing China's strategic choices in favor of the rules based international order. Opportunities for new mini-lateral groupings, whether based around existing trilaterals and quadrilaterals or new groupings, should also be explored.

In the wake of the uncertainty over President Trump's future policy preferences on key strategic issues, greater priority and significance must be attached to Japan–Europe cooperation in general, and to Japan–U.K. cooperation in particular.

The U.K.'s vote to leave the European Union sent shockwaves around the world. In Japan, as the sterling fell, the yen soared and the Nikkei plunged. The government in Tokyo was left to consider, with a mixture of disbelief and concern, the potential economic, political, and strategic implications of Brexit for Japan's bilateral relations with the U.K. and its European partners.

In September 2016, Japan became the first third-party government to formally set out its interests and expectations for the Brexit negotiations to follow. Japan's Message to the United Kingdom and the European Union¹ began by reminding negotiating parties of the "shared basic values" and "strong partnerships" that Japan enjoyed with all sides. It then put forward over fifteen pages of text, some general and specific requests, alongside clear warnings of likely consequences should these go unmet.

Yet within the month, as U.K. Prime Minister Theresa May offered her own red lines for negotiations in a speech at the Conservative Party conference, it was clear that many of Japan's specific requests would go unheeded. The U.K. would be leaving the single market and the customs union; in some shape or form borders, barriers and tariffs would be returning.

The challenges even to Japan's more general requests have likewise quickly become apparent. Regrettably for all involved, the enormous complexities of Brexit negotiations are unlikely to permit the "seamless process" Japan so lucidly advocated.

¹ Ministry of Foreign Affairs of Japan, Japan's Message to the United Kingdom and the European Union, September 4, 2016.

U.K.–Japan Relations – the Stakes

The U.K. and Japanese governments have repeatedly acknowledged the economic, political, and strategic stakes in play, and the importance therefore of finding a way to minimize the potential for disorder that negotiating the terms of Brexit brings. With regard to their bilateral relationship alone, there are more than 1,300 Japanese companies in the U.K., employing approximately 140,000 people. In 2015, the U.K. accounted for nearly half of Japanese direct investment in the EU, making Japan the second largest source of foreign direct investment for the U.K. after the US. Indeed, within a month of the Brexit referendum, Japanese Softbank CEO Masayoshi Son made the biggest yet Asian investment in the U.K. when he agreed to buy the smart-phone chip designer and leading semiconductor IP company Arm Holdings for 24.3 billion pounds.

The close economic relationship is, of course, important not just for the U.K. and Europe, but also for Japan and its Prime Minister, who needs all the help he can get pulling Japan out of two decades of stagnation, and thereby proving the virtues of “Abenomics.”

Cooperation on civil nuclear projects is but one example of the mutual benefit brought by close relations. In December 2016, the U.K.’s Department for Business, Energy, and Industrial Strategy and Japan’s Ministry of Economy, Trade, and Industry signed a Memorandum of Cooperation on a “strategic partnership” that covered, among other things, Nuclear New Build and Research and Development, as well as Decommissioning and Decontamination. Assuming U.K. plans progress, Japanese engagement on U.K. nuclear new build benefits the U.K. but also Japan, including strategically, by providing a way for Japan to retain capability on new build at a time when domestic options are politically impossible.

These strong ties and inter-connected interests extend to other technology partnerships, from Fujitsu, one of the largest investors in the U.K., to U.K. (and EU) scientists working at the Japanese High Energy Research Accelerator Organisation (KEK), to growing cooperation between the Japanese Aerospace Exploration Agency (JAXA) and the European Space Agency (ESA). Indeed, the launch last year by U.K. ESA astronaut Tim Peake, together with JAXA, of the Philippine’s first ever home-

built microsatellite offered a further reminder of the broader strategic benefits of close cooperation, which extend even to outer space.

The political and strategic partnership is similarly close. The U.K. is arguably Japan’s most important security partner in Europe, in particular on defense technology cooperation, and Japan is certainly the U.K.’s most important security partner in East Asia. Close consultation and cooperation extends across a variety of fields, from the UN Security Council - to which Japan has been elected a record 11 times — to NATO — where Japan is the longest standing NATO “partner across the globe.”

“ **The U.K. is arguably Japan’s most important security partner in Europe.**”

A Role for Japan in Brexit Negotiations?

