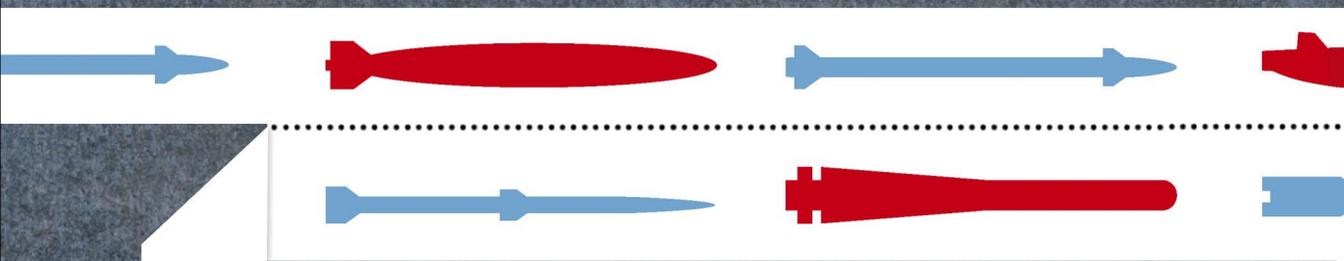
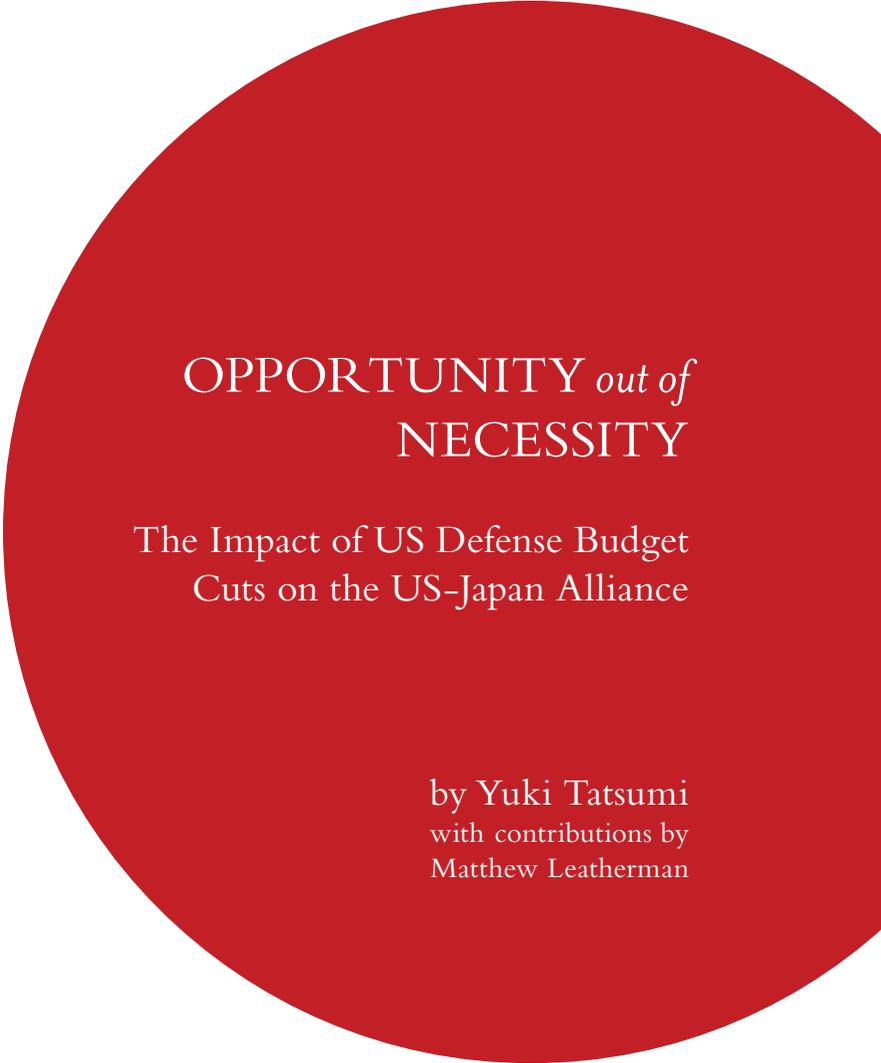


OPPORTUNITY *out of* NECESSITY



The Impact of US Defense Budget
Cuts on the US-Japan Alliance

by Yuki Tatsumi
with contributions by
Matthew Leatherman



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Stimson

1111 19th Street, NW, 12th Floor
Washington, DC 20036

Tel: 202.223.5956 | Fax: 202.238.9604

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Preface

I am pleased to present a new publication, *Opportunity Out of Necessity: The Impact of US Defense Budget Cuts on the US-Japan Alliance*. Written by Yuki Tatsumi, with contributions from Matthew Leatherman, this report assesses key implications of reductions in American defense spending for the US-Japan alliance. It draws on the deep expertise at Stimson on Japan's national security and the US-Japan alliance, as well as our work on US national security budgeting, and ably weaves together the two narratives. Tatsumi is a senior associate and director of the Stimson Japan program and Leatherman is a former research analyst in the Budgeting for Foreign Affairs and Defense program at Stimson.

The report ends with recommendations to support alliance management during a turbulent and uncertain time. The sources of regional concern go far beyond questions of defense budgets; the geopolitics of the Asia-Pacific region are in a dynamic and potentially dangerous phase, and Japan will look at any changes in the US commitment to the alliance as matters of vital national security. At the same time, the evolving American strategy for the Asian region is premised on greater sharing of responsibilities among the allies and partners in the region. The study addresses possible changes in Japan's national security posture and planning as well.

I hope you will find this report useful; it provides one critical lens through which to view the evolving strategic environment in East Asia. In other works, Stimson scholars focus on China's policies in Asia, on maritime security in the Pacific and Indian Oceans, and on other related topics. This study also reflects the cross-disciplinary and collaborative work that Stimson's experts are increasingly engaged in. I am pleased that this latest study will make an important contribution to the conversations in Washington and Tokyo about our shared future and our efforts to ensure peace and stability in the Asia-Pacific region.

Ellen Laipson
President and CEO
The Stimson Center

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First and foremost, I would like to thank Alan Song of the Smith Richardson Foundation. Without his encouragement and generous support from the Foundation, this project would not have been possible. I also appreciate his understanding and patience when we needed extra time to finish the report.

Matthew Leatherman played a very special role. While working as a research analyst with Stimson's Budget for Foreign Affairs and Defense (BFAD) program, he made extremely valuable contributions to this report. I also learned enormously about the complexities of the US defense budget, which I only began to appreciate by working with him on this project. Matt deserves credit for the analyses he provided on US defense budget reduction debate, much of which is in Chapter Two of this report. But I shoulder the sole responsibility for this report, as I am the one who weaved our combined analyses into this report after he departed Stimson.

As usual, I am very grateful for my Stimson colleagues. Ellen Laipson, Stimson's president, continues to be a supportive boss. I would like to thank Distinguished Fellow Gordon Adams and Director of BFAD program Russell Rumbaugh for sharing their perspectives on US defense spending. I would also like to thank Kimberly Jun, Matthew Foerster, and Nathan Levine, as well as Stimson's Communications Department for their valuable assistance in completing this report. Hana Rudolph must be recognized for her role in taking on the labor-intensive details (such as preliminary copy edits, list of acronyms and endnotes) to prepare this report for publication.

As is the case with all my work in the past, I am deeply indebted to countless US and Japanese government officials, as well as US military officers and Japanese Self-Defense Force officers who took time to share their perspectives. Since I promised them that the interviews and surveys results would remain anonymous, I cannot thank them individually for their insights. Nonetheless, I am deeply thankful for the frankness with which they shared their thoughts. Many of them also took the time to review drafts and provide valuable feedback, which I am also very thankful for.

Finally, my gratitude and appreciation goes to my family, Hideaki and Akiyoshi.

Yuki Tatsumi
Senior Associate, East Asia program

Abbreviations

I Corps	First Corps
III MEF	Third Marine Expeditionary Force
A2AD	Anti-Access, Area-Denial
AFB	Air Force Base
APEC	Asia-Pacific Economic Cooperation
ASAT	Anti-Satellite
ASB	Air-Sea Battle
BAMS	Broad Area Maritime Surveillance
BCA	Budget Control Act
BMD	Ballistic Missile Defense
C4ISR	Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance
CBO	Congressional Budget Office
CSIS	Center for Strategic and International Studies
CG	Cobra Gold
CPX	Command Post Exercise
DHS	Department of Homeland Security
DOD	Department of Defense
DPRI	Defense Policy Review Initiative
DSG	Defense Strategic Guidance
FMS	Foreign Military Sales
FTX	Field Training Exercise
FY	Fiscal Year
F-X	Next Generation Fighter
GAO	Government Accountability Office
GBI	Ground –Based Interceptor
GCV	Ground Combat Vehicle
GDP	Gross Domestic Product
GEJE	Great East Japan Earthquake
GMD	Ground-Based Mid-Course Defense
GNP	Gross National Product
ICBM	Inter-Continental Ballistic Missile
ISR	Intelligence, Surveillance and Reconnaissance
JASDF	Japan Air Self-Defense Force
JCG	Japan Coast Guard
JGSDF	Japan Ground Self-Defense Force
JMOD	Japan Ministry of Defense
JMSDF	Japan Maritime Self-Defense Force
JOAC	Joint Operational Access Concept
JSDF	Japan Self-Defense Force

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JSF	Joint Strike Fighter
JSO	Joint Staff Office
MCAS	Marine Corps Air Station
MDA	Missile Defense Agency
MEU	Marine Expeditionary Unit
MOFA	Ministry of Foreign Affairs of Japan
NDPG	National Defense Program Guidelines
NMD	National Missile Defense
NPR	Nuclear Posture Review
O&M	Operations and Maintenance
OMB	Office of Management and Budget
PAC	Patriot Advanced Capability
PACOM	US Pacific Command
PTSS	Precision Tracking Space System
QDR	Quadrennial Defense Review
R&D	Research and Development
RIMPAC	Rim of the Pacific
SACO	Special Action Committee on Okinawa
SCC	US-Japan Security Consultative Committee
SCMR	Strategic Choices and Management Review
SE	F-15 Silent Eagle
SM	Standard Missile
THAAD	Terminal Height Altitude Area Defense
TMD	Theater Missile Defense
UAV	Unmanned Aerial Vehicle
UCLASS	Unmanned Carrier-Launched Airborne Surveillance and Strike System
USMC	US Marine Corps
WMD	Weapons of Mass Destruction

Executive Summary

The United States and Japan would both benefit by jointly initiating a pragmatic and collaborative approach to modernize and strengthen their alliance at a time when US defense spending cuts are worrying Japanese government and military leaders.

The US-Japan alliance faces serious challenges today. The Japanese fear that US defense budget reductions may weaken America's ability and determination to continue its commitment to defend Japan against military attack, despite the Obama administration's announcement of a foreign policy "pivot" to the Asia-Pacific region.

North Korea and China – Japan's two nuclear-armed neighbors – are of greatest concern to the Japanese. North Korean leader Kim Jong-Un has frequently directed hostile and threatening rhetoric at Japan. China's military modernization and assertive behavior in the East and South China Seas are also worrisome for Japan.

Another challenge to the US-Japan alliance is the disconnect between defense, budget and foreign policy in both nations. Different officials work in each area, so those who negotiate bilateral agreements are not the same people who run the budget process. This makes it difficult to coordinate spending with policy initiatives.

Here is a chapter-by-chapter overview of this report:

- Chapter One provides a snapshot of the status of the US-Japan alliance and looks at how American defense spending cuts are emerging as one of the alliance's major challenges.
- Chapter Two looks at the US budget debate, identifies the American military capabilities that are of greatest interest to Japan, and speculates on how defense spending cuts may affect these capabilities. Budget cuts examined deal with the size and strength of American air and naval forces overall and of US forces deployed in Japan, plus defenses against missile attacks against Japan.
- Chapter Three examines the Japanese defense establishment's reaction to the potential impact of US defense budget cuts on the US military capabilities identified in Chapter Two. It also explores the Japanese perceptions about the current US strategy in the Asia-Pacific region and identifies areas of concern to Japan.
- Chapter Four proposes ways in which the US and Japan can respond to defense spending cuts. In particular, the chapter examines ways in which Washington and Tokyo can leverage the ongoing debate on defense strategy and spending to serve as an opportunity to deepen their alliance.

Key findings in this report include:

The US “pivot” to the Asia-Pacific region is not new. It was scheduled to take place as early as the 1990s, but was delayed by the Sept. 11, 2001 terrorist attacks and the wars in Iraq and Afghanistan.

US defense budget cuts will likely be bigger than originally anticipated. Few people expected Congress to allow the across-the-board budget cuts known as the sequester to go into effect, but now Congress shows little sign of ending the sequester.

Deeper US defense budget cuts are expected to result in reductions to the Pentagon’s research and development and acquisition programs, along with a focus on spending the reduced level of funding on proven technologies. This lowers the likelihood of funding for expensive new programs such as development of the Joint Strike Fighter.

Japan is unlikely to dramatically increase its defense budget. Japan is facing tough economic times and there is less opposition there than in the United States to hold down or cut defense spending. Since its defeat in World War II, Japan has maintained only a relatively small self-defense force and has relied on American guarantees to deter foreign aggression.

The Japanese see the presence of US military forces in their nation as a critical sign of the US defense commitment to Japan. In general, US Navy, Air Force and Marines in Japan are viewed as an important demonstration of the US commitment to defend the nation. In particular, the presence of US Marines in Okinawa is viewed as evidence that the United States is willing to maintain credible deterrence vis-à-vis any efforts by countries in the region to threaten Japan’s security. It is also regarded as tangible evidence to show the US commitment to sustain its active engagement in the Asia-Pacific region and to promote regional peace and stability.

This report makes four recommendations:

1) The United States and Japan should engage in frank discussion on how their fiscal circumstances could affect their alliance. US defense officials should be more forthcoming in private conversations with their Japanese counterparts about the difficult budget choices America faces. By communicating the Pentagon’s honest concerns, the US can encourage serious thinking on Japan’s part about its role within the alliance and its defense spending. Japanese officials should be more forthcoming in discussing the choices their country faces regarding the overall level of defense spending and their strategic goals.

2) The United States should do a better job communicating its intentions, not just its military capabilities, to reassure Japan. American officials need to give the Japanese

more information about the potential impact of a smaller defense budget on US intentions to mobilize its military assets in Japan under various scenarios.

3) Japan should recognize that the US budget process, like Japan's own, is largely a domestic process with multiple actors. The Japanese should understand that Pentagon officials and military officers lobbying Congress are seeking more funding, and so may exaggerate the effect budget cuts could cause to America's defense capabilities. These dire warnings don't necessarily mean the cuts will have a major impact on the US-Japan alliance.

4) In observing the US budget debate, Japan should pay greater attention to how the anticipated defense budget reductions may affect the US acquisition programs important to Japan. Cuts in US defense spending are unlikely to have an immediate impact on the existing US military capability forward-deployed to Japan. Japanese defense officials should continue to pay attention to how the defense spending cuts may affect the US's ability to sustain and augment its forward-deployed military capability in the Asia-Pacific region over time.

Introduction

Opportunity Out of Necessity: The Impact of US Defense Budget Cuts to the US-Japan Alliance was driven by the authors' interest to better understand how the impact of reduced defense spending — a topic rarely discussed in alliance policy consultation — may affect the defense relations between the United States and its key ally in the Asia-Pacific region, Japan. For the last several years, US allies, including Japan, have witnessed two developments that appear contradictory. On the one hand, the US has been signaling that it will prioritize the Asia-Pacific region in its global strategy. The Defense Strategic Guidance (DSG) report, *Sustaining U.S. Global Leadership: Priorities for 21st Century Defense*, released by the Department of Defense (DOD) on January 5, 2012, made it clear that the DOD intends to prioritize its engagement in the Asia-Pacific region, along with the Middle East, over other parts of the world. On the other hand, the US military has entered a drawdown phase after combat in Iraq and Afghanistan, and with the Obama administration's prioritization of debt reduction, the US must make new calculations and strategic choices with full consideration of its fiscal reality. That solemn reality makes the current level of defense spending unsustainable. As former Secretary of Defense Robert Gates succinctly put it, "More of nearly everything is simply not sustainable."¹ Regardless of how the details are negotiated, anticipated defense spending cuts will likely affect how the US military cooperates with its allies, including Japan.