As the clock ticks down on the two years afforded for negotiations under Article 50, at least some aspects of U.K.–EU relations are bound to get fractious. The sheer complexity of the assorted negotiations required will be a drain on the human resources and the political bandwidth of all establishments involved. Their intensity is also likely, at points, to incubate destructive frustrations, whether over disagreements on the terms of exit, or the outlines of a potential new deal, or simply because of the inevitable clashes in perceptions as to where blame will lie in the event that negotiations stall, or worse, fail.

An important challenge of the Brexit process therefore will be to contain these disagreements as much as possible to the technical level, in order to protect the prospects for future close cooperation between the U.K. and EU at the strategic level. Any failure to manage such a separation threatens a host of unwelcome complications across a gamut of economic, political and strategic issues from which Japan cannot possibly hope to insulate itself.

Given the stakes Japan has exposed in this process, and the overlap in key strategic interests it enjoys with both the U.K. and the EU, the negotiating parties to Brexit would be well served to heed at least one of Japan’s requests in its September message, and keep the Japanese government as informed as possible about the progress of negotiations.

But the U.K. cannot think this sufficient. For how the U.K. protects and develops its partnership with Japan through Brexit and beyond will surely provide an important benchmark of the seriousness with which it will pursue the “Global Britain” that Prime Minister May so regularly identifies as the future for post-Brexit Britain. This means, among other things, that the U.K. must take every opportunity to bring Japan early on into its thinking on key foreign and security policy issues of the moment, moving cooperation forward while simultaneously countering the understandable narrative that questions U.K. capacities for other policy priorities through the course of Brexit negotiations. Furthermore, the U.K. will need to consider how the reputation of “Global Britain” could be damaged by its conduct in Brexit negotiations, whether that be threatening to leave bills unpaid, or politicizing the U.K.’s commitment to European security.

“ **The U.K. must take every opportunity to bring Japan early on into its thinking on key foreign and security policy issues.**”

In the same spirit, the EU would do well to remember that it risks being seen by its partners as punitive, petty, and insecure should it choose to react to U.K. efforts to progress informal discussions on potential new trade deals beyond the EU, by trying to enforce the legal ban against the U.K. negotiating trade deals whilst it is still a member of the EU.

Japan will serve its partners in both the U.K. and the EU well by continuing the theme established in its September message and standing ready to provide “adult supervision” as required. Tokyo stands as a powerful example to both sides of the interest that their partners hold in a strong and united EU, alongside a prosperous and successful post-Brexit Britain. Similarly, Japan can offer a clear refutation of the dangerous undercurrent of thinking that a “bad deal” for the U.K. is a net positive for the future of the EU, or vice versa. Japan can also help make the argument that, as much as possible, economic tensions need to be kept separate from security partnerships.

Both roles have taken on greater importance following President Trump’s arrival at the White House, given the still unpredictable nature of the relationships he will

cultivate with the European continent. Even if the worst fears of a United States now ideologically hostile to EU integration prove unfounded, tensions across the Atlantic threaten to bring new cleavages into already complicated negotiations, including the prospect, for example, that in parallel to sensitive Brexit negotiations, the U.S. might decide to focus on Germany’s trade imbalance and its alleged “abuse” of the world trade system.² In any circumstances, it has to be in the best interests of all those with a stake in the credibility of the liberal international order for all necessary negotiations to be conducted calmly at the table, rather than emotionally through the media.

Defending the Open Trading System

For the liberal, free market, globally-minded thinkers who are charged with implementing Brexit, ‘Global Britain’ is more than a slogan; it is a necessity. The success of Brexit depends upon it. There are three key challenges in the face of which the UK and Japan should look to deepen and expand on existing relations through Brexit and beyond: trade, cooperation with the United States, and China. Importantly, the bilateral agendas here are complimentary to EU interests and EU-Japan relations.

At a time of growing protectionist sentiment globally, the U.K. and Japan will need to do more together to defend an open-trading system that rewards competition based on merit (rather than state aid), protects intellectual property, and acknowledges the role of free trade in delivering global growth. The U.K. government has already made it clear that post-Brexit Britain will be built on this philosophy. Japan should position itself close by, not just in rhetoric but also in practice, moving with speed finally to conclude the EU–Japan Economic Partnership Agreement, and then, in due course, a U.K.–Japan Free Trade Agreement.³ As the world waits to understand what “America first” means for the U.S. trade agenda, as Japan is left to rue the destruction of TPP, and the U.K. the failure of the Transatlantic Trade and Investment

² For more on these potential cleavages see Andrew Small, “The Counter-Enlightenment and the Great Powers,” *Out of Order*, Medium.com, March 13, 2017. For an example of the sort of fight the United States could choose to pick with Germany over trade policy, see Walter Russell Mead, “The Real Trade Challenge is Germany, not China,” *The American Interest*, March 6, 2017.