Defense policymakers in Tokyo have been closely monitoring the debate on defense spending cuts within the United States. In the last decade, the security environment in East Asia has become deeply uncertain. North Korea's renewed defiance and increasingly provocative behavior under its new leader Kim Jong-Un is forcing Japan to face the prospect of an unstable, hostile, nuclear-armed neighbor. The acceleration of China's military modernization and assertive behavior in the East and South China Seas, aggravated by tense diplomatic relations between Tokyo and Beijing, have also added to Japan's long-term security concerns in East Asia. These troubling developments have only exacerbated Tokyo's concern that the US defense budget reductions may have a negative impact on US security commitments in East Asia, particularly the defense of Japan. The Japanese are concerned that the outcome of this debate may impact not only US military capabilities that are forward-deployed to Japan but also — and more importantly — the US *intention* to use these deployed capabilities when necessary.

They are anxious especially because of their own limited room to maneuver: Japan does not anticipate a major increase in its own defense spending for the foreseeable future. Japan's defense spending has essentially plateaued (even decreased) over the past 15 years, despite calls from many, including within the US, for a greater investment in its national defense.² Although Japanese Prime

Minister Shinzo Abe has announced his intention to reverse this trend, both the size of the potential increase and its sustainability remain uncertain.³

US defense spending cuts, if implemented without sufficient communication with Japan, could affect Japan's confidence in the sustainability of US commitment and potentially fracture the US-Japan alliance. However, a pragmatic, proactive, collaborative approach jointly initiated by both governments could modernize the US-Japan alliance and help forge a shared strategy for the future.

One of the major challenges for such a bilateral collaborative approach is the limitation inherent in a democratic government's ability to tailor its message to different audiences. In today's 24/7 news cycle, there is no separation between "domestic" and "foreign" audiences. Statements intended for domestic audiences often raise concerns abroad. For instance, when then-Secretary of Defense Leon Panetta emphasized a "devastating impact" on and "hollowing out" of the US military to urge Congress in 2011 to avoid deep DOD budget cuts and again in 2012 to avoid sequestration, his statement was clearly targeted for the US domestic audience. But the same statement was also heard abroad, unintentionally stirring concern among US allies about the sustainability of US global military strategy.

The other challenge to a shared approach is that the participants in budget debates and alliance consultations are so different that they rarely intersect. Both in the US and in Japan, the budget process is by nature domestic. In the case of the US, the stakeholders in the defense budget debate — the DOD's Office of Comptroller, officials in other agencies such as the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO), and congressional committees that deliberate appropriation bills — are rarely represented in US consultation with its allies. They seldom, if ever, participate in alliance discussions and so are less cognizant of the unintended message that US budget debates may send abroad. In Japan as well, the appropriators in the Ministry of Finance are not participants in Japan's alliance discussions with the US. They are seldom exposed to the criticism in the US that is often directed at Japanese defense: that despite what Japan presents in its defense policy documents such as its National Defense Program Guidelines (NDPG) or in joint alliance statements with the US, Tokyo does not allocate resources — or direct its limited resources — to support its stated policy goals. The effort to produce this report was propelled by a strong desire to bridge this disconnect.

Even as this report progressed, the US budget debate turned more uncertain and unpredictable. In this environment, the authors quickly recognized that its original approach — to lay out three different fiscal scenarios and discuss in detail the potential impact of specific aspects of the defense budget — might, despite our best effort, result in a purely intellectual exercise. So, rather than establishing fiscal scenarios with artificial numbers, the authors decided to identify categories within US military capabilities that hold the

strongest interest for Japan, and focus on the potential impact of the US budget debate on those capabilities.

Chapter One of this report provides a snapshot of the status of the US-Japan alliance and its discourses, and how the US fiscal issue — critical in implementing the policies discussed — is now emerging as one of the alliance’s major challenges. Chapter Two provides an overview of the US budget debate, identifies the US capabilities that are of keen interest to Japan, and speculates on how defense spending cuts may affect these capabilities. Those capabilities are:

- **Air and naval capabilities:** the impact of defense spending cuts on US capabilities in amphibious operations, intelligence, surveillance and reconnaissance (ISR) capabilities; the force structure of the US Navy and the US Air Force’s fighter fleet.
- **Nuclear deterrent and delivery systems:** the impact of defense spending cuts on funding for existing missile defense capabilities, as well as those under development.
- **Forward basing:** the impact of defense spending cuts on the size of US forward-deployed forces in Japan.

Chapter Three examines the Japanese defense establishment’s reaction to the potential impact of US defense budget cuts on the US military capabilities identified in Chapter Two. It also explores the Japanese perception of the current US rebalance strategy in the Asia-Pacific region and identifies areas of concern to Japan. Chapter Four proposes ways in which the US and Japan can respond to the anticipated US defense spending cuts. In particular, the authors focus on ways in which Washington and Tokyo can leverage the ongoing debate on defense strategy and spending to serve as an opportunity to deepen the alliance. Incorporating the developments in the debt-reduction debate that occurred after the November 2012 US presidential election, the conclusion ties the authors’ research and analysis together to stress how important it is, at this moment in the US-Japan alliance’s history, for the two countries to begin a candid dialogue on how to cope with both their fiscal realities and craft a shared future that preserves their key alliance.

The authors hope that this report will encourage US and Japanese policymakers to use the pending US defense spending cuts, as well as the continuously severe fiscal constraints on Japan’s defense spending, as a way to deepen the dialogue on realigning their respective defense programming efforts to achieve their mutual goals. We also hope that our efforts will contribute to the bilateral discussion on a “smarter” approach to defense spending cuts — one that transforms budget restraints into the opportunity for breaking new grounds of cooperation.

Chapter One: The Context

“Japan is one of our closest allies, and the U.S.-Japan alliance is the central foundation for our regional security and so much of what we do in the Pacific region.”

—Barack Obama, *President of the United States, February 22, 2013*⁴

“(I)t is the Japan-U.S. alliance that serves as the cornerstone of our diplomacy.”

—Shinzo Abe, *Prime Minister of Japan, February 28, 2013*⁵

On September 8, 1951, the United States and Japan signed the original *Security Treaty Between the United States and Japan*. On January 9, 1960, it was revised into *The Treaty of Mutual Cooperation and Security between the United States and Japan*. This treaty remains in effect today.

The presence of US force in Japan is a critical component in the alliance. The US-Japan alliance — the original arrangement that stipulates that Japan host US military forces on its soil in exchange for US commitment to assist Japan in defense against external aggression — has evolved considerably in its 60-year history. Twice, the alliance has made adjustments to meet profound new challenges to international security.

The first such adjustment took place in the 1990s, when the collapse of the Soviet Union and subsequent end of the Cold War fundamentally changed the international security framework. With the overarching Soviet security threat gone, Tokyo and Washington needed to identify a new meaning for the US-Japan alliance. Moreover, a quickly emerging nuclear threat from North Korea⁶ drove the growing realization in both the US and Japan that their alliance was not adequately structured to respond to a potential crisis on the Korean Peninsula. Furthermore, there was an acute sense of urgency to reduce the burden of hosting US military force in Japan, particularly by Okinawa prefecture, in the aftermath of the 1995 rape of an Okinawa schoolgirl by US service members.

The two countries took a three-pronged approach to revitalize the US-Japan alliance. First, at the bilateral summit in Tokyo in April 1996,⁷ they redefined the alliance as the “cornerstone of stability in the Asia-Pacific region.” Second, *The Special Action Committee on Okinawa (SACO) Final Report*, announced in December 1996, launched the effort to “realign, consolidate and reduce US facilities and areas, and adjust operational procedures of US forces in Okinawa.” The goal of reducing the US military footprint in Okinawa was to begin making the US military presence in Japan more politically sustainable over the long-term.⁸ Finally, the two countries revised their *Guidelines for Japan-U.S. Defense Cooperation* in 1997, establishing the operational guidelines for the US military and Japan Self-Defense Force (JSDF) to forge “a more effective and credible” defense cooperation that “provided a general direction of policy framework for the roles and missions of the two countries.”⁹

The second adjustment effort took place in the aftermath of the 9/11 terrorist attacks against the United States in 2001. The attacks forced Americans to accept the reality that transnational security challenges had dramatically broadened the scope of what would be considered national security threats. Prior to 9/11, although the US recognized international terrorism as a transnational concern, it was considered to be primarily a law-enforcement challenge. This has no longer been the case since 9/11. Not only does the US now consider terrorism to be an important transnational security concern, but other transnational challenges such as the proliferation of weapons of mass destruction (WMD), manipulation of technology, and failed nation states have risen to rank among its most serious national security challenges.

Likewise, the 9/11 terrorist attacks in the US awakened Japan to the tangible threat of transnational security challenges. The attacks aggravated Japan's sense of insecurity that had been mounting since the mid-1990s with North Korea's provocative behavior, including its covert nuclear program and its spy ship's entry into Japan's territorial waters. There was also China's growing military assertiveness, including its 1995 nuclear test and the incursion of its submarines into Japanese territorial waters. These developments gave Tokyo a strong incentive to work with Washington to further update the US-Japan alliance.

Under the bilateral Defense Policy Review Initiative (DPRI) that began in December 2002, the two governments took another step to deepen the US-Japan alliance, with an eye on expanding it into a global partnership. Over approximately five years, Washington and Tokyo discussed how to further redefine the alliance's role and how US force posture in Japan should reflect such modification. The DPRI produced three joint documents by the US-Japan Security Consultative Committee (SCC), the cabinet-level four-party meeting of the US secretaries of state and defense and Japan's foreign and defense ministers. The first document, issued in February 2005, identified the alliance's comprehensive common strategic objectives in the post-9/11 security environment.¹⁰ In October 2005, the SCC released its second joint document, which outlined the basic principles for US force realignment in Japan and identified the areas in which US forces and JSDF should intensify cooperation.¹¹ Finally, in May 2006, the third SCC document focused on how US forces in Japan should be realigned and defined the cost-sharing arrangement toward that end.¹²

For the last several years, US and Japanese officials have engaged in the third round of efforts to update and adjust the alliance. In June 2011, the two governments updated the bilateral common strategic objectives and reaffirmed their commitment to "continue to strengthen Alliance capabilities by adapting our cooperation, modernizing our forces, enhancing interoperability, and cooperating in the development of new technologies."¹³ In October 2013, the two sides agreed to begin discussions to revise their *Guidelines for Japan-U.S. Defense Cooperation*, which has not been updated since 1997.¹⁴

There is also now a renewed momentum to complete US force realignments in Japan, specifically those in Okinawa. The relocation and eventual closure of the Marine Corps Air Station (MCAS) in Futenma has been particularly difficult, without much progress since the two countries first agreed on it more than 15 years ago. In April 2012, Washington and Tokyo agreed to modify the 2006 relocation plan to provide greater flexibility for the timing of MCAS Futenma's relocation, as well as construction of additional Marine facilities in Guam, and the return of the land associated with this relocation.¹⁵ When the SCC met again on October 3, 2013, the two governments also signed a modified Guam Relocation Implementation Agreement that articulated Japan's financial commitment to the Guam relocation plan.

Convergence of US and Japanese strategic interests: renewed attention to the Asia-Pacific region

The current bilateral effort to further modernize the US-Japan alliance is taking place at a critical time. The US and Japan both are revising their respective national security priorities. As such, the outcome will likely have a lasting impact on how the two countries work together to address security challenges in the Asia-Pacific region and beyond. The most noticeable development in the recent debate within the US and Japan is a growing sense that each country has reached a conclusion that a peace and stability that is supported by internationally-accepted norms (such as the freedom of navigation and rule of law), and the renunciation of coercive measures to change the status quo, particularly in the Asia-Pacific region, is in its critical national interest.

A declaratory policy of America's strategic focus on the Asia-Pacific region, most recently demonstrated through the Obama administration's rebalance effort, is not new. In fact, the US has identified the region as its leading strategic priority several times since the end of the Cold War.¹⁶ For instance, in an article in *Foreign Affairs* in 1991, then-Secretary of State James A. Baker III argued, "US economic involvement and defense commitments in the region have been — and remain — defining realities.... Our success in forging a new international system will require sustained engagement in this diverse and dynamic part of the world."¹⁷ In 1993, as well, then-President Bill Clinton declared in a speech during his visit to Japan that the US would, together with Japan and other US allies and friends in the Asia-Pacific region, build "a new Pacific Community" that supported an open economy and progress toward democracy.¹⁸

The US emphasis on the Asia-Pacific region continued in the 21st century. During the 2000 presidential campaign, Condoleezza Rice, national security advisor and later secretary of state during the George W. Bush administration, placed a premium on US engagement in the region in her article in *Foreign Affairs* that year.¹⁹ These statements from US leadership since the end of the Cold War strongly suggest that there has been bipartisan consensus among the post-Cold War US administrations that the Asia-Pacific region holds critical and enduring strategic significance for US foreign policy.

However, the US intention to translate its recognition into concrete policies has often faced more immediate security challenges at home and in other parts of the world. The Bush administration's intention to embark on a concerted effort to shift US strategic focus to the Asia-Pacific region was cut short by 9/11 and the developments that followed. In particular, as US military operations began and expanded in Iraq and Afghanistan, the Middle East dominated the US security policy agenda.²⁰

For instance, the 2006 *Quadrennial Defense Review* (QDR) primarily focused on the long, irregular wars in Iraq and Afghanistan. The QDR identified the Middle East and Africa as the region that deserved special attention because they were considered vulnerable to organizations that subscribe to a radical view of Islam.²¹ The 2008 *National Defense Strategy of the United States* further illustrated the profound impact that Iraq and Afghanistan had on US defense strategy by placing priority on addressing the security challenges posed by groups with extremist ideologies.

The 2010 QDR was also heavily informed by the US experiences in Iraq and Afghanistan; then-Secretary of Defense Robert Gates described it as “a wartime QDR” that placed a higher priority on today's conflicts than tomorrow's security challenges. But the QDR also stressed that the Pentagon would enhance its investment in future capabilities in areas such as air-sea battle, cyber security, space, and long-range missiles. The report reflected DOD's challenge as it grappled with meeting the needs of the current war while attempting to recalibrate the US military to be better prepared for future security challenges.²²

The US began to depart from its preoccupation with the Middle East in earnest once US forces started withdrawing from Iraq and Afghanistan. The Obama administration first explicitly indicated its intention to shift its strategic focus to the Asia-Pacific region in 2011. The effort began with then-Secretary of State Hillary Clinton's article in *Foreign Policy* that year, in which she argued that enhanced US economic, diplomatic, and security engagement with the region is “one of the most important tasks of American statecraft in the next decade.”²³ President Barack Obama quickly followed suit in a speech to the Australian National Parliament, declaring: “I have directed my national security team to make our presence and mission in the Asia-Pacific a top priority.... reductions in US defense spending will not — I repeat, will not — come at the expense of the Asia-Pacific.”²⁴ The US rebalance to the region was most prominently announced on January 5, 2012 when DOD released the DSG. In it, then-Secretary of Defense Panetta clearly stated that the DOD would refocus its strategic planning towards the Asia-Pacific region.²⁵

The return of US strategic attention to the Asia-Pacific region has been driven by the region's obvious importance to America's essential national interests. First and foremost, US economic engagement with the region is critical for US economic growth.²⁶ The region boasts the world's most vibrant economy, account-

ing for roughly half of the world's gross domestic product (GDP). According to a report by the Asia-Pacific Economic Cooperation (APEC) in April 2013, the region achieved the world's highest GDP growth rate between 2010-2012.²⁷ In 2011, the region surpassed Europe and became the world's top merchandise exporter.²⁸ Asia-Pacific economies are projected to continue accelerating their growth through 2016.²⁹ These economic statistics alone make the Asia-Pacific a critical region for US interests.

In addition, the region's emerging power dynamics suggest that the US's ability to protect the interests of not just itself, but also its allies and friends there, may be considerably affected if we continue to focus our strategic attention predominantly on the Middle East. In particular, the emergence of China and its growing assertiveness, buoyed by its economic growth and military modernization, has caught the attention of US strategists. China's military and paramilitary activities in what the US considers "global commons" — air, maritime and space — in the last several years have raised alarm in the US that China, if left unchecked, will continue its behavior in "global commons." This has already been reflected in China's position on maritime issues in the Asia-Pacific region, and its anti-satellite (ASAT) weapon test, most recently conducted in May 2013. While the US clearly recognizes that it can never disengage from the Middle East, US government officials realize that they must enhance US engagement in the Asia-Pacific.

On the other side of the Pacific, Japanese defense policy has also been undergoing review in the last several years. Unlike the US, Japan does not have documents equivalent to *National Security Strategy*. The *Bouei Keikaku no Taiko* (first translated as *National Defense Program Outline*, and then officially changed to the *National Defense Program Guideline* in 2004),³⁰ is an approximate equivalent of the QDR, and in any case is the only document through which outsiders can trace the direction of Japan's mid-term defense policy.