³ With negotiations on an EU–Japan EPA sufficiently advanced, and Brexit not due to take effect until Spring 2019, there need not be any competition between these two objectives, even in terms of resource pressures.

Partnership (TTIP), any agreements between Europe and Japan will inevitably take on greater economic and strategic significance.

Such agendas can be carried forward alongside inevitably increased Japanese engagement in the notably less ambitious Chinese-led initiative on Regional Comprehensive Economic Partnership (RCEP), and in full complementarity with the EU Commission's "Trade for All" trade and investment strategy. They can, to the degree that the U.S. is interested, also be prosecuted in full cooperation with both countries' leading security ally. What prospects, for example, a possible trilateral U.K.–U.S.–Japan trade agreement?

Promoting Continued U.S. Commitments

The U.K. and Japan understand the critical role credible U.S. security guarantees play in maintaining peace and security in their respective regions. Both are allies and privileged security partners of the United States. Both have leaders who have made an early effort to work with President Trump. Prime Minister Abe was the first foreign leader to visit Trump after his election, Prime Minister May the first foreign leader to visit him after his inauguration. In these times of unprecedented uncertainty about the future orientation of the United States, and the future of Enlightenment values more generally, the U.K. and Japan must now use these ties and work hard separately and together to convince the U.S. President of the importance of his country's alliances and the mutual benefit that they bring.⁴

If necessary, given that both Japan and the U.K. are significant purchasers of U.S. defense equipment, this should involve reminding the U.S. how it benefits from such engagements not just strategically but also commercially.⁵ It should also mean leading and shaping the discussion more multilaterally as to how alliances can help better deliver against U.S. security priorities. There is, for example, a clear opportunity to develop more of a counter-terrorism agenda within NATO, which should help demonstrate that the alliance is far from "obsolete."

⁴ For more on how Japan might approach this challenge, see Daniel Twining, "How Japan can 'win' with Trump," *Nikkei Asian Review*, 31 January 2017.

⁵ The commercial value of the defense relationship to the United States is an important supplement to its security value for a U.S. president anxious to deliver jobs. For example, Japan is committed to purchasing four MV-22 Osprey tilt-rotor transport aircraft (value 39.1bn yen), and six F-35A stealth fight jets (value 88 bn yen) as well as buying in to elements of the Global Hawk surveillance drone (value 16.8bn yen).

Shaping China's Strategic Choices

The U.K. and Japan can still do more together (and with partners) both to continue to try to persuade China of the merits of unambiguous commitment to the rules-based international system, as well as to represent and defend Enlightenment values in the unfolding contest for influence in Asia. This potential for cooperation pre-supposes a post-Brexit Britain able to separate its unchanged strategic interests from its commercial interests in Chinese markets and money. Given that the allure of the later might grow in the immediate aftermath of Brexit, this cannot be taken for granted, but for now the signs are positive. For example, much of the groundwork for a closer partnership on defense was developed in spite of the enthusiasm for closer economic partnership with China held by former U.K. Prime Minister David Cameron and his Chancellor, George Osborne.⁶ Furthermore, there are signs that Prime Minister May is recalibrating the previously unbounded nature of the U.K.'s enthusiasm for the closest possible economic partnership with China.

Cooperation on China between London and Tokyo is also credible in part because the interaction includes positive engagement with China on initiatives such as One Belt One Road (OBOR), even as it suggests that more should be done (including on co-ordination with Japan) with regard to capacity-building work with China's neighbors in Southeast Asia. Within this region, Japan has become noticeably more pro-active, not just as an aid donor, but also as a defense partner. To take but two examples, already in 2017 Japan has announced a five year public-private aid package with the Philippines worth 1 trillion yen, confirmed its intent to continue the agreed provision of maritime patrol boats and aircraft, and agreed Japanese participation in U.S.-Philippine military exercises.⁷ It has also granted a 120bn yen loan to Vietnam, to include the provision of a further six maritime patrol vessels (this time new, as opposed to simply refurbished). Abe's "Free and Open Indo-Pacific Strategy" — a maritime take on the Chinese-led OBOR initiative — appears to combine loans and infrastructure investment, the provision of maritime assets, and growing operational engagement with the key maritime powers of the region. That menu

⁶ This is not to ignore the points of tension that sometimes arose, most obviously over the U.K.'s decision to become a member of Chinese-initiated Asian Infrastructure Bank. For more on this, see the next section on closer U.K.–Japanese defense cooperation.

⁷ Japan's cultivation of the controversial Philippine President Rodrigo Duterte is deliberate and strategic. In January 2017, Abe became the first serving world leader to visit Duterte. A sizeable portion of the aid package announced has been dedicated to infrastructure development in Duterte's home province of Mindanao.

of activities should afford the U.K. plenty of opportunities for mutually-beneficial coordination, as it seeks to bring Southeast Asia into greater strategic focus as part of a post-Brexit strategy that can reasonably be anticipated to involve a yet more concerted prosecution of its “all of Asia” policy.

Defense and Security Cooperation

Aside from the direct defense dividends it could deliver, closer U.K.–Japan cooperation on defense and security offers one important route to address at least two of the three key challenges outlined above (supporting continued U.S. commitments overseas and shaping China’s strategic choices).

Bilateral defense cooperation between the U.K. and Japan has a long and impressive history, dating back to the first Anglo–Japanese Alliance of 1902, which itself helped mark the end of the U.K.’s questionable experiment in “splendid isolationism.”⁸ Today, both the U.K. and Japan are lead allies of the United States as it looks out across the Atlantic and Pacific oceans respectively. In recent years, encouraged by the United States, both countries have advanced their bilateral cooperation, including through the 2012 memorandum on defense cooperation, and the 2013 agreements on defense equipment cooperation and the security of information, which created the legal framework for closer cooperation.

Such cooperation has been further encouraged on the one hand by the U.K.’s identification, in its 2015 Strategic Defense and Security Review, of Japan as its “closest security partner in Asia,” and on the other hand, by the considerable political capital that Abe has invested in developing Japanese capabilities and partnerships in this field, including through his attempts increasingly to “normalize” the role of the Japanese Self Defense Forces (JSDF). In January 2015, London hosted the first ‘2+2’ (foreign and defense) ministerial meeting with Japan, and the U.K.’s deployment of Typhoon to Japan in October

⁸ The 1902 treaty was intended to last for five years, but was substantively rewritten and renewed with the outbreak of the Russo–Japanese war of 1905. A third treaty was signed in 1911 and was allowed to lapse in 1923.

“ *Japan has become noticeably more proactive, not just as an aid donor, but also as a defense partner.*”

2016 for a first ever U.K.–Japan joint fighter exercise both confirmed and highlighted the seriousness with which both sides are developing cooperation.⁹

Collaboration on defense equipment technology is one area where clear progress has been made, with cooperation presently perhaps most advanced in the area of Complex Weapons, including through the Joint New Air–Air Missile project that has now entered its second phase of development. Japan’s heavy investment in technology, from semiconductors to multipurpose radar sensors and high power vectoring engines opens up further possibilities for synergistic collaboration between U.K. and Japanese defense industries. The wins here include the potential to improve capabilities, cut costs, and even, in the event of joint export, boost earnings.

Brexit is likely to encourage the U.K.’s appetite for greater security engagement in the region as the country anticipates finding itself still more commercially exposed and therefore strategically sensitive to security tensions in the Asia Pacific. Close defense and security cooperation with Japan, alongside their common primary ally, the United States, will be seen as a stabilizing contribution to the region. Moreover, although it is certainly possible that the U.K. government could react to its potential post-Brexit economic woes by making fewer resources available for defense, such a dynamic would be unlikely to seriously undermine — and might conceivably even strengthen — the logic for cooperation between the world’s fifth and eighth largest defense spenders.¹⁰

There is also much that these two maritime powers can do together at sea. Indeed, as Japan looks to strengthen its remote island defense capability with the development of an Amphibious Rapid Deployment Brigade (set to become fully operational by 2018) the U.K. has already offered its support for Japan’s concurrent development of Doctrine and Concepts for future amphibious operations. Early in the next decade U.K. aircraft carriers will return to the seas of the Asia Pacific in a useful, if still modest, demonstration of presence. In the meantime, the U.K. must continue to look — in coordination with its European partners, and particularly France as the other leading European maritime presence in Asia — to find ways to position itself more convincingly as a committed

⁹ The planes also moved on to take part in trilateral aerial combat drills with South Korea and the United States.