The current NDPG, released in December 2010, notes that Japan would shift the focus of the JSDF's defense posture from their current stance, which focuses on responding to the Russian threat from the north, which has been JSDF's historical force posture. Japanese attention would shift to the defense of its South-western island chain. Prioritized capabilities would include: command, control, communications, computers, intelligence, reconnaissance and surveillance (C4ISR), cybersecurity, transport, and ballistic missile defense (BMD).³¹

The policy directions suggested in the 2010 NDPG reflect how Japan's perception of its own security has evolved. In particular, Tokyo's security concern vis-à-vis China has in large part driven the discourse on Japanese security policy in the last decade, priming its evolution.

Up to now, nuclear and missile threats posed by North Korea have driven Japan's defense policy and planning since the 1990s. As China's military modernization picked up in that decade, the Japanese Ministry of Defense (JMOD) began to articulate their concern about the developments in that area. Still, the

description in Japan's Defense White Paper during the 1990s through the early part of the 2000s illustrates that Japan's primary security concern in Northeast Asia was still North Korea. Tokyo's concern with China's military modernization was in its lack of transparency. For instance, Japan's Defense White Paper in 1999 explicitly identified North Korea's nuclear and missile development programs as "destabilizing not only to the Asia-Pacific region but also to the broader international community," while its description of China stopped at registering its strong hope for greater transparency in coming years.³²

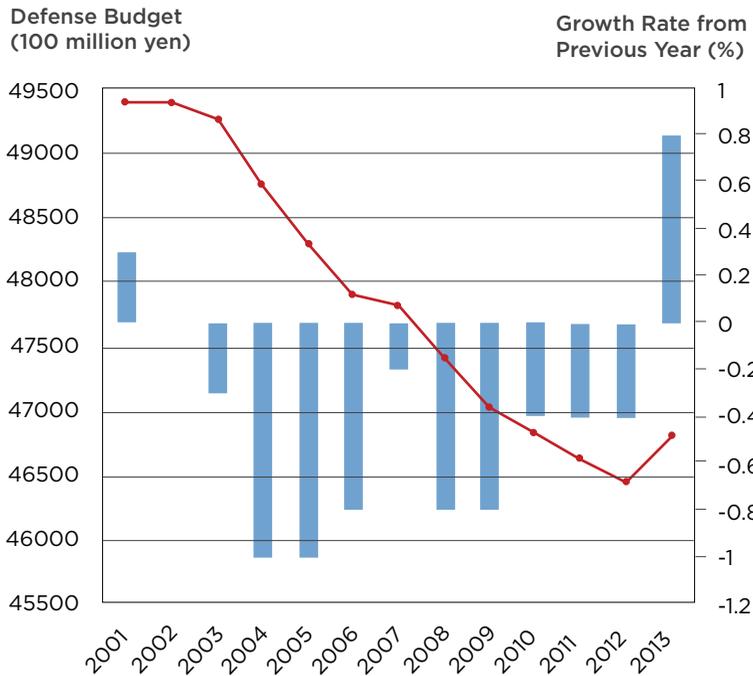
In the last five years or so, however, the Japanese defense establishment's concern regarding China has come to include its assertive behavior in the Western Pacific. Specifically, Japan, as illustrated in its Defense White Paper description, has intensified its concern over China's maritime activities in the Western Pacific (including Japan's vicinity) and the potential impact that these activities might have on the region's stability. For instance, its 2007 Defense White Paper used the term "concern" for the first time in describing Japan's perception of China's military modernization efforts.³³ Since then, descriptions of Japan's perception of China's continuing military activities have increasingly emphasized its concern toward China's behavior; that being that China is attempting to change the status quo in the East and South China Sea areas by exercising its military and paramilitary capabilities.³⁴

The Japanese government plans to release an updated NDPG in December 2013. It is expected to show that the developments of 2009–2013 have heavily influenced Japanese defense policymakers, driving them to focus more on the Asia-Pacific security environment. There is no question that Japan continues to recognize North Korea as a clear and present short-term security concern for Japan: the country's most recent Defense White Paper cites not only North Korea's nuclear and missile capabilities but also its asymmetrical capabilities and provocative behavior, in its continued identification of North Korea as a "serious destabilizing factor."³⁵ Furthermore, in referring to the tension over China's naval and maritime law behavior between China and Japan in the East China Sea and also between China and other Southeast Asian countries in the South China Sea, the 2013 Defense White Paper urges China to adhere to international norms.³⁶ All these considerations have commanded the Japanese defense establishment's attention as they revise the NDPG, especially on buttressing JSDF's operational capability in the maritime domain. In addition, JSDF's experience responding to the 2011 Great Eastern Japan Earthquake (GEJE) crystallized Japan's continuous need to improve its C4ISR capabilities, logistics, and capacity to respond to emergencies involving WMD materials, as well as the way the three JSDF services operate together.

Budget: a new constraint

As the strategic focus of both the US and Japan converge and intensify in the Asia-Pacific region, differences still exist. For example, the US sees its rebalance to Asia-Pacific as an effort to distribute its capabilities more evenly throughout

Chart 1-1. Japan's defense spending, FY2001-2013



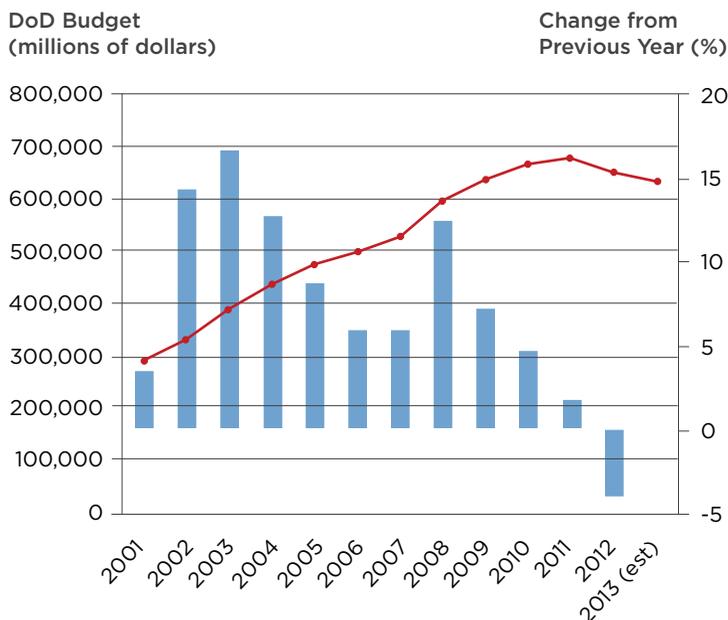
(Source: Ministry of Defense of Japan, *Nihon no Boei* (Defense of Japan), various years. Note: The Japanese fiscal year (FY) starts on April 1st and ends on March 31st of the following year. For example, FY 2001 covers April 1, 2001- March 31, 2002.)

the region, while Japan's attention is more centered on Northeast Asia. Despite these differences, this moment presents an unprecedented opportunity for the US and Japan in the ongoing effort to readjust the alliance to the new realities. By resetting the alliance's purpose and fundamentally recalibrating its toolkit, both countries can thereby move closer to the shared goal of a "broader and deeper alliance," as stipulated in their June 2011 common strategic objectives.³⁷ However, the fiscal situation of both countries may complicate this effort.

The Japanese government's self-imposed restriction on defense spending is not new. The circumstance is almost four decades old, dating back to 1976 when the government, under then-prime minister Takeo Miki, decided that Japan shall not spend more than one percent of its GDP on its defense budget.³⁸ This decision was overturned in 1986 by then-Prime Minister Yasuhiro Nakasone, but Japan has consistently spent less than one percent of its GDP on defense ever since. In fact, Japan's defense spending actually declined for nine consecutive years since 2003. (Chart 1-1).

Chart 1-1 illustrates an important trend in Japan's defense spending for the last 10 years: the Japanese government's statements on defense policy have not been supported by its budget allocation. Rather, it shows that Japan's defense budget

Chart 1-2. US defense spending 2001-2013 (in outlays)



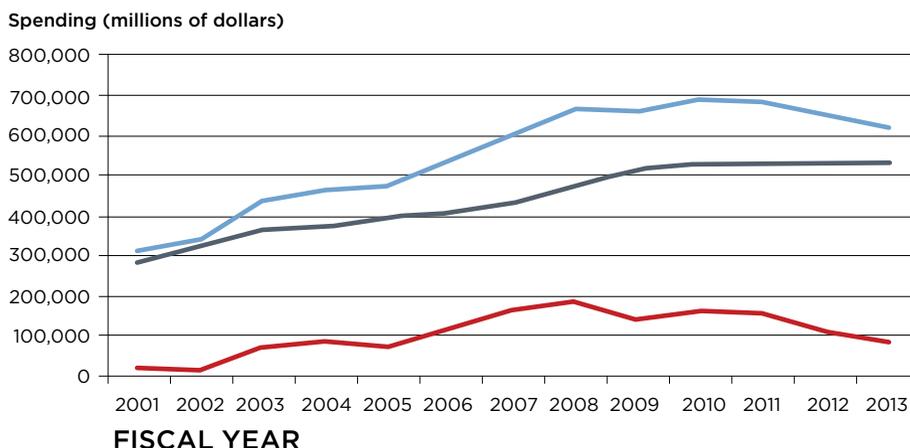
(Source: Office of Management and Budget, *Historical Tables 3-2. Outlays by Function and Subfunction, 1962-2018*. <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/hist.pdf>)

has declined steadily, regardless of external developments, some of which significantly heightened Japan’s sense of vulnerability.

Looking forward, a considerable increase in Japan’s defense budget is unlikely. Certainly, there is a small sign of hope that the recent downward trend in Japanese defense spending may be reversed. When the LDP returned to govern Japan in December 2012, after its three-and-a-half-year hiatus, Prime Minister Shinzo Abe ordered a budget increase for the JMOD and Japan Coast Guard (JCG). To follow-up on Abe’s direction, as Chart 1-1 indicates, the Japanese government decided to increase its fiscal year 2013 defense budget, reversing the downward trend in defense spending for the first time in 11 years.³⁹

However, questions remain as to whether a significant increase in defense spending will follow. In fact, the “increase” in fiscal year 2013 touted by the government refers to a mere 0.8 percent increase that, with weaker yen, “will not enhance MOD’s purchasing power in any significant way in dollar terms.”⁴⁰ Furthermore, Japan currently has a number of competing budget priorities. Stimulating the sluggish economy to trigger a real recovery, accelerating the reconstruction from the GEJE, saving the retirement system from the danger of insolvency, and minimizing changes to the national health care system; these are examples of the budget priorities that Japan faces today. And, the country is also exploring ways to reduce the national debt, which is currently close to 175 percent of Japan’s GDP.

Chart 1-3. US defense spending (by authorization)



(Source: Department of Defense National Defense Budget Estimates for Fiscal Year 2014 (Green Book) http://comptroller.defense.gov/defbudget/fy2014/FY14_Green_Book.pdf)

Whether the Japanese government can steadily increase its defense budget in a meaningful way in this environment remains highly uncertain.

In the United States, the debate on reducing defense spending is not new, either; whenever the US withdraws from major military conflicts, defense drawdown compels serious consideration. Indeed, in past defense drawdowns after major wars, including the Cold War, the US reduces its defense spending drew down an average of roughly one third of its force compared to its operational peak and has reduced defense spending accordingly.

As the US withdraws from Iraq and Afghanistan, the necessity to reduce defense spending is discussed with a greater sense of urgency. One reason is the degree of defense budget expansion in the last decade. Between 2001–2011, US defense budget has steadily increased, in a stark contrast to Japan’s defense spending during the same period (Chart 1-2).

A sharp increase of war supplement budget has contributed to this rise — between 2001 and 2010 (when the total US defense spending peaked), the war supplement has multiplied eight times. Even without the dramatic increase in wartime funding, the US base defense budget alone has doubled during the first decade of the 21st century (Chart 1-3).

In the same 10-year period, the overall US fiscal situation turned sharply negative. When President Bill Clinton left the White House in 2001, the federal budget had a surplus. After the terrorist attacks on September 11, 2001, however, spending on the war on terrorism put the US back to a budget deficit within a year. Then, sluggish economic growth triggered by the 2008 financial meltdown (the so-called “Lehman Shock”) had a significant negative impact on revenues, adding to the chaos of the US budget. In fiscal year 2009, the deficit reached a

post-World War 2 high of \$1.4 trillion. By 2011, the CBO projected that the current policy would lead to a national debt matching the GDP by 2021.⁴¹ The CBO also estimated that by 2018, the US would be spending more to pay for interest on its own debt than for national defense.⁴² While the CBO amended this projection in 2013 in accordance with the Budget Control Act (BCA) of 2011 (enacted after the 2011 CBO budget projection was released), it still forecasted that the budget deficit will remain above 70 percent of the GDP between 2013–2023.⁴³ As a result, reducing the budget deficit quickly became an urgent, ongoing task for US policymakers and lawmakers, including President Obama.

Because US defense spending today consumes more than half of the country's discretionary spending, or 20 percent of its total federal spending, lawmakers recognize that reductions in defense spending must be part of any solution in tackling the US budget deficit. This is especially true now that operations in Iraq and Afghanistan are ending. After all, these concerns for US fiscal health led to the 2011 BCA, under which the Obama administration reduced the base defense spending by approximately \$500 billion, with a “sequestration (automatic spending cut)” clause. That provision would trigger another reduction of \$500 billion should the president and Congress fail to reach an agreement on how to reduce the national debt. Even so, some influential analysts — and there are definitely those in Congress who agree with this assessment — have predicted that a further cut is coming.⁴⁴

If one must assume that the US defense budget will likely plateau at best and more likely decline over the next 10 years, how would the US implement its pronounced rebalance to the Asia-Pacific region? Senior DOD officials on several occasions have emphasized that defense spending cuts will not affect the Asia-Pacific region. At the 2013 Shangri-La Dialogue, Secretary of Defense Chuck Hagel, while admitting that the DOD would be constrained in resources, assured those gathered that “the United States will continue to implement the rebalance and prioritize our posture, activities and investments in Asia-Pacific.”⁴⁵

However, such a statement by the DOD needs to be carefully examined. If the US does more with less defense budget available, from which parts of the world will the DOD reallocate resources? It is impossible for the US to sustain its current level of global engagement with a reduced budget. That means one dollar more spent in the Asia-Pacific region should mean at least one dollar less spent elsewhere. Thus, if the DOD means what it says — that defense budget cuts will not affect the Asia-Pacific — its leaders should be able to identify the parts of the world from where dollars will be reassigned. However, the DOD has not done so. Rather, while the DOD's DSG uses terms such as “innovative presence” and “creative partnerships” to signal potentially less engagement in the areas other than the Asia-Pacific and the Middle East, it has consistently rejected the argument that the rebalance to the Asia-Pacific region will mean less of a US commitment elsewhere.

The US defense budget, along with the rest of the US national budget, is currently in a highly uncertain situation. Defying most expectations, the sequestration took effect on March 1, 2013, and remains in place at the time of this writing. Without a deficit-reduction agreement between the White House and Congress, the sequestration is set to remain in place in fiscal year 2014 and then into the future. Should that happen, the national budget, including defense spending, would be in a “fundamentally different” situation.⁴⁶ Given such budgetary uncertainty, despite efforts by the DOD leadership, US allies, including Japan, will continue to question whether the US will have the fiscal wherewithal to implement and sustain its Asia-Pacific rebalance.

The United States and Japan are now entering a critical period in their alliance with greater budgetary uncertainty in the US. It is vital for both sides to minimize misunderstanding and misperception of each other’s intentions and capabilities. There are sensitive questions on both sides. For example, what impact could US defense spending cuts have on US military capabilities that are important to Japan? And, how does Japan’s defense establishment view the ongoing fiscal debate within the US and its ultimate impact on the defense budget? The next two chapters will take a closer look at these issues.