¹⁰ Rankings correct as of 2015; see IISS Military Balance 2017 for details. Japan’s defence budget for fiscal year 2017 rose to 5.17 trillion yen. The U.K.’s defence budget for FY 2017–2018 is GBP36bn.

supporter and useful partner in the protection of maritime security in Asia and the rules based international order at sea.

Another area ripe for closer cooperation is peacekeeping operations, where Japan's shifting security agenda affords new operational possibilities for the JSDF, as well as for Japan's partners seeking to encourage its more dynamic engagement on issues of international peace and security. The JSDF deployment in South Sudan, for example, is an important test case for such engagement, including Japan's revised guidelines for International Peace Cooperation Assignments. Aware of the likely damage to Abe's more proactive agenda that would result from any Japanese casualties, the U.K. has looked for opportunities to support this deployment, from hosting a workshop in December 2016 on Peace Keeping operational doctrine with Japan and South Korea, to the provision of more practical support on the ground, including intelligence sharing.

New Trilaterals and Quadrilaterals

None of the areas where Japan and post-Brexit Britain might look to cooperate more closely need be exclusionary. Indeed, there are likely to be opportunities for broader cooperation in a variety of Asian and European mini-lateral groupings, whether through the expansion of existing formats or the creation of new ones. How U.S. interests in the region evolve under President Trump will perhaps help define which of these groupings is more likely than others, but both the U.K. and Japan will be looking for opportunities to do more with the United States, separately and together. Other groupings around specific projects and interests might yet make sense, for example with U.K., Australia and Japan — developing on from the trilateral phone call between foreign ministers that took place in September last year to coordinate reactions on North Korea's nuclear test, including at the United

“ **Close defense and security cooperation with Japan will be seen as a stabilizing contribution to the region.**”

Nations. Or, if the Quadrilateral Security Dialogue between the United States, Australia, Japan and India can be revived, might the U.K. consider what contribution it could usefully extend that might interest dialogue partners in listening to such an offer?

Containing the Drama

The outline of a pro-active agenda for U.K.–Japan relations through and after Brexit is not intended to minimize the challenges that Brexit will undoubtedly bring for the U.K., the EU, and partners. There will be much drama to come in the negotiations that unfold. Nor is it to ignore the domestic distractions and sensitivities that Japan's government will likewise need to navigate, such as Abe's ambitions for more far-reaching constitutional changes, including on security issues.

Yet failure not just to maintain bilateral ties through the drama to come, but to strengthen them further, will undermine not just the narrative of “Global Britain” but the strategic interests of all parties, in particular given the extraordinary uncertainties that presently exist about the future of the West and the U.S.-led liberal international order. Moreover, Japan and Europe's oft-touted like-mindedness should never be taken for granted; it requires constant dialogue and cultivation. To offer but one example, the dangers of potential strategic drift can be seen in the considerable diplomatic efforts that were necessary throughout 2016 to ensure alignment at the UNSC between the P3 (U.K., France, and United States) and Japan on Syria.¹¹ Continued and early mutual engagement on issues of global security will be important — particularly on Russia as Japan moves to re-engage with Russia's Foreign and Defense Ministers in a 2+2 dialogue, which has been suspended since the annexation of Crimea.

Brexit will change a lot and change little. It will fundamentally restructure relations between the U.K. and the EU. It will likely precipitate a reconfiguration within Europe's Union, and potentially threaten the U.K.'s domestic union. But it is important to remember that the strategic starting point for those involved in negotiations remains the same as the strategic end point. Even in the midst of her first efforts to cultivate close relations with

¹¹ In the end, whilst unity was maintained within the UNSC, the line was broken with the December 7 statement by six of the G7 calling for an immediate cease-fire in Aleppo but also condemning Russia for blocking humanitarian aid. The Chair of the G7, Japan, was notable only by its absence.

U.S. President Trump, Theresa May was careful to note the U.K.'s interest in a "strong European Union." Likewise, a strong U.K. working in close coordination with the EU on key issues of global import can only help boost influence and effect to mutual benefit. The challenge then, for all parties whether directly or indirectly involved, will be to seek ways to de-dramatize the pettiness of day-to-day Brexit negotiations, and instead to concentrate minds on the world beyond, where the real drama can be expected to continue to unfold.

About the Author

Sarah Raine is a consulting senior fellow at The International Institute for Strategic Studies (IISS) and a non-resident fellow with the Asia Program at The German Marshall Fund of the United States (GMF).