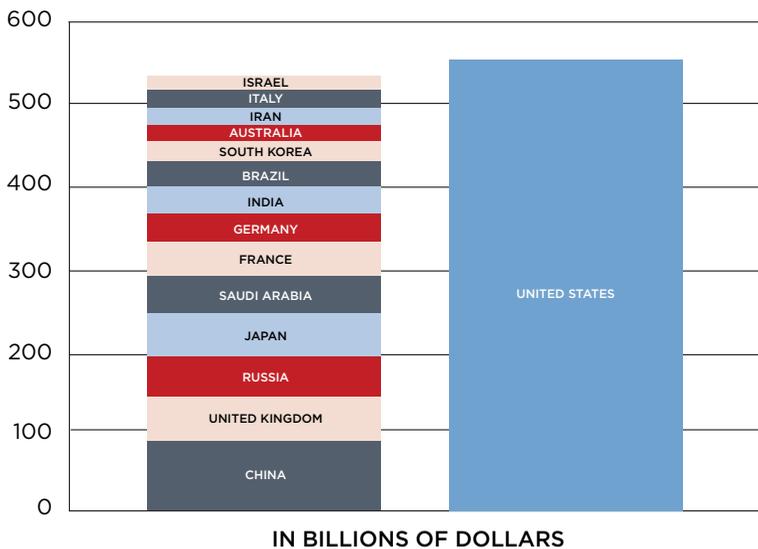
Chapter Two: Taking Stock of the US National Defense Budget Debate

“We have the resources to accomplish the rebalance. Some who wish to question the rebalance to the Asia-Pacific theater point to the current, seemingly endless debate in Washington about the U.S. budget, and wonder whether all this can be accomplished. I’m interested to hear this because I’m more accustomed to listening to people question why the U.S. spends more on defense than the next 16 largest militaries in the world combined. This statistic is true and won’t change much in coming years.” — Ashton Carter, Deputy Secretary of Defense⁴⁷

This publication centers on the downturn of the US defense budget as a new variable in the US-Japan alliance dialogue. Today, the Pentagon, White House, and Congress are still negotiating the final defense budget outcome. Sharing information, even with close allies such as Japan, is difficult for the US, because of its potentially risky effects on the ongoing negotiations. Meanwhile, Japan has been trying to measure the potential impact of US fiscal decisions on its intention to sustain both the Asian rebalance and Tokyo’s defense relations with Washington.

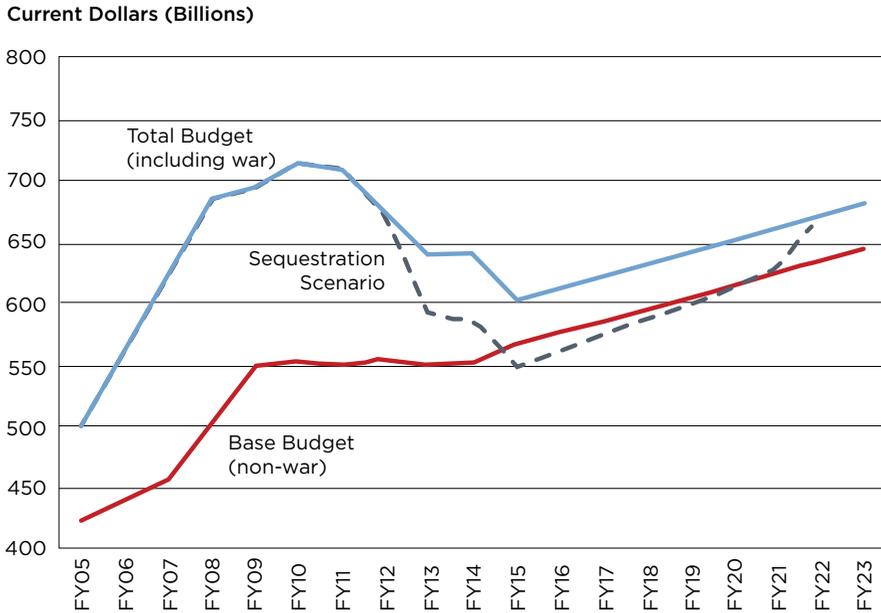
Deputy Secretary of Defense Ashton Carter articulated the connection between defense budgets and US intentions especially succinctly in his April 2013 remarks to the Center for Strategic and International Studies (CSIS). A simple

Chart 2-1. Comparative defense spending, the United States and the next 14 largest militaries, 2012



(Source: International Institute for Strategic Studies, *Military Balance 2013*.)

Chart 2-2. US defense budget fiscal year 2005 to projected fiscal year 2023



(Source: US. OMB. Historical Tables 5-1, 5-6, 8, and 10-1; OMB *Summary Tables* 10, 12; OMD *Memorandum* March 1, 2013. BCA data for fiscal years 2012-23 is estimated figures. Note: Sequestration scenario presumes all the savings are taken from fiscal year 2013. Data to capture “sequesterable” base budget, or to allocate cuts to prior-year balances is unavailable.)

point Carter made in the speech — that the United States will continue to be the world’s largest defense spender — is critical, yet is often overlooked in the eyes of US allies (Chart 2-1).

At the same time, the anticipated budget cuts are real and will be visible in Japan, even if their precise contours remain in flux. This chapter will examine the margins of possible budgetary change, determine which decisions have been made and which remain uncertain, and then apply this spectrum of possible change to East Asia. Examples of these changes — framed based on the capabilities that Japan considers important — include the F-35, missile defense, and the Marine Corps’ relocation to Guam; respectively serving as examples for air-sea battle capability, deterrence, and force presence.

Background

The US national defense budget peaked in 2010. There is no longer any doubt that the United States has entered a period of substantial national defense drawdown (Chart 2-2.)

Implementation of the August 2011 BCA — not just the statute itself, but its implementation — has made this drawdown so certain. Initially, this legislation required no specific change to the national defense budget. It placed caps on the

US “security” accounts, including not only the DOD but also the Department of Homeland Security (DHS), and international affairs costs, among others.⁴⁸ That construct allowed the executive branch to propose tradeoffs across these agencies as it saw fit. Yet Congress and the White House also committed to a process to identify an additional \$1.2 trillion in debt reduction later: the 12-person bipartisan congressional panel was to present a set of recommendations to identify such measures by November 23, 2011.⁴⁹ Had they met that requirement, any changes to the national defense budget would have been entirely within their discretion — including none at all.

In the end, Congress missed the deadline when the congressional panel failed to formulate a set of recommendations, and spending parameters for defense had to be adjusted. One adjustment was to cap the national defense budget at a level below its previous trend. The other was to implement the budget reduction cut known as “sequestration,” or an across-the-board budget cut.⁵⁰ Together, these adjustments will reduce national defense by approximately \$850 billion between 2013 and 2021 relative to their earlier projection, roughly \$350 billion of which comes from the first adjustment and nearly \$500 billion comes from sequestration.⁵¹ The sequestration, which went into effect in March 2013, remains in effect at the time of this writing, and there is a great deal of uncertainty on when or whether it can be lifted. Washington has arrived at this point largely by not being able to act since passing the BCA more than two years ago. Ironically, this inability to act erased any doubt about the national defense budget trend — it is going down. Today’s important questions are, “How much and how fast?” And, from Japan’s perspective, “What does this mean for the rebalance to Asia?”

Uncertainty surrounds the national defense budget partly because the final debt-reduction agreement between the White House and Congress can have a considerable impact on the projection of national defense spending. It is precisely because of this uncertainty that the Pentagon is hesitant to discuss this issue with Japan and its other allies.

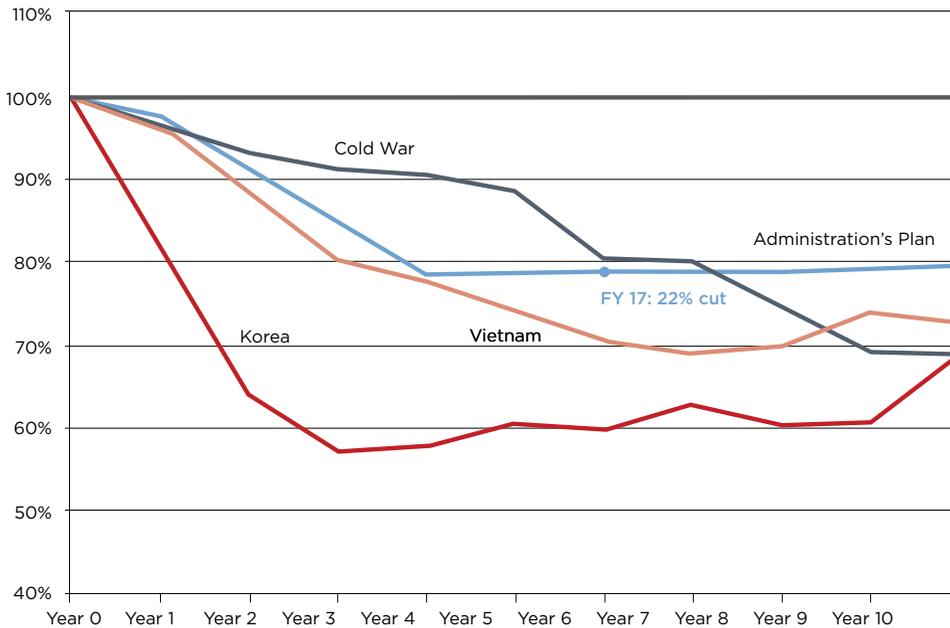
Impacts of Defense Budget Cuts

Congress and the White House made it clear that the US will reduce its national defense budget by the way they have implemented the BCA. There are also clues about the likely changes that we may see after the debt-reduction package that includes cuts in defense spending is agreed upon. These potential changes carry implications about what they might mean in East Asia.

Indeed, Deputy Secretary Carter spoke specifically to this point in his speech at CSIS:

“If the drastic cuts that began with sequester this year were extended for a decade, U.S. defense spending would be cut somewhere around ten percentage points. This is the range under debate today. None of these political scenarios changes the math I described earlier: the U.S. defense rebalance to the Asia-Pacific is not in jeopardy.”⁵²

Chart 2-3. Past US defense build-downs



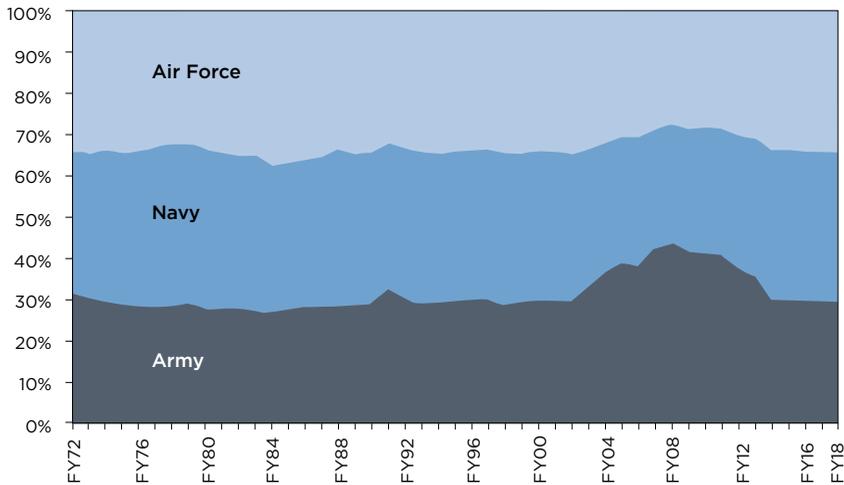
(Source: US. DOD *FY 2012 Green book*. Table 6-8. http://comptroller.defense.gov/defbudget/fy2012/FY12_Green_Book.pdf)

It requires piecing together a number of clues when one tries to understand how Carter reached this conclusion. These “clues” include historical precedents, contemporary goals, institutional realities, and the structure by which savings are counted.

First, managing a defense build-down, while a considerable challenge, is not a new experience to the United States. History provides three reference points in the post-World War 2 era. The 10-year Pentagon budget fell by \$2.41 trillion (37 percent) after the Korean War, by \$1.3 trillion (23 percent) after the Vietnam War, and by \$1.13 trillion (17 percent) as the Cold War concluded. After the Korean War, then-President Dwight D. Eisenhower moved at a remarkably rapid pace, completing the drawdown just three years after peak spending. The other two US build-downs were much more gradual. Vietnam-era spending climaxed in 1968 but didn’t hit its bottom until 1975. The Cold War recalibration likewise lasted beyond the 10-year horizon, from 1985 through 1998 (Chart 2-3).

At present, total US national defense outlays, including the drawdown from ending combat operations in Iraq and Afghanistan, are trending toward a \$1.82 billion (24 percent) reduction from 2011-20, relative to the 2010 peak.⁵³ In other words, the scale of defense budget reduction this time so far is more or less consistent with these precedents.

Chart 2-4. Base Defense Budget by Military Departments
Fiscal Year 1972–Fiscal Year 2012



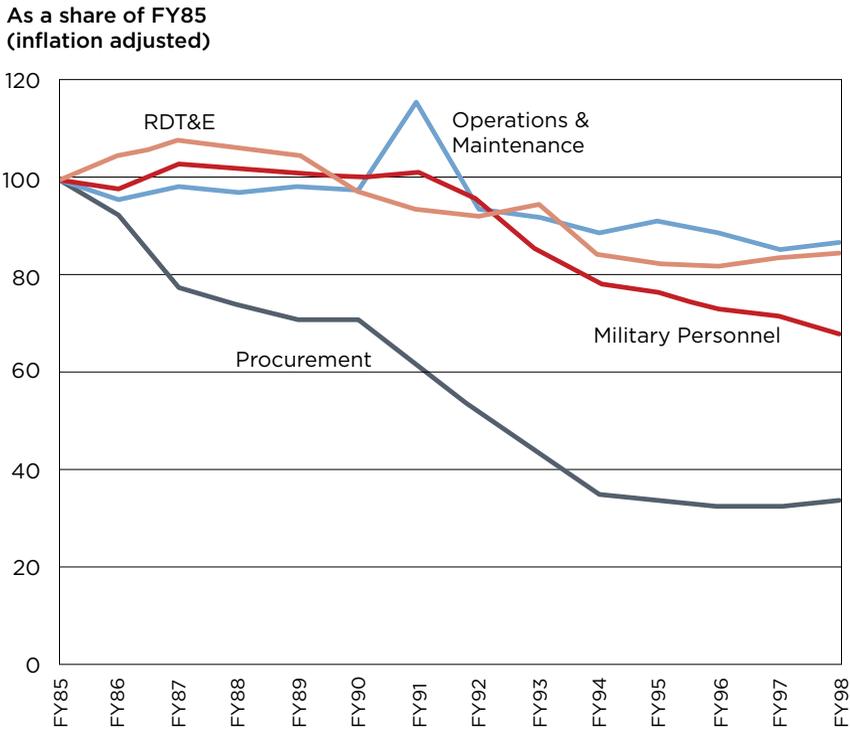
(Source: Department of Defense *FY2014 Green Book*, Table 6-10. http://comptroller.defense.gov/defbudget/fy2014/FY14_Green_Book.pdf)

One must also keep in mind that national defense costs are inseparably rooted in the larger budgetary discussion today. The National Commission on Fiscal Responsibility and Reform (more commonly known as the Simpson-Bowles Commission) determined that the US needs a \$4 trillion fiscal improvement relative to its 2011 budget position. This objective has been embraced both by President Obama and House Budget Committee Chairman Paul Ryan, the Republican Party’s leader on fiscal issues.⁵⁴

The CBO evaluated that the BCA, if fully implemented, would yield a fiscal saving of \$2.1 trillion.⁵⁵ The ways to achieve this goal are relatively straightforward. One is to increase revenue by raising taxes, revoking tax deductions, or some combination of the two. In fact, the January 2013 American Taxpayer Relief Act reduced US debt by \$700 billion or more beyond the BCA by doing just that. But everyone, regardless of their party affiliation, agrees that this option would comprise only a small portion of debt reduction.⁵⁶ The other debt reduction possibility is to lower spending. So far, social safety net programs such as pensions (Social Security), health insurance for the elderly (Medicare) and impoverished (Medicaid) have been spared from the pressure of spending cuts. Instead, the calls for cuts have been targeted against annually-appropriated, “discretionary” programs. The budgets for all of the widely-known cabinet agencies are part of this. Defense comprises a bit over half of this category.⁵⁷

As of fall 2013, \$2.7 trillion of the \$4 billion debt reduction has been achieved. Additional debt reduction efforts will most likely follow. The national defense budget is likely to remain part of this. The way in which US national defense

Chart 2-5. Cold-war defense build-down by spending category



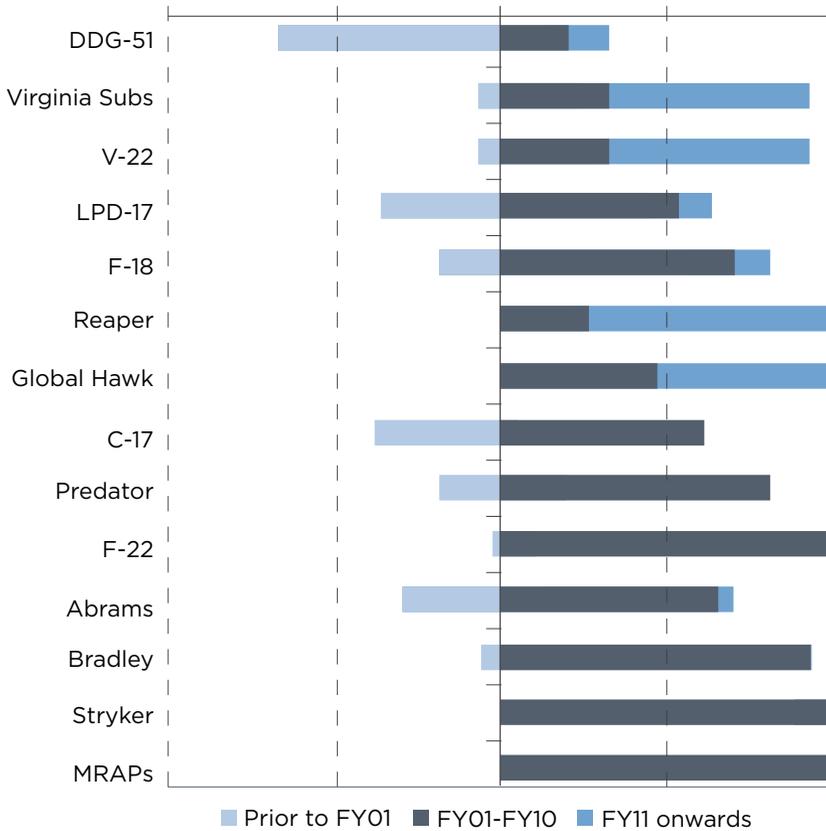
(Source: Department of Defense, *FY2013 Green Book*, Table 6-8.)

institutions influence this budgetary change — and how the BCA counts savings — can help Japan better understand the current debate over defense budget reduction in Washington.

The most relevant institutions in this case are the military departments — the Army, Navy (including Marine Corps), and Air Force. They have the foremost responsibility for the Pentagon’s budget, and over time, it has become bureaucratically significant for their shares to be stable and roughly equal (Chart 2-4).

Chart 2-4 indicates that the three military departments’ budgets have averaged roughly one-third each of the Pentagon’s total budget since 1972, excluding the war costs for Iraq and Afghanistan, as well as umbrella costs called “defense-wide,” which include many civilian staff, the military health program, and the Missile Defense Agency (MDA).⁵⁸ Regardless of the publicly articulated emphasis on air-sea battle, it is unlikely that this spending pattern will drastically change. A case in point: the administration’s proposed 2014 defense budget has each of the military departments within a percentage point of their 2012 values despite the prioritization on air, naval and ISR capabilities as per the January 2012 DSG. This speaks to the low probability that the historical intra-service fiscal allocation balances will change, despite the stated strategic emphasis on air and naval capabilities.

Chart 2-6. The pace of acquisition of US advanced air and naval capabilities, fiscal year 2001-2011



(Source: Russell Rumbaugh, *What We Bought: Defense Procurement from FY01 to FY10* (Stimson Center, 2011) <http://www.stimson.org/images/uploads/research-pdfs/Contentv2.pdf>.)

Some other budget components will change very visibly, however. The BCA’s implementation lowered national defense spending by 7.8 percent. The cut is anticipated to deepen from there through 2021.⁵⁹ In this drawdown process, some accounts are easier to trim than others, and some yield savings more quickly. Chart 2-5 shows how post-Cold War defense budget cuts unfolded, which is consistent also with post-Korea and post-Vietnam build-downs.

Three major spending titles — Procurement, Military Personnel, and Operations and Maintenance (O&M) — comprise 87 percent of the 2014 national defense budget request. Among these three titles, Chart 2-6 illustrates that the procurement has been the first to feel the impact of defense build-downs, and its cuts have been the deepest. This is in part because of its accessibility: purchases of military equipment can be traded off with comparative ease. When a procurement program is cancelled or scaled back, it contributes to budget reduction immediately in a very tangible way. Military personnel costs have been the

second-largest contributor to defense build-downs, but budget reductions in this category are more gradual, happening over a longer period of time. This is because the budget reduction in this category is usually achieved by reducing the size of the force through retirements and voluntary separations. The O&M accounts have historically offered less savings and at an even slower rate. Measuring the budget savings in the O&M accounts is challenging because these funds are difficult to exchange for one another in a tangible manner. The O&M funds are also transferrable among different items within the accounts. It is tricky, therefore, to determine whether planned savings have indeed materialized.

Ultimately, the basic structure of the US defense budget and the impact of reductions in different budget categories can help US allies, including Japan, evaluate how defense cuts might affect the US rebalance to the Asia-Pacific. If strictly executed, resources for the rebalance would be achieved by cutting a greater proportion of the Army budget to protect the resources of the Navy, Marine Corps, and Air Force. The Obama administration's fiscal year 2014 budget proposal already suggests that such a reallocation of resources among the services is highly unlikely. That would mean that the Navy, Marine Corps, and Air Force will have to adjust their commitments elsewhere in the world in order to release assets for the rebalance.

Second, many of the tangible signs of the US rebalance to Asia as outlined in Deputy Secretary Carter's speech are, structurally speaking, financed largely through O&M accounts (Chart 2-6).

As Chart 2-6 shows, much of the hardware that has been identified as examples of the capabilities the US will contribute to the rebalance in the Asia-Pacific region has been bought already and so will be less likely to contribute to the budget reduction efforts.⁶⁰ The same can be said, albeit to a somewhat lesser degree, for the personnel that will be directed to the region.

These two factors point to a conclusion about the sustainability of the US rebalance to the Asia-Pacific region: in short, DOD's rebalance effort is less likely to be severely affected by the anticipated budget reduction. Therefore, the impact will be small enough to keep the rebalance to Asia sustainable. Even sequester-level reductions, when compared with past defense build-downs, will keep the magnitude of the ongoing defense drawdown within the range of historical norms.

Anticipating Change for Japan

If asked to reduce their budgets further, US military departments probably will take them first from procurement programs. Some of the capabilities that can be affected by additional pressure to reduce defense spending require close monitoring because they are of keen interest to Japan for its own defense planning. Tokyo should consider a few examples of potential changes. This section provides the examples of how the drawdown could have an impact on such capabilities in the following areas that are relevant for Japan: air/naval capability, nuclear extended deterrence (including ballistic missile defense) and US force presence in Japan.

1. Air/Naval Capabilities

Since the 2010 QDR identified the anti-access, area-denial (A2AD) capability as one of the most serious challenges that the US military would face in its global operation, Air-Sea Battle (ASB) has emerged as the US military's most significant operational concept. Sustaining investments in the capabilities that are relevant to the ASB implementation, therefore, has been identified as one of the Pentagon's most important priorities in its defense planning. Because the Asia-Pacific region is considered primarily a maritime domain, the investment in these capabilities are also regarded as critical to the sustainability of the US's rebalance to the Asia-Pacific region.

The 2012 DSG identified the maintenance of power-projection capability, even in the face of A2AD challenges, as a primary mission of the US military. The implementation of the Joint Operational Access Concept (JOAC), in which the ASB is a critical component, is positioned as essential in achieving this mission.⁶¹ Supporting the DSG, DOD's FY2014 Budget Proposal presents a list of air/naval capabilities investments to be prioritized, including (but not limited to) the:

- F-35 Joint Strike Fighter
- KC-46 tanker
- P-8 maritime patrol aircraft
- Broad Area Maritime Surveillance (BAMS)
- Virginia-Class nuclear submarines
- Global Hawk (Block 40)
- C-130J
- E-2D Advanced Hawkeye
- V-22 Osprey⁶²

While prioritized, however, the investments in these capabilities are certainly not exempt from the budget debate. If the DOD is required to identify greater defense spending than it is currently prepared for, these current investment priorities will be affected. Examples of the impact would be:

- Modification to the F-35 program — A change can vary from delaying the development program to placing a complete pause on it and having each service redirect its resources to their alternatives (i.e., F/A-XX for Navy, A-8B service life extension, and F-16 upgrades for Air Force).
- Extending and redistributing the procurement schedule of the attack submarines.

Out of all the programs that further reducing the US defense budget could affect, the F-35 is the development program that would be particularly relevant to Japan.

The F-35 aircraft comes in three variants for different types of take-off and landing: an A model designed to operate from traditional runways; a B model built for the very short take-off and vertical landing requirements of an amphibious ship; and a C model with the catapult and arresting gear used on naval aircraft carriers. These correspond to the US Air Force, Marine Corps, and Navy, respectively. Collectively, the program has been meant to replace the Air Force's F-16 and A-10, and the Marine Corps' AV-8B and F/A-18, as well as to complement the Navy's F-18E/F.⁶³

All of the F-35 variants are strategically relevant in East Asia. The USS George Washington in Yokosuka may eventually host an F-35C wing, just as the MCAS in Iwakuni could include F-35B flight operations. Air Force bases in Kadena and/or Misawa could be home to F-35As. In December 2011, Japan also announced its purchase of 42 F-35As to replace its aging F-4 fleet as part of its own force modernization effort.⁶⁴ Tokyo is therefore naturally most interested in the F-35A development, even though all three variants have strategic implications for the US-Japan alliance.

The F-35 program is the Pentagon's most expensive acquisition program in its history. Based on the estimate of December 31, 2012, it is slated to cost \$395.7 billion.⁶⁵ According to the latest evaluation by the Government Accountability Office (GAO), this puts the program in the range of \$161 million for each aircraft.⁶⁶ Restructuring this program alone would have a major fiscal impact. Indeed, cost overrun has already come to characterize this program: it breached the US cost control regulation in June 2010. Since then, the acquisition cost has climbed by an additional \$13 billion. Delays in the development schedule also have been prevalent. In June 2010, the Pentagon had projected that the program would enter full-rate production by 2016, but this date itself was four years behind the date estimated when system development first started in October 2001.⁶⁷ Now, full-rate production is not scheduled to start until 2019.⁶⁸

Besides its ballooning cost and repeated delays in development, the F-35 program may become the target for further budget reduction because it remains in the earliest stages of procurement — an account that tends to be reduced upfront for the reasons cited earlier. Although then-Secretary of Defense Robert Gates dismissively labeled inputs like these as “math, not strategy,”⁶⁹ changing the F-35 program, while strategically important in the long-term, would have no immediate impact on the US capacity to implement its rebalance to Asia in the short term. In the near term, existing aircraft that will take on this mission include the Navy's F-18E/F Super Hornet upgrade and the Air Force's fifth-generation fleet of F-22s, both added to the force within the past 10 years, as well as amphibious A/V-8Bs and F-16s. As Chart 2-7 indicates, the US has already purchased most of these assets. Therefore, the operation of these platforms is financed through the O&M accounts that tend to be trimmed more gradually.

Furthermore, although the F-35 can be considered as one of the capabilities critical for the US rebalance to Asia, it is not the only jet with that potential. As such, the eventual scope and pace of F-35 acquisition by the Pentagon depends just as much on how the services respond to budget pressure as the pressure itself. There are some indications that the services, anticipating further delays in the F-35 program, have begun to explore options that could delay it. For instance, in December 2011, the Marine Corps bought the UK's entire Harrier fleet, reportedly enough to extend the A/V-8B service life until the mid-2020s.⁷⁰ Meanwhile, the Navy has already begun a separate process for F-18E/F replacement (F/A-XX) that can include a variant of the Unmanned Carrier-Launched Airborne Surveillance and Strike System (UCLASS), a new manned/unmanned platform, according to Navy Secretary Ray Mabus.⁷¹ Finally, the Air Force has decided to upgrade its F-16s "in case the F-35 experiences more delays in the course of its development."⁷² So far, DOD remains committed to maintaining the F-35 program with its current development schedule. Although every alternative option is certain to meet substantial resistance, the tangible and considerable budget savings they would entail could override that.

The US decision on the F-35 program will have a deep impact on Japan's defense planning. Tokyo decided to participate in the F-35 program in 2011 with the expectation that the aircraft will be delivered by March 2017 to begin replacing its F-4 fleet. Any significant alterations to the program, such as additional delay in development, will have a severe impact on Japan's plan for force modernization.

2. Nuclear Extended deterrence (including ballistic missile defense)

The 2012 DSG identifies the maintenance of "safe, secure and effective" nuclear deterrent as another primary mission for US military.⁷³ Supporting this goal, Pentagon's FY 2014 budget request attempts to protect its investment in the development of new long-range bomber and a next generation BMD-capable submarine. Addition investments include:

- Restructuring of the Standard Missile (SM)-3 Block IIB program;
- Termination of Precision Tracking Space System (PTSS);
- Continued conversion of Aegis destroyers to BMD-capable;
- Continued acquisition of ground-based systems, including Terminal Height Altitude Area Defense (THAAD) system and other ground-based interceptors (GBIs)
- Enhancement of Patriot Advanced Capability (PAC)-3 missiles.⁷⁴

Should additional cuts to the investments in this area become necessary, its impacts are likely to be seen in (a) slower-pace development and acquisition schedule to the next generation long-range bomber and the adjustment to the maintenance of the current bomber fleet to accommodate it (i.e., service life extension of B1, greater focus on maintaining B-52 to ensure that it can serve its full service life, and (2) restructuring of the investment in BMD program to

protect investments in the “proven” technologies which likely favor the sea-based systems. Furthermore, the Pentagon has already argued that it may be able to maintain effective deterrence “with a smaller nuclear force,” and that “strong and credible strategic deterrence” can be maintained with the fewer number of the deployed nuclear warhead allowed under the new Strategic Arms Reduction Treaty (START).⁷⁵ In light of these developments in the Obama administration’s policy, some defense analysts argue that the United States can retire one-third of the existing inter-continental ballistic missile (ICBM) force and reduce the number of non-strategic nuclear weapons. They also advocate the freeze in the current Ground-Based Mid-Course Defense (GMD) program.⁷⁶

In this area, the potential impact of additional defense spending reduction on BMD is of Japan’s strong interest, because some components of the program are deeply relevant to Japan. For example, Aegis systems on destroyers currently deployed by the United States as well as Japan are the cornerstone defense against a North Korean missile threat. The two countries have worked together to upgrade the interceptor used by Aegis (SM-3 Block IIA). Japan has also purchased a large number of Patriot Three (PAC-3) missiles to defend Japanese territory from incoming missiles. Ballistic missile tracking depends in part on two radars based in Japan as well as a sea-based radar deployed in the region.⁷⁷

Similar to the F-35, the MDA’s budget size will likely attract attention. It is large enough to contribute tangibly toward the Pentagon’s budget reduction. The administration’s 2014 budget plan anticipates spending \$37.6 billion on the MDA in the next five years through 2018.⁷⁸ Also, three-quarters of the MDA’s budget goes to research, development, testing, and evaluation. The costs for BMD exist predominantly in the Pentagon’s acquisition budget for both research and procurement. As noted earlier, these are the accounts that can contribute to savings more quickly.

Implementing the administration’s FY2014 plan would leave all of the MDA’s accounts above their value from 2010 except for research, development, testing, and evaluation. Cuts to that account would be significant enough to provide resources for an O&M account in 2012, increase procurement and construction relative to 2010, and still reduce the agency’s overall budget. Fiscal year 2014 budget plan projects that pattern to hold through 2018, with greater reductions in research than offsets in increases in procurement, operations and maintenance.⁷⁹

In short, a significant change in the US BMD budget is possible. Reducing the overall budget would allow BMD to meaningfully contribute to cost-cutting in a way that is consistent with previous defense drawdowns. The money would come from acquisition accounts, making its impact on reducing the budget timely and tangible, while still protecting the O&M and Procurement accounts from immediate cuts. However, MDA budget is unique because, unlike most other procure-

ment programs, BDM is located within “defense-wide” accounts, rather than belonging to a single service branch. As a result, the driving political dynamic behind it is usually not among the military services but rather between the Pentagon and Congress. Support from Congress for BMD is substantial: any suggestion for a major scaling-back of the program is likely to be met by strong opposition in Congress. This makes it politically difficult for the DOD to propose considerable budget cuts in MDA as a part of its overall budget-reduction effort.

Even if a sizable cut of the MDA budget is possible, it would have a very limited impact on Japan. Both the Aegis system and cutting-edge radars have been already fielded and are financed through O&M, which tends to contribute less savings. Furthermore, the administration’s FY2014 plan anticipates major Aegis investments maturing from research into procurement, consistent with its stated emphasis on investing in the “proven” capabilities, capabilities that are highly relevant for the Pentagon’s “rebalance” in the Asia-Pacific region. Although the overall budget for research and development appears almost certain to decline, it is not currently projected to affect the co-development program in which Japan participates.

3. US Force Presence in Japan

The Pentagon’s FY2014 budget proposal argues that its “rebalance” effort in Asia does not require “fielding a dramatically larger force or withdrawing from our commitments and leadership role in the rest of the world.” It addresses the fiscal challenge ambiguously, expressing DOD’s intention to cope with the additional fiscal pressure by intensifying its effort to improve US military capacity to gain access in an A2AD environment. That includes “developing new operational concepts and... new ways of engaging partners and deterring and defeating adversaries.”⁸⁰ Consistent with the Pentagon’s budget proposal, no plan for drastic changes in the current US force presence in Japan is being planned at the time of this writing.