Information Warfare Is Not Just a European Problem

JOANNA ŚWIĄTKOWSKA

U.S. intelligence agencies are certain that Russia was involved in hacking and propaganda production meant to influence the recent U.S. presidential election. Moscow also utilized information warfare campaigns from the beginning of the conflict in Ukraine, spreading massive amounts of information with the intention of influencing international opinion and public opinion in Ukraine and Russia. But Russia is not the only state actor with highly-developed cyber capabilities, nor are Europe and the United States the only targets. In fact, the threat of “soft information warfare” of propaganda and influence operations and “hard information warfare”¹ that attacks digital systems, such as the cyber-attacks North Korea has conducted against Japanese and U.S. civilian and military targets, is global and growing in Asia.

Multiple interdisciplinary actions must be undertaken to provide protection against both soft and hard information warfare, and collaboration between Japan, Europe, and the United States will help all three. Interestingly, as difficult as it is to protect a country from hard cyber-attacks, it is even more challenging for countries that value freedom of expression and open communication to protect the public from attacks seeking to manipulate perspective and opinion.

Over the past few decades, we have truly become an information society. Modern technologies and the Internet shape our world, influencing the social, economic, political, and military aspects of our lives and countries. However, the rapid development and expansion of cyberspace, has also created greater opportunities for the misuse of information. This “information warfare” is expected to play an even more significant role in shaping the contours of international security in the years ahead.

Although forms of information warfare vary, the goal is always the same: to manipulate and influence groups and individuals, in the service of an attacker’s end goal. The attacker’s tools include collecting, defending, and manipulating information and/or technology. This paper provides a general overview of recent cyber activities and misinformation campaigns and their potential implications for allies in Europe and Asia. In this paper the concepts will be divided into two main forms: soft information warfare and hard information warfare.

Soft information warfare seeks to influence people’s thoughts and perceptions, thereby influencing their behavior. Hard information warfare seeks to infiltrate information-based systems and either influence the machines or gain control over them. In many cases, complex information campaigns simultaneously make use of both hard and soft attacks. There are, of course, important differences between the two forms. For example, the method of soft information warfare operations is to steal data and manipulate information with the goal of influencing people’s behavior or opinions. In most cases, this form of information warfare does not carry actual physical consequences. In hard information warfare operations, which can also be called cyberwarfare, the main aim is to physically affect a target and cause as much harm as possible, including financial and material damages, or even loss of life. To obtain such results, the

1 The presented differentiation is inspired by the theory invented by Professor Joseph Nye, who proposed the conception that countries can influence each other by persuasion or by coercion.

aggressor must attack the systems that control physical devices, e.g. critical infrastructure, which can thus directly influence internal security.

Although information warfare is not a new phenomenon, modern technologies have enabled the production and dissemination of information at a previously unimaginable scale. In the recent past, only giant media conglomerates, often state-controlled, could create content and share it with the masses. The audience was a passive element of a top-down designed communication mechanism. Now, millions of Internet users can create information and share it almost instantaneously with countless recipients. Additionally, content writers can publish anonymously or change their identity. Once information is made public, it is very hard to verify its accuracy and credibility, or even its source. Manipulated information can therefore mislead large sections of society. As Nazi Minister of Propaganda Joseph Goebbels once said, “If you repeat a lie long enough, it becomes truth.” Unfortunately, in the era of digital information, quick and frequent repetition is simple to achieve, and many examples illustrate this darker side of Internet.

Information Warfare in Practice

The conflict between Ukraine and Russia, which has been going on since 2014, is one example of information warfare in practice. During the conflict, massive amounts of information related to the struggle were spread with the intention of influencing both international opinion as well as people directly involved in Ukraine and Russia. Entities that supported the Russian separatists defended the legitimacy of their activities through wide-spread information warfare campaigns. First, they tried to establish the argument that the annexation of Crimea is legitimate for both historical and ethnic reasons. Second, they tried to blame the Ukrainian society for starting the conflict, using manipulated information. They portrayed the Ukrainian people as radicals who were attempting to destabilize national and international security. The campaigns made use of Internet trolls who posted on online forums, commented on articles, and spread skewed information on social media and other online channels. The main aim of these campaigns was not only to legitimize Russian activities, but also to weaken Ukraine’s position on the international scene.