One exception may be the US Marine presence. As the budget pressure accelerates, there is a possibility that the Pentagon will consider air and naval capabilities, already forward-deployed in Japan and throughout the Asia-Pacific region, to be the best assets for primary response in regional contingencies. That could result in revising the current Marine relocation plan — to keep some elements in Okinawa and move the rest to Guam — with greater emphasis on rotational presence rather than stationing forces at fixed installations.

Thus, the Marine Corps’ planned relocation to Guam can be used as an example to gauge how the US national defense drawdown could have a tangible impact on Japan. In April 2012, the US and Japanese governments agreed to de-link the relocation of several Marine units from Okinawa to Guam, from progress on constructing a replacement facility for MCAS Futenma, which is also on Okinawa.⁸¹ When Secretary of State John Kerry and Secretary of Defense Chuck Hagel met their Japanese counterparts, Foreign Minister Fumio Kishida and Defense Minister Itsunori Onodera, for the bilateral SCC meeting in Tokyo

on October 3, 2013, both governments recommitted to this relocation plan. The Japanese government also reconfirmed its commitment to the construction of the Guam relocation facility in the amount of \$3.1 billion, out of the estimated total construction cost of \$8.6 billion.⁸² Whether Congress will approve the Pentagon's share of the construction cost will now become an issue that Japan will closely watch.

The Marine Corps' Guam relocation plan does not yield savings that would significantly register on the scale of the potential cuts still facing the Pentagon. The US cost for the new facilities in Guam is \$5.5 billion dollars, but what remains uncertain is how much of that might come after 2021, beyond the BCA's window. While the savings imperative drives some budget changes, others happen because decision-makers can capitalize on a drawdown situation, making changes they support for wider reasons. The Guam relocation plan could contribute to Pentagon savings even if they are comparatively small.

Congress has already set conditions for the Pentagon before it can spend any money on the relocation, including:

- requiring the Marine Corps and Pacific Command to deliver a posture vision;
- requiring the secretary of defense to submit a plan for facilities matching that vision, as well as certifying that its various elements are moving in conjunction with the Guam relocation; and
- requiring the administration to describe the associated costs and schedule.⁸³

Congress followed through on this limitation by rejecting the Guam relocation budget requested in the FY2012 defense budget. In response, the DOD chose not to include any budget request for the Guam relocation in its FY2014 plan, instead opting to wait until Japan completes an environmental impact statement.⁸⁴

Members of Congress and higher-level defense officials can easily identify money that could be saved in the Guam relocation. Although military construction projects contribute to drawdowns differently than procurement, which often generates more savings faster, they have several similar qualities. Budget reduction in this category can be achieved either by canceling projects, or by delaying them beyond the budget reduction timeline. In other words, they yield savings that are clearly defined, tangible, and easily understood.

In addition, similar to BMD, the dynamic between the administration and Congress is more significant for the Guam relocation plan than competition between the service branches. From the Marine Corps' perspective, both options — relocation to Guam and staying in MCAS Futenma — meet its objective of being forward-stationed and supporting the overall US presence in the Asia-Pacific region. Both have the potential to offer some savings; Guam by dispersing

personnel in a way that could make them more productive, and Okinawa by delaying or foregoing the construction costs needed to make Guam viable.

From Japan's perspective, the impact of this plan is much more significant politically than strategically. The Marine Corps' Pacific presence could become part of the US debt reduction conversation — either in terms of curtailing the Guam relocation, or accelerating it in order to reap productivity savings. Neither outcome would compromise the strategic rebalance to Asia.

Taking Stock of the Budget

The United States is in a national defense drawdown, for sure. At the same time, the Pentagon is determined to keep the range of possible change narrow enough not to compromise the nation's strategic rebalance to the Asia-Pacific region. Although that still leaves room for considerable uncertainty, reflecting on the precedents for US drawdowns and some analysis of today's debt reduction goals can help Japan clarify the stakes. As examined earlier, a closer look at possible reductions in the F-35 and BMD programs, and revisions to the Guam relocation plan can also serve as a means to better understand potential impact of US defense budget reduction on Japan's defense policy.

The most essential message that the US must communicate to Japan is that the ongoing and anticipated defense drawdown will have limited impact on the areas that Japan cares about. It is not that budgets are locked in at the levels currently legislated by the BCA, or that additional cuts would be dangerous, or that symbolic programs will be spared. Rather, the US needs to keep emphasizing that it intends to sustain its engagement in the Asia-Pacific region even if budgets vary. And also, that it wants Japan to be an essential partner in that endeavor.

Does Japan understand that message, particularly Japan's defense establishment? The next chapter will address the issue.

Chapter Three: Japanese perspectives

Chapter One reviewed the history of the US-Japan bilateral effort to adapt its alliance to the changing international security environment. It argued that officials in both the US and Japan are embarking on the third round of a concerted effort to revitalize the US-Japan alliance to maintain its relevance as the chief stabilizing force in the Asia-Pacific region's security environment. Chapter One also introduced the current fiscal constraints on the US defense budget as a new variable that can have an impact on the US-Japan alliance.

Chapter Two analyzed the factors driving the ongoing debate in the US on reducing government spending, including defense spending. It also discussed how defense budget reductions may affect the DOD's ability to follow-through on its "rebalance to Asia" strategy in three key areas: air/naval capabilities, extended nuclear deterrence, and US military presence in Japan. Chapter Two used F-35s, BMD, and Marine relocation to Guam as the concrete examples to demonstrate how the debate over defense spending cut may affect DOD's programs that are important for Japan's own defense policy.

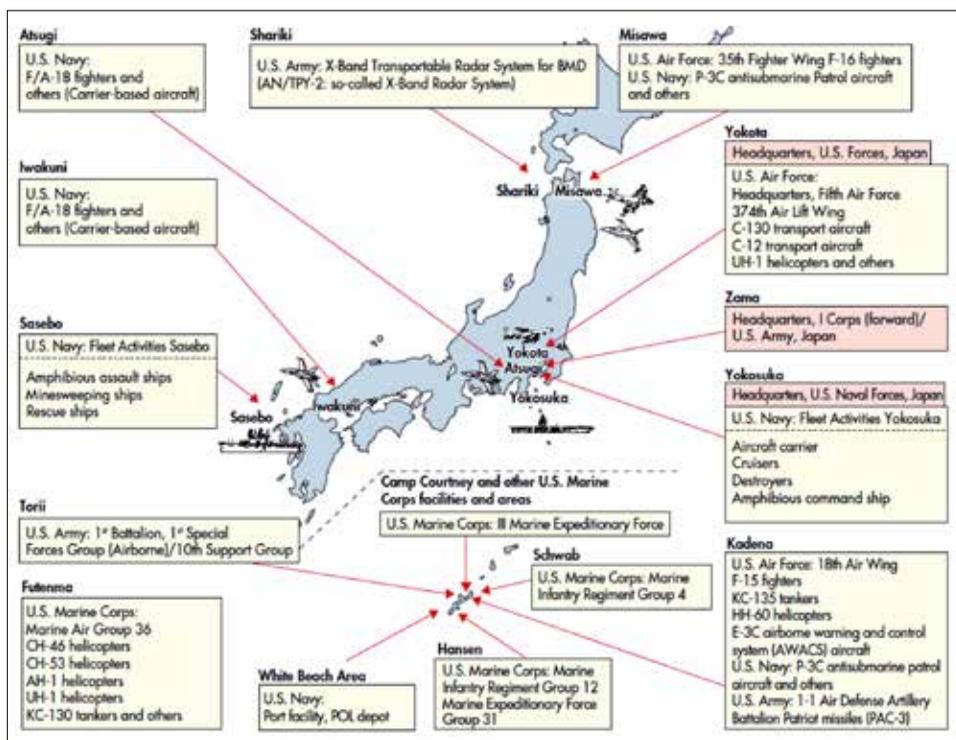
This chapter is dedicated to analyzing the Japanese perception of the potential impact of a US defense spending reduction. The analyses are based on in-person interviews and follow-up written surveys that were conducted with active and retired civilian officials at the JMOD, officers of the SDF, and diplomats at Ministry of Foreign Affairs (MOFA), all of whom have experience in shaping Japan's security policy and in the management of the US-Japan alliance. They were asked a series of questions to draw out their perspectives on the potential impact of US defense budget reductions specific to the acquisition programs of Japan's strongest interest, as examined in Chapter Two of this report. In addition, they were asked to share their thoughts on whether they think their US counterparts are keeping them well informed on how the ongoing budget debate may affect both the US defense budget and also potentially the US's ability to sustain its rebalance strategy toward the Asia-Pacific region.

1. Air/naval Capabilities

The interview and survey participants in Japan's defense establishment revealed that they are strongly interested in learning more about the potential impact of US defense spending cuts on the programs that, in their judgment, shapes US capabilities that are important for Japan. Since the major acquisition programs owned by the Japan Ground Self-Defense Force (JGSDF) are mostly indigenous, the study focused on the programs in which the Japan Air Self-Defense Force (JASDF) and the Japan Maritime Self-Defense Force (JMSDF) are interested.

In both interviews and surveys, the Japanese officials identified F-35 development as the program they were most concerned about. Most study participants

Chart 3-1. US forces stationed in Japan



(Source: Ministry of Defense of Japan, *Defense of Japan 2012*, p. 228, Accessed February 15, 2013, http://www.mod.go.jp/e/publ/w_paper/pdf/2012/31_Part3_Chapter2_Sec1.pdf.)

noted two main sources of concern about the program: the repeated delay in development, and its increase in cost. Concerns for the development of the aircraft are real. The Japanese government has announced its decision to purchase 42 F-35s to replace its aging F-4 fleet. The first four F-35s will be purchased through Foreign Military Sales (FMS), and the US committed to deliver the first aircraft by the end of March 2017. But given the delays in both development and testing, the Japanese wonder whether the F-35 Block 3F, the aircraft it's buying, will be ready for delivery by the deadline.

The concerns for the unit cost increase are even greater. Japan has already observed Australia's decision to purchase additional EA-18Gs and delay their ultimate decision of how many F-35s to purchase from the US because of the aircraft's repeated development delays.⁸⁵ They also have witnessed that South Korea initially dropped the F-35 out of the competition to replace its aging F-4 and F-5 fleets. (Although now, the F-35 appears to be back in the competition since that country's Ministry of National Defense announced on September 24, 2013 that it would not purchase the F-15 Silent Eagle (SE) as was broadly speculated.⁸⁶) The Japanese defense establishment is concerned that if the Pentagon — the single largest purchaser of F-35s — reduces the number of

the aircrafts it purchases, that the price of the F-35s that Japan will eventually buy will rise even higher. Satoshi Morimoto, who served as defense minister when Japan decided to introduce the F-35, argues that while Japan is unlikely to reduce the number of F-35s it will purchase, it may have to “reshape [the] number of purchases each year,” should its unit cost continue to increase.⁸⁷ Some in JASDF, which manages the acquisition program, are more pessimistic than their former minister. “[The] Ministry of Finance will likely go along with the delay in the acquisition schedule if those delays are regarded as inevitable and necessary for the program to reach the capability that we require,” a JASDF officer confessed. “But they will not likely go along with a cost hike. If the unit cost continues to rise, there will be greater pressure to reconsider the total number of F-35s that we will purchase.”⁸⁸

Additionally, many in JASDF and JMSDF as well as civilian JMOD officials who participated in the interviews and surveys expressed their strong interest in how the Pentagon might prioritize among various unmanned aerial vehicles (UAV) programs in the current budget environment. JASDF, as well as the Joint Staff Office (JSO), had been lobbying unsuccessfully to purchase UAVs to enhance JSDF’s capabilities in ISR. Japan’s experience in the GEJE in March 2011 — particularly the nuclear accidents in Fukushima — finally convinced civilian officials in the defense and finance ministries (whose buy-in is critical in launching the new acquisition program) to do so. This has given the JASDF a long-awaited green light to proceed with more concrete planning to acquire Global Hawk, including issuing inquiries to the Air Force for technical information about it.⁸⁹ Therefore, the Air Force’s announcement in January 2012 to terminate the Block 30 variant of Global Hawk was received with much surprise in Japan. Although the program is now extended through February 2015,⁹⁰ the lack of communication from the US in the period that led up to the initial cancellation announcement leaves Japan with a great sense of anxiety. “We were quite shocked to learn of this decision,” a senior JASDF officer said. “If this is the way that the United States handles the communication on the acquisition program that it knows that Japan is interested in, it makes me wonder whether they will keep us in the dark in similar ways in other programs that we are interested in.”⁹¹

2. Nuclear Deterrence (Including Ballistic Missile Defense)

Since the Cold War, Japan has relied on the United States for extended nuclear deterrence (more commonly referred to as the “nuclear umbrella”). Although the Japanese government does not consider an independent nuclear capability to be unconstitutional (thereby leaving it as a policy option), Tokyo has long established the position that the US extended nuclear deterrence is the primary means through which Japan seeks to defend itself from the threat of nuclear weapons.⁹² Progress in North Korea’s nuclear and missile development programs in the last two decades, therefore, have only intensified Japan’s interest in ensuring the credibility of US extended deterrence. In this context, it is critically important

for Japan that the US remain capable of extending the “nuclear umbrella” to Japan, despite President Obama’s declaration that a nuclear-free world is the US’s long-term policy goal. In this context, the two countries have established a bilateral consultative framework that is dedicated to discuss the issues relevant to extended deterrence. This consultation mechanism was useful in deepen Japanese officials’ understanding of extended deterrence.⁹³

In addition, as a part of the efforts to enhance Japan’s own capability to defend itself from missile threats, Tokyo has been investing in developing and deploying a BMD program, prioritizing it even as Japan’s defense budget was declining in real terms. As part of this effort, Japan and the US have engaged in joint research and development to improve BMD, including development of a next-generation interceptor for SM-3 (Block II). Therefore, Japan is keenly interested in whether and how much the defense budget cuts may affect the BMD program.

The interviews and surveys for this report suggest that Japanese defense officials clearly regard the capabilities for US “theater” missile defense (TMD), as opposed to “national” missile defense (NMD), as more important for Japan’s own security. While there were some who pointed out that the US NMD capability to intercept ICBMs in their mid-flight is more valuable to Japan because it would better complement Japan’s BMD capability, the majority of the officials who participated in this study consider TMD capability more valuable. Therefore, the higher probability that the US would protect its investment in “proven” BMD technology that favors the “theater” missile defense capability should give Japanese defense officials a sense of assurance.

On the contrary, when asked about the prospect of the US shifting its focus of investment in BMD to the “proven” technologies as the budget becomes more restricted, the participants in the interview and survey had very mixed responses. On the one hand, many indeed considered that such a prioritization by the DOD would be helpful because it would have a direct positive impact on improving existing BMD capabilities. As one JMSDF bluntly put it, “TMD capability is far more important for Japan. NMD capabilities, while it may be nice to continue its developments, may not be as useful for defending Japan.”⁹⁴ On the other hand, some expressed concern about the potential impact of a reduced level of investment in NMD. “For missile defense technology to continuously improve, a reduced level of funding, even in the program that does not impact Japan’s BMD today, will affect the overall development of missile defense capability in the long run,” a JGSDF officer said.⁹⁵ Several JSDF officers even suggested that, if “the efficient use of resources” were to be the primary driver of the investment, that the US may be better off cutting back on its investment in BMD altogether and redirect those resources to further improve precision strike capabilities.⁹⁶

Chart 3-2. US-Japan bilateral joint exercises in FY2012

Joint exercise	Nov 2012	Field Training Exercise (FTX)
US Army-JGSDF	July 2012	Command Post Exercise (CPX)
	Sept 2012	FTX
	Dec 2012	CPX
US Marine Corps (USMC)-JGSDF	Aug 2012	FTX
	Aug-Sept 2012	FTX
	Jan 2013	FTX
	Feb 2013	FTX
US Navy-JMSDF	July 2012	Minesweeping special training
	Nov 2012	Medics special training
	Nov 2012	Minesweeping special training
	Dec 2012	Force protection training
	Jan 2013	Anti-submarine operation special training
	Feb 2013	BMD special training
	Mar 2013	CPX
US Air Force-JASDF	May 2012	Joint training exercise (air defense/air-to-air combat/tactical transport)
	Sept 2012	Air-to-air combat training
	Jan 2013 (two trainings)	Air-to-air combat training
	Mar 2013	Air defense training

(Source: Ministry of Defense of Japan. *Heisei 25-nendo Nihon no Bouei* (Defense of Japan FY 2013). <http://www.mod.go.jp/j/publication/wp/wp2013/pc/2013/datindex.html>)

3. US Military Presence in Japan

At present, approximately 38,000 US military personnel are stationed in bases throughout Japan.⁹⁷ Japan is also home to some of the key US forward-deployed military presence in the Asia-Pacific region: Yokosuka, home of the US Navy's Seventh Fleet, is the only foreign home port for the US Navy; US Marine Corps headquarters for its Third Marine Expeditionary Force (III MEF) is in Okinawa; US Army stations command personnel of its First Corps (I Corps) is located in Zama; and US Air Force headquarters for its Fifth Air Force is located in Yokota⁹⁸ (Chart 3-1).

These US forces in Japan offer critical power projection capabilities that include the Carrier Strike Group, the Marines' expeditionary capabilities, and air penetration capabilities offered by F-16s in Misawa Air Force Base (AFB) and F-22s in regular rotation through Kadena AFB.⁹⁹ Taken together, these capabilities represent formidable force that can be easily deployed not only within Northeast Asia but also to other parts of the Asia-Pacific region.

Since 2001, the US and Japanese governments have engaged in a large-scale realignment of the US military presence in Japan. The incumbent realignment includes: relocation of US military assets within Japan, relocation of US military exercises within Japan, co-location of US military and JSDF, consolidation of the US Marine Corps facilities within Okinawa Prefecture, which currently hosts over 70% of the US military in Japan, and the transfer of some of the Marines and their families and dependents in Okinawa to Guam.¹⁰⁰ When fully implemented, the Marines' relocation plan will bring down the post-realignment Marine presence in Japan from the current roughly 18,000 to approximately 10,000.¹⁰¹

Our survey suggests that those in the Japanese defense establishment are by and large satisfied with the post-realignment posture of the US force presence in Japan. They consider that the US military capability in Japan will continue to provide sufficient deterrence. Given the political controversy that the Marines in Okinawa often invoke, they even consider a slightly reduced presence preferable because it will make US military presence in Japan more politically sustainable in the long run.¹⁰² A near-consensus exists among Japanese defense officials that the presence of the US Navy's 7th Fleet and the Marines' 31st Marine Expeditionary Unit (MEU) are absolutely critical to maintain the deterrence capability, not only for Japan but also for East Asia.

Almost every participant acknowledged that the value of the US military presence is larger than the capability it represents for the narrow purpose of defending Japan. As a JGSDF officer argues, the US military presence in Japan not only provides the credibility of the US defense commitment but also ensures other US allies in the Asia-Pacific region and keeps potential adversaries at arm's length.¹⁰³ But what do they have in mind when they make a reference to "US military presence"? There seems to be roughly three groups.

The first group focuses on the number of personnel as the tangible demonstration of the US security commitment to Japan.¹⁰⁴ As a senior JASDF officer suggests, the presence of the Marines is very closely linked with the concept of “US military presence” and “deterrence” because of its visibility in Japan (including the defense establishment).¹⁰⁵ Those who take this view also value the US military presence in Japan not only for providing greater opportunities for the JSDF to improve its readiness through more frequent joint training and consultations, but also for enhancing personal relationships between JSDF and US military personnel.¹⁰⁶ It is interesting to note that, regardless of JSDF services or civilians, the only reference point they use to measure the US force presence is the number of the Marines stationed in Japan.¹⁰⁷

The second group places greater value in the US positioning its key strategic and tactical assets in US military bases and facilities throughout Japan. Those who take this position consider that forward-deployed US air and naval capabilities will be critical in the emergencies that Japan and other countries in the Asia-Pacific region are most likely to face. As such, they suggest it is extremely important for Japan to continue to host key US assets that would allow US military to project its power from its forward-deployed facilities. They strongly argue that these forward-deployed capabilities, combined with their supporting infrastructure in Japan, amounts to a presence that is more meaningful than simply having many US military personnel stationed there. They also believe that maintaining those key capabilities can be cost-efficient because a reduced number of personnel would make the US military presence in Japan more politically sustainable.¹⁰⁸ It should be noted, however, that those who take this position, while they have confidence in the US military’s capability in Japan, are less certain about the US intention to use it helping to defend Japan.¹⁰⁹

Finally, the third group—which is the majority—refers to “US military presence” as the combination of both personnel and capabilities. They acknowledge that the requirement for forward-deployment varies among the four military services.¹¹⁰ They are also very sensitive to the outside perception of the US military presence in Japan: they consider whether a change to the US force posture there would undermine the deterrence goal, depending on how such changes are perceived outside Japan.¹¹¹ In this context, they consider the peacetime activities by US military in the region as having an intangible yet very positive impact on the region’s stability. In their view, credible US military capabilities forward-deployed in Japan in a politically sustainable way would reassure Japan of US’s continued robust engagement in the Asia-Pacific region, including its alliance relationship with Japan.¹¹²

4. Alliance Consultation/US engagement

Between Japan and the United States, there are a number of policy consultation mechanisms. The global, regional, and bilateral policy developments relevant to the US-Japan alliance are almost always discussed when the leaders of the two countries meet. Whenever Japanese foreign and defense ministers meet their

American counterparts for separate bilateral meetings, security issues always come up in their discussion. In addition, the two countries hold cabinet-level SCC meetings, which the US secretaries of state and defense and the Japanese defense and foreign ministers participate in, on a semi-regular basis. In addition, policy consultation frameworks have proliferated between the US and Japan in the last several years. Today, it is not an exaggeration to state that the US and Japan have policy dialogues “on every security issue that one can imagine.”¹¹³

Similarly, each JSDF service and JSO member have a number of individual consultative arrangements with their US counterparts. At the most senior level, the JSDF chairman of joint staff, and the chiefs of staffs of each JSDF service, exchange official visits with their American counterparts at twelve to eighteen-month intervals — visits accompanied by their spouses with most associated costs paid by the host country. There are also regular bilateral staff talks between each JSDF service. At troop level, there are also frequent meetings, such as the consultation between the III MEF and the JGSDF Western Army. In addition, the US Force Japan and the Air Defense Command have co-located their respective headquarters in Yokota AFB since 2012, enabling operational consultation and real-time coordination that have proven useful in responding to North Korea’s missile and nuclear provocations.

With such numerous consultation arrangements in place, one may assume that the Japanese are satisfied with the current status of consultation with the US. Surprisingly though, the Japanese defense establishment’s perception of the alliance consultation is actually mixed. At the policy level, those in the Japanese defense establishment are generally pleased with the degree of consultation there. Referring to the close consultation that took place between DOD and JMOD when DOD revised key strategic documents such as the QDR and Nuclear Posture Review (NPR), Japanese officials expressed their satisfaction with DOD’s willingness to consult them.

On the other hand, the Japanese defense establishment seems to have a sense of frustration regarding their communication with the US on resource-related issues. First and foremost, they feel that they are not as informed as they wish to be about the scope of US defense spending cuts. Although they acknowledge the US’s unwillingness to discuss the “worst-case scenario” on how the cuts may constrain their activities in the Asia-Pacific region (“As a fellow bureaucrat, I fully understand the sensitivity of discussing such things too openly too soon,” a JMOD official said¹¹⁴), they still hope that their American counterparts will not wait too long to discuss how their expectation of Japan may change because of the cuts. They are concerned that by the time the US provides them with more information on how the cuts will affect DOD’s ability to sustain its capability in the Asia-Pacific region and capacity to engage there, it will be too late for them to prepare for their new roles and responsibilities in coordination with United States. A comment made by a senior JSDF officer illustrates their frustration:

“Whenever we meet our friends from the Pentagon, they would always say ‘don’t worry about the budget. It will not impact our rebalance to the Asia-Pacific region.’ They also used to say that sequestration would never happen. But sequestration did happen. Since then, we read that a US aircraft carrier cancelled its deployment due to fiscal concerns. Many meetings with our counterparts have been cancelled or indefinitely postponed since sequestration. We remember former Secretary Panetta expressing his concerns that the sequestration would hollow-out US military force, we read about ADM Locklear’s congressional testimony in which he expressed deep concerns about the sequestration’s impact on the Asia-Pacific rebalance. We just do not know what is happening, and yet, our defense planning will be tremendously affected by what ultimately will happen to the US defense budget and the decision made by the United States on how to implement the pronounced rebalance strategy in the constrained fiscal environment.”¹¹⁵

They are even particularly anxious about the impact that US defense budget reductions might have on US acquisition programs in which the JSDF may be interested. For instance, as previously mentioned, DOD’s initial announcement to cancel the Block 30 of Global Hawk was an unpleasant surprise for those in the JASDF and JSO who worked hard to encourage officials in the civilian government agencies and the lawmakers to favorably consider acquiring Global Hawk. “Air Forces has strongly urged us to consider adding Global Hawk to our ISR asset,” attest many JASDF officers, including those currently assigned to JSO. “Just when we got our act together, won a necessary buy-in from MOF and moved to buy them, the initial news of Global Hawk Block 30’s cancellation came in. We would have appreciated it if our counterparts in the USAF had informed us about the possibility of the program’s cancellation.”¹¹⁶

The most recent manifestation of this sense of frustration is the Japanese defense establishment’s attitude toward DOD’s communication with JMOD while deliberating the next generation fighter (F-X) acquisition program. “Throughout the process, our American counterparts were very high-handed in their communication to us,” said a senior JASDF officer. “As if they were telling us ‘we know you will end up buying the F-35 anyway’... in the end, Japan did choose the F-35 as they had expected, but it nonetheless left a strong sense of resentment about the way we were treated. It was as if DOD and the US military looked at us only as a client, not as a real partner.”¹¹⁷

Contrary to the frustration that is often felt in strategic/policy consultation, the JSDF in particular is generally content with the level of engagement that the US military has with it. As of 2012, the US military and the JSDF hold large-scale bilateral exercises throughout the year. (Chart 3-2).

Furthermore, the JSDF regularly participates in the multinational exercises hosted by the US military, including Rim of the Pacific (RIMPAC) hosted by

the US Pacific Fleet, and Red Flag Alaska, hosted by the Pacific Air Forces.¹¹⁸ In addition, the JSDF regularly sends observers to the bilateral exercises that the US conducts with other US allies, such as Cobra Gold (CG) (a joint US-Thailand exercise), and Balikatan (a joint US-Philippines exercise).¹¹⁹

The JSDF is also strongly interested in expanding its cooperation with the United States and other US allies in the Asia-Pacific region in the area of capacity-building. In fact, the 2010 NDPG identified “capacity-building” as a priority area for the JMOD’s focus, and reorganized its bureaucracy to be more responsive in this area. For instance, the JMOD’s Internal Bureau created a “Capacity-Building Office” within the International Policy Division that is in charge of Japan’s defense exchanges with countries other than the US. Also, because the JGSDF is often the service that takes on capacity-building activities, the Ground Staff Office — the JGSDF’s staff organization — expanded its International Exchange Section within G-5 (Plans, Policy and Programs) into the International Cooperation and Policy Office. The move will improve its in-house capacity to assess the needs for capacity-building activities and plan for them. In 2012, JMOD launched capacity-building projects in East Timor and Cambodia, with the former focusing on helping East Timor gain capacity for humanitarian assistance and disaster relief, and the latter aiming to encourage Cambodia to build in-country capacity for peacekeeping operations.¹²⁰

Beyond such nascent efforts in capacity-building, however, when asked about their views on the future role-sharing between the US military and the JSDF when US resources are constrained, participants offered very few concrete suggestions. There seems to be a near consensus that the diversified nature of today’s security challenges makes it impossible, even for the US, to engage in every activity necessary for a stable international environment. Those in Japan’s defense establishment appear to agree that the role and responsibilities that the JSDF should take must be complementary to those currently performed by the US military, and thus must be determined based on careful coordination with the US. In fact, according to many of the interviewees, so much of what Japan can and should do to support US efforts to maintain stability in the Asia-Pacific region seems contingent upon what the US expects Japan to do.

Some pointed out that the JSDF may be able to more robustly support US military ISR operations in the Asia-Pacific region, particularly in Northeast Asia, with its own assets. Still, little consensus exists on how the JSDF may work with the US military in operations other than Japan’s defense, or how it would provide rear-area support in case of the contingencies in East Asia. Phrases such as “based on the consultation with the United States,” “if these are the areas the United States expects Japan to play a larger role,” and “depending on how the bilateral discussion in RMC consultation goes” often preceded their discussion of the JSDF’s potential role in these areas.

The lack of concrete ideas for an expanded security role for Japan in the Asia-Pacific region beyond the area that is already “proven” (in the sense that Japan’s efforts to take on a greater role are already underway), highlights an enduring challenge for Japan in its alliance with the United States. Simply put, whenever the discussion of Japan needing to “do more” takes place, the Japanese always want to know US expectations, rather than proactively think how Japan can expand its role and what steps it would need to take to do so.

If cuts in US defense spending do have an impact on that country’s rebalance to Asia-Pacific strategy, the Japanese defense establishment knows what it does not want to see. It does not want to see the level of US forward-deployed forces in Japan go lower than the currently agreed-upon level. In particular, they want to ensure that the level of the Marines presence in Okinawa will not go lower than its current level of 10,000. It does not want the US to reduce its investment on the capabilities that they are most interested in (i.e., the F-35, Global Hawk, and BMD). Tokyo also does not want to see the peacetime engagement conducted by the US military (such as joint exercises) being cut back. However, there has been very little thinking in Tokyo on what they do want to see, and how Japan can support the US to bring about such a desired outcome. This can be problematic for the US as the Pentagon enters a period in which, given the fiscal uncertainty it faces, Washington will welcome initiatives from its allies and partners on the efforts to maintain peace and stability in the Asia-Pacific region.

Chapter Four: for a Better Management of the US-Japan Alliance in the Era of Austerity

“(T)he US defense rebalance to the Asia-Pacific is not in jeopardy.”

—*Deputy Secretary of Defense Ashton B. Carter, April 8, 2013*¹²¹

“(T)he impacts of sequestration and the realities of a continuing resolution have created significant budget uncertainties, limited our flexibility to manage risk, and have the potential to undermine our strategic rebalance momentum as our ability to operate and maintain our force is at increased risk.”

—*Commander, US Pacific Command (PACOM),
ADM Samuel J. Locklear III, March 5, 2013*¹²²

The previous three chapters examined the context in which the US-Japan alliance came to face the challenges presented by fiscal problems in both countries. Chapter One provided the snapshot of strategic discourse in the US and Japan, the ongoing efforts between Washington and Tokyo to adapt the US-Japan alliance in the new strategic environment, and how little the two allies have discussed together the fiscal elements of their defense policies. Chapter Two examined the factors that drive the debate over defense spending cuts in the US, and how they may affect the programs in which Japan has a strong interest. Chapter Three looked into how members of Japan’s defense establishment perceive the developments examined in Chapter Two.

These examinations illuminated several points of reference as US and Japanese defense officials grapple with questions such as, “Can Washington implement Asian rebalance when the US defense budget faces the real probability of meaningful reduction?,” and “How should the US-Japan alliance adapt itself to the new reality?” Some points to consider:

1. The US rebalance to the Asia-Pacific region is not new: The United States had intended to shift its strategic focus to the region as early as the 1990s. The defense strategy that developed for the past decade in response to the 9/11 terrorist attacks in 2001 and the wars in Afghanistan and Iraq can be characterized as the disruption. Although it was important that the US re-articulated its intention with regard to the region by using the rebalance narrative, the move itself does not represent a dramatic change in US strategy.

2. The US defense budget reduction is real, and the Pentagon may be too optimistic in its projections about the extent of spending reductions it will face. The DOD estimates that its base defense budget will essentially remain flat after FY 2013, with a slight increase toward FY 2018. However, the longer the White House and Congress continue their stalemate in reaching a comprehensive debt-reduction package, the more the defense budget — the largest discre-

tionary funding in the federal budget — is likely to face the possibility of even deeper cuts. Should that happen, it would influence the appropriation processes for FY 2014 and beyond. In his first policy speech in April 2013, Secretary of Defense Chuck Hagel expressed his concern that “the military’s modernization strategy still depends on systems that are vastly more expensive and technologically risky than what was promised or budgeted for.”¹²³

3. Deeper defense budget cuts will likely shift DOD’s investment focus more onto “proven” technologies. In the event that the DOD has to make deeper cuts than it currently anticipates, there will likely be greater scrutiny on the Pentagon’s research and development (R&D) and acquisition programs in future budget discussions, particularly those considered expensive, such as the development of the Joint Strike Fighter (JSF) program.¹²⁴ Furthermore, as scrutiny on R&D and acquisition programs increases, the DOD is likely to focus more on investing in programs based on proven technologies. The DOD’s decision to terminate several weapons programs considered to be high-risk and/or high-cost systems in the FY 2014 budget request — including revising the Army’s Ground Combat Vehicle (GCV), realigning the SM-3 IIB interceptor, and canceling the Precision Tracking Space System (PTSS) — are suggestive of such a trend.¹²⁵

4. Japan is unlikely to dramatically increase its defense budget. When Prime Minister Shinzo Abe asserted that, “Japan must stay strong... I have started to revisit our National Defense Program Outline. Our Defense Ministry will get an increased budget, all in order to do just that,”¹²⁶ during his visit to the US in February 2013, policymakers in Washington began to feel a sense of optimism that Japan might finally increase its defense spending. The Japanese government indeed decided to increase its FY 2013 defense budget by 40 billion yen, as if to validate such a sense of optimism.¹²⁷ However, it is premature to conclude that the FY 2013 defense budget will be followed by a sustained period of growth in Japan’s defense spending. For one thing, the 2013 increase — a mere 0.8% increase from the previous year — only brings Japan’s defense spending back up to that of FY 2009: it still spends approximately 150 billion yen less than it did eight years ago.¹²⁸ Furthermore, Japan’s fiscal situation is far worse than the US, and unlike the US, the Japanese government is much less hesitant to cut its defense spending. Given that the Abe government will have to tackle an extremely difficult challenge of striking a balance between the government’s budget reduction and revenue increase while taking necessary measures to ensure a sustainable recovery in the Japanese economy, the defense budget is much more vulnerable to greater fiscal pressure. Therefore, Japan’s defense spending is not likely to grow greatly in the years ahead.