There is conclusive evidence that these types of activities were not always individual initiatives, but rather orchestrated campaigns supported by the state. For example, the American journalist Adrian Chen discovered an Internet research agency located in St. Petersburg, Russia which employs people to disseminate (prescribed) comments supporting the Kremlin’s political activities.¹

Another example which illustrated the power of information warfare conducted in cyberspace occurred during the recent U.S. presidential campaign. During this period, the online information warfare campaigns were wide-spread, including the hacking of the Democratic National Committee and subsequent continuous leaking of information to the public. This campaign greatly weakened the position of the presidential candidate Hillary Clinton and decreased her public support. What is interesting here, is that WikiLeaks portal was used to give legitimacy to the leaked information. WikiLeaks is a widely-recognized platform that claims to act in the name of transparency, therefore placing information on this platform gave the cause more credibility. After the elections, the Office of the Director of National Intelligence published a report asserting that the cyber-interference occurring during the election period was orchestrated by Russia.² It is worth noting that the campaign combined both soft and harder methods: gaining information by breaching systems and later disseminating information with the use of cyber tools.

“It is possible to interfere with and manipulate information to affect another entity without using traditional, kinetic methods.”

The U.S. elections example proves that with the use of modern technologies, it is possible to interfere with and manipulate information to affect another entity without using traditional, kinetic methods.

Information warfare as a strategy of influence may be even more efficient when complemented by hard information warfare operations. Due to the wide-spread dominance of

¹ Adrian Chen, “The Agency,” The New York Times, June 2, 2015.

² Office of the Director of National Intelligence, Intelligence Report on Russian Hacking, January 6, 2017.

the Internet of Things, cloud solutions, and other modern technologies that lead to the penetration of the physical world by digital tools, cyber-operations are becoming increasingly dangerous. With the use of cyberattacks, an aggressor can paralyze or, in the worst-case scenario, destroy critical elements of a state's infrastructure. We have already seen this happen during the Ukrainian conflict. In December 2015, Ukrainian energy companies were hacked and 103 cities were left without power for several hours. This kind of internal destabilization can certainly weaken an opponent.

Information Hostility is Global

Although the West has recently experienced an increasing wave of hostile activities carried out over the Internet, information warfare conducted in cyberspace is not limited to an individual country or a region. In fact, the phenomenon is also increasing in Asia.

For example, a cyberattack was carried out against the film studio Sony Pictures in 2014. In this attack, a hacker group known as the "Guardians of Peace" gained access to the company's confidential data, which they then leaked to the public. Many believe the hacker group attacked the company as an act of revenge for the film *The Interview*, a comedy about an assassination plot against the North Korean leader Kim Jong-un. U.S. authorities officially accused the North Korean authorities of supporting the attack, and President Obama imposed economic sanctions against North Korea.

North Korea is not the only country in Asia that should arouse concern. China is considered one of the greatest powers in terms of cyber capabilities, with training systems for cyber hackers and cyberattack forces that are organized at the national level.³ This country is very often accused of developing and using offensive tools, mainly for cyberespionage campaigns. These campaigns may be aimed at gathering strategic information related to the most critical elements of a state's infrastructure as well as industrial data. The threat is especially significant from the perspective of more advanced countries such as Japan. These technologically advanced countries possess valuable data and also process significantly more information in ICT systems. By using campaigns in the form of Advanced Persistent Threats, adversaries can

infiltrate the most secure networks. Once inside the network, they can linger and, if undetected, continue to steal information.

Cyberespionage attacks can also be the first step in long-term campaigns, which can ultimately lead to physical losses. By infiltrating networks within the critical infrastructure, one can gain access to information that can be used to do damage. A cybersecurity company recently revealed that Japan's critical infrastructure is currently under escalating cyberattacks. For example, a long-running hacking campaign that was recently discovered, dubbed Operation Dust Storm, had been targeting organizations in Japan, South Korea, and elsewhere. Since 2015 Japan's commercial and critical infrastructure has been the focus of attacks, including cyber utility companies, oil and natural gas companies, transportation organizations, construction, and even some financial organizations. The consequences of such attacks can be dramatic.⁴

Because of the political tensions in the region, Asian countries are also under serious threat from soft information warfare. The Senkaku Islands dispute is a perfect example of a political conflict where tools like manipulation, disinformation, and propaganda can be utilized to great effect.

No Easy Fixes

Multiple interdisciplinary actions must be undertaken to provide protection against both soft and hard information warfare. Paradoxically, it is easier — though still very difficult — to protect a country from hard cyberattacks, rather than become immune to actions seeking to manipulate perspective and opinion.

To some extent, we can strengthen the security of our ICT systems by training people, implementing standards, and preparing the needed resources. Improving awareness and the technical and organizational aspects of the system is also essential. Japanese authorities have already started taking such measures. For example, the "Industrial

“**Asian countries are also under serious threat from soft information warfare.**”

³ Y. Nitta, "Cyber Intelligence: The Challenge For Japan," *Georgetown Journal of International Affairs*, March 17, 2017. <http://journal.georgetown.edu/cyber-intelligence-the-challenge-for-japan/>.

⁴ Charles McLellan, "Japan's critical infrastructure under 'escalating' cyber attack, says report," *ZDNet*, February 23, 2016.

Cybersecurity Promotion Agency” should be operational in 2017. This agency will oversee cybersecurity-related infrastructure protection in two main divisions: research and active response.⁵ Built on the foundation of private-public cooperation, the agency may be able to increase cybersecurity of Japan’s most neuralgic ICT systems.

The situation is much more difficult when it comes to soft information warfare. Countries such as Russia or China try to prevent interference in their information sphere by imposing censorship and tight governmental oversight of the Internet. Moreover, they are working to convince the international community this is the correct path to take.

However, since such actions are unacceptable for democratic countries, where transparency and free access to information is valued, other solutions must be found. Unfortunately, these values (i.e., transparency, freedom of the press, and a lack of censorship) make these countries more vulnerable to soft information warfare. To combat this threat, more sophisticated tools are needed.

Democratic countries need to develop both long and short term strategies. In the long term, we need to invest in tools that will strengthen society, so that it will become more resistant to manipulation. For this, we must make a long-term investment in actively developing critical thinking skills. Young people must be taught early on to reasonably distance themselves from the provided information, confirm certain facts, and verify sources. In the short term, we need to look for solutions that can be quickly applied at the political level. For example, Western democratic countries should build and implement strategic communication campaigns. Decision-makers must understand that the only effective tool to fight a lie is with truth, and the truth must be heard and heard again, and not swallowed by constant manipulation. The good news is that although modern technologies enable the spread of misinformation, they equally empower all entities which believe in decency.

⁵ Maritza Santillan, “Japan to Form New Cybersecurity Agency to Protect Its Critical Infrastructure,” Tripwire, May 20, 2016.

About the Author

Dr Joanna Świątkowska is a senior research fellow at the Kosciuszko Institute and CYBERSEC program director.

© 2017 The German Marshall Fund of the United States

Please direct inquiries to:

The German Marshall Fund of the United States
1744 R Street, NW
Washington, DC 20009
T 1 202 683 2650
F 1 202 265 1662
E info@gmfus.org

This publication can be downloaded for free at <http://www.gmfus.org/listings/research/type/publication>.

The views expressed in GMF publications and commentary are the views of the author(s) alone.

About GMF

The German Marshall Fund of the United States (GMF) strengthens transatlantic cooperation on regional, national, and global challenges and opportunities in the spirit of the Marshall Plan. GMF contributes research and analysis and convenes leaders on transatlantic issues relevant to policymakers. GMF offers rising leaders opportunities to develop their skills and networks through transatlantic exchange, and supports civil society in the Balkans and Black Sea regions by fostering democratic initiatives, rule of law, and regional cooperation. Founded in 1972 as a non-partisan, non-profit organization through a gift from Germany as a permanent memorial to Marshall Plan assistance, GMF maintains a strong presence on both sides of the Atlantic. In addition to its headquarters in Washington, DC, GMF has offices in Berlin, Paris, Brussels, Belgrade, Ankara, Bucharest, and Warsaw. GMF also has smaller representations in Bratislava, Turin, and Stockholm.

About the Asia Program

GMF's Asia Program addresses the implications of Asia's rise for the West through research, commentary, conferences, and publications. Covering an expansive area — from the Hindu Kush to the Pacific — the program has region-wide projects as well as specific initiatives related to China, India, Japan, and Pakistan. The Asia Program's fellows and staff manage an active set of policy programs, conduct in-depth research, and frequently contribute articles and commentary to a wide range of publications and news outlets both in the United States and internationally.

This project is supported by the Japanese Ministry of Foreign Affairs.

Cover photo credit: ESB Professional / Shutterstock, Inc.

G | M | F The German Marshall Fund
of the United States
STRENGTHENING TRANSATLANTIC COOPERATION

Washington • Ankara • Belgrade • Berlin
Brussels • Bucharest • Paris • Warsaw

www.gmfus.org