5. US force presence in Japan is an important tangible demonstration of US commitment. Long before the current efforts for rebalance to the Asia-Pacific began, the US had considerable forward-deployed military capabilities in Japan. From the US Navy’s Seventh Fleet in Yokosuka to the Air Force’s F22 in Okinawa and the presence of III MEF in Okinawa, Japan considers these US military capabilities as a critical demonstration of the US commitment — not only to Ja-

pan's defense but to the entire Asia-Pacific region's peace and stability. While most in Japan's defense establishment understand that the "presence" is a combination of personnel and deployed military assets, the number of US military personnel (Marines in Okinawa, in particular) is considered extremely important as an indicator of the US commitment to its defense relations with Japan.

6. The Japanese do not question US capabilities, they question US intentions. When Japanese defense officials question how reducing the US defense budget might affect the US-Japan alliance, they are not worried that a budget reduction will trigger a decline in these capabilities. Rather, officials question whether deeper defense spending cuts would allow the US to sustain its intention to use these forward-deployed capabilities if necessary.

7. Japan is frustrated with the lack of communication from the United States on strategic and fiscal issues. There is a considerable level of frustration among Japanese defense officials about the lack of communication from the US on its long-term strategy. A great deal of confusion exists in Japan regarding how some key US operational concepts — such as JOAC — apply in the Asia-Pacific region. They are also concerned about the outcome of the defense spending debate in Washington. However, they have been by and large left on their own to try to understand the various aspects of this debate. The sequestration, in particular, heightened Japanese concern, because it has tangibly affected US peacetime engagement efforts not only bilaterally with Japan but also with other countries in the Asia-Pacific region. Cancelled or postponed conferences, a much smaller delegation to meetings, less community activities by US bases in Japan; despite the speeches and statements from DOD leadership about the sequestration's temporary nature, Japan perceives all of these as the tangible impact of US defense budget cuts on the US-Japan alliance.

These observations illustrate the existence of a critical perception gap between the US and Japan. On the one hand, US defense officials think they are clear in their message to their Japanese counterparts that the US commitment to the Asia-Pacific rebalance is sustainable, despite near-term uncertainty evoked by the fiscal debate. They believe that the measures the US has taken (and plans to take) should be self-evident in demonstrating that the fiscal debate outcome will not significantly affect US military capability in the region.

However, Chapter Three demonstrates that Japan's defense establishment is frustrated with a lack of communication from their American counterparts. They are confused regarding the ongoing fiscal budget debate in Washington and the extent to which it will have an impact on the US defense budget. Most importantly, although Japan fully appreciates the military capability that the US currently deploys and plans on deploying in the Asia-Pacific region with its rebalance effort, it is concerned about the impact that reducing defense spending will have on the US intention to utilize the deployed capabilities when necessary. In order for the US and Japan to hold a productive discussion as they recalibrate

the US-Japan alliance, it is critical that both sides work to bridge the existing perception gap between the two countries. To do so, defense officials in both the US and Japan must be mindful of the two basic realities:

The US-Japan alliance will face difficult choices in the years ahead. As discussed in Chapter One, a more belligerent and unpredictable North Korea and an increasingly assertive China makes long-term security in East Asia as uncertain as ever. This trend is further complicated by rising tensions in Japan-China and Japan-South Korea relationships over territorial disputes and more recently, criticism about the Japanese leadership's attitudes toward its wartime atrocities during World War 2. Moreover, there is a growing question of the US's staying power as the security guarantor in the Asia-Pacific region. Domestically, both the US and Japan continue to face the daunting tasks of balancing fiscal needs for facilitating economic growth, providing social safety nets for the handicapped, elderly, and poor, and preparing adequately for national security emergencies. Taken together, these external and internal developments will likely force difficult discussions between the two countries as they discuss their respective roles in the alliance over the long term, the extent of global engagement they want to take on both together and separately, and the capabilities they can afford to invest to that end.

US and Japanese policymakers must assume that they will have to make hard choices in a great deal of fiscal uncertainty. Whether concerning budgetary decisions or regional threat assessment, it is impossible to make decisions with 100 percent certainty. This is particularly true for the outcome of the US fiscal debate, including the depth of spending cuts that the Pentagon will must face, likely for the next decade. Today, the Pentagon assumes, at least publicly, that the sequestration will not last too long beyond FY 2013; it assumes that it will not have to absorb a greater budget reduction than what is in the President's FY 2014 budget request; and it also assumes that the current gridlock between the White House and Congress over debt-reduction measures will be resolved without having to significantly alter its budget projections. Realistically, however, these assumptions could change, and given the current gridlock in fiscal debate, they are likely to. The Pentagon's desire to minimize the impact of an uncertain fiscal future understandably leads to its hesitance to publicly discuss how it might cope with deeper spending cuts. However, the US should have confidence in the strength of its relations with its closest allies, including Japan, to engage in a discussion on how the two countries can enhance the alliance to remain sustainable even in the face of the anticipated deeper spending cuts. Indeed, the ability to address hard questions like these may be the quality that speaks to the resilience of the alliance, as such a capacity is a reflection of the depth of mutual confidence in each other and in the vitality of the alliance. Given these circumstances, there are four main recommendations for consideration:

Recommendation #1: The United States and Japan should engage in frank discussion on the potential constraints of each country's fiscal circumstances on the alliance.

It is important for the US to maintain its public message that the US's "rebalance" to the Asia-Pacific region is real and that it will stay on course despite the fiscal uncertainties at home. Still, US defense officials should be more forthcoming in their private conversations with their Japanese counterparts about the difficult budget choices they face. By communicating the Pentagon's honest concerns, the US can encourage serious thinking on Japan's part about its role within the alliance and the capabilities it needs to invest to that end.

By the same token, Washington should not be too shy about expressing their questions and concerns for Japan's investment choices and overall level of defense spending in the years ahead. Besides the current efforts to revise its NDPG and Mid-Term Defense Program (Japan's two most critical documents for defense policy planning over the next five to 10 years), the Japanese government is on the cusp of making changes to some of the fundamental principles that shaped the country's post-World War 2 defense policy. Therefore, it is critical that the US engage Japan in discussion on both each other's strategic goals and the potential constraints that their respective fiscal challenges may impose on such efforts.

Recommendation #2: The United States should attach greater emphasis on communicating intentions, not just capabilities, to reassure Japan.

Whenever the Pentagon responds to allies' concern about the implementation of rebalance, it tends to only reference capabilities that the US military currently deploys and plans to add to the Asia-Pacific region. However, US allies in the region are already aware of such capabilities. With considerable US military capability already deployed on its soil, Japan is no exception in its appreciation of the scope of US military capabilities in the region. Rather, Japan is concerned about the potential impact of a tighter defense budget on US intentions to mobilize its assets in various scenarios. In consultation with Japan, US defense officials should consider more explicitly articulating the US intention to mobilize its capability in the region when necessary to reassure Japan.

Recommendation #3: Japan should recognize that the US budget process, like Japan's own, is largely a domestic process with multiple actors.

The budget process is a domestic process. With multiple stakeholders (many of whom are politically motivated) involved, the government often has a limited capacity to control the process. Moreover, throughout the budget process, the government tends to send different messages to different audiences in order to minimize the impact of downward pressure on its budget. Therefore, when senior US military leadership such as Admiral Samuel J. Locklear III, PACOM commander, insists that the sequestrations "have created budget uncertainties, limited our flexibility to manage risk, and have the potential to undermine our

long-term strategic rebalance momentum,”¹²⁹ his message is intended to stir a sense of urgency in Congress that the fiscal gridlock on the Hill, if it persists, will compromise US strategic interests abroad. On the contrary, when Deputy Secretary of Defense Ashton Carter argues that “The US defense rebalance to the Asia-Pacific is not in jeopardy,”¹³⁰ the pronouncement is intended to reassure US allies there. While DOD needs to do a better job coordinating its external message on the subject, Japan also needs to be mindful, when analyzing US public statements, of their intended audience and effect.

Recommendation #4: In observing the US budget debate, Japan should pay greater attention to how the anticipated defense budget reduction may affect the US acquisition programs important to Japan.

Chapter Two demonstrates that the US already deploys considerable military capability in the Asia-Pacific region. At the same time, the analyses in Chapter Two established that, while the anticipated defense spending reduction is real, it is unlikely to have an immediate impact on the existing US military capability forward-deployed to Japan. Japanese defense officials should continue to pay attention to how the defense spending cuts may affect the US’s ability to sustain and augment its forward-deployed military capability in the Asia-Pacific region over time. Japan should also be mindful of the prospect that changes in US defense investment priorities may affect US military capabilities in the long run. Finally, Japanese officials should actively engage their US counterparts in the discussion on how the US intends to sustain the rebalance under a constrained fiscal environment.

In his speech to the National Defense University, Secretary of Defense Hagel argued that the Pentagon can and should “recognize the opportunities inherent in budget constraints and more efficient and effective restructuring.”¹³¹ This statement is quite applicable to the US-Japan alliance. Rather than postponing the discussion until budget reduction takes effect, US and Japanese defense policymakers should recognize the inherent opportunities that the anticipated US defense cuts present now, and strive to utilize them to restructure and revitalize the US-Japan alliance into a more effective, and better-functioning partnership.

Final Thoughts

When this project got underway in the winter of 2011, the authors made several assumptions. We were uncertain about whether the “Super Committee” established under BCA would be successful in coming up with a list of recommendations for comprehensive debt reduction. However, we were nevertheless certain that the White House and Congress would be able to agree on alternative budget legislation that would replace BCA and include a comprehensive debt-reduction agreement. Even if that did not happen, we had expected that the Obama administration and Congress would be able to prevent sequestration. Our worst case scenario was the sequestration actually being triggered, but even then we expected that our leaders would end the sequestration promptly.

The series of events that unfolded since the Super Committee failed to come up with its recommendation at the end of November 2011, therefore, was way beyond our expectation, a couple of “unthinkable” scenarios having happened. First is the sequestration. The sequestration — including automatic 10 percent budget reductions — was originally scheduled to begin on January 3, 2013 under the 2011 BCA. President Obama and Congress succeeded in postponing the sequestration with a last-minute agreement with the condition that agreement on the budget cut (spending) side of the debt reduction measures be reached by February 28, 2013.¹³² When President Obama and Congress failed to reach an agreement on spending cuts, the sequestration took effect on March 1, 2013. At the time of this writing, the sequestration remains in place, with little prospect that it will end in the near future.

Worse, the stalemate between the Congress and the White House over a comprehensive debt-reduction plan continues at the time of this writing. In fact, because the two parties failed to reach an agreement on how to proceed with the proposed FY 2014 budget, the US government shut down for 16 days in October 2013, the first such shutdown in 18 years. Although the government reopened on October 17 after both sides agreed to, 1) operate the government at FY2013 funding level until January 15, 2014, and, (2) raise the US debt ceiling until February 7, 2014,¹³³ whether a longer-term solution can be reached between now and then looks uncertain.

These developments mainly mean two things for DOD. First, the Pentagon has had to adjust to the sequestration. Since the bipartisan congressional debt-reduction committee formed under the 2011 BCA (the so-called “super committee”) failed to reach an agreement on debt-reduction measures, DOD leadership earnestly appealed to Congress to reach an agreement to avoid sequestration. DOD leadership, both civilian and military, has openly discussed

the disruptiveness of the sequestration on US military. DOD leaders refused to discuss their plan as long as they could, in case sequestration could be avoided. It was not until mid-January that it finally issued a directive on how to prepare for the sequestration. For FY 2013, with sequestration in place, the Pentagon's appropriated budget is \$574 billion, out of which \$493 billion is the base budget. DOD insists that the sequestration had a damaging effect on the readiness and productivity of the force, as well as a negative impact on investment programs that may mean unit cost increases and development schedule delays.¹³⁴ This message of how "devastating" the sequestration has been to the US military was consistent in the FY 2014 budget briefing provided not only by the office of the secretary of defense, but also by each military department.¹³⁵

Second, DOD may also have begun (albeit reluctantly) to accept the prospect of having to cope with deeper budget reductions than it initially anticipated. In March 2013, Secretary of Defense Chuck Hagel ordered the DOD leadership to launch the Strategic Choices and Management Review (SCMR) to assess the Pentagon's strategic, management and investment choices, given the uncertainty in its fiscal environment.¹³⁶ On April 3, Secretary Hagel, in his first policy speech, stated clearly that the DOD must be prepared for further budget cuts. He acknowledged that the department was currently facing "far more abrupt and deeper reductions than were planned for or expected," noting that the DOD is now "grappling with the serious and immediate challenge of sequester — which is forcing us to take as much as a \$41 billion cut in this current fiscal year, and if it continues, will reduce projected defense spending by another \$500 billion over the next decade."¹³⁷ At the conclusion of the SCMR on July 31, 2013, Secretary Hagel argued that the Pentagon had to implement substantial force structure reduction to identify spending cuts greater than its FY 2014 budget proposal. He explained that more cuts to the force structure would have to be implemented based on the trade-off between "capacity" (number of personnel and platforms) and "capability" (ability to modernize weapon systems) and that even if the Pentagon prioritizes "capability" over "capacity," it would still result in a "decade-long modernization holiday."¹³⁸ While such a deeper cut is certainly not preferable for the Pentagon, Secretary Hagel argued that it would still be much more desirable than a continuing sequestration because "the only way to implement an additional, abrupt 10 percent reduction in defense budget is to make senseless, non-strategic cuts that damage military readiness, disrupt operations, and erode our technological edge."¹³⁹

Since the sequestration began in March 2013, US defense leaders have tried hard to reassure US allies in the Asia-Pacific region, including Japan, that continue to question whether the US "rebalance" to Asia-Pacific is real and can be implemented under the constrained resources. Pentagon officials tried to reassure US allies around the world that sequestration was "temporary" and would not last beyond October 1, 2013.¹⁴⁰

Shortly after the US government shutdown began, the officials emphasized that despite the difficult budget circumstances, the US “will continue to prioritize Asia and ensure that Asia continues to host the most advanced US military capabilities.”¹⁴¹ Secretary Hagel, when asked whether the US fiscal environment will affect US military missions in the Asia-Pacific region, admitted that the government shutdown and sequestration will. But he was also quick to add that the Pentagon “will have to adjust. That’s not new in the real world... the rebalance to the Asia Pacific, this is a priority, and you always adjust your resources to match your priorities. And we will continue to do that.”¹⁴²

Of course, it is important for the US to maintain the public message that its rebalance to the Asia-Pacific region is real and remains on course despite the fiscal uncertainties at home. Still, a bit more forthcoming communication of the Pentagon’s concerns of the potentially negative impact that defense spending reduction will have on US military capability, as well as its desires for Japan playing specific roles in the region, will go a long way in reassuring the allies there. Conveying the honest concerns of DOD for its resources encourages serious thinking on the part of the allies about the capabilities they can develop to complement America’s, there. Knowing that the US, despite its intention, may have challenges in maintaining its current role as the sole stabilizer of security in the region would prompt US allies to think more seriously about their own national defense, as well as new ways to cooperate with the US and each other.

There has been a nascent effort between the US and Japan in this regard; on October 3, 2013, when Secretary Hagel and Secretary of State John Kerry met with their Japanese counterparts (Defense Minister Itsunori Onodera and Foreign Minister Fumio Kishida) for the SCC (commonly referred to as “2 plus 2”) meeting in Tokyo, they agreed to better integrate the existing bilateral dialogue framework on defense equipment and technology cooperation into the defense cooperation policy consultation. While the Joint Statement issued after the meeting only said that such a dialogue is intended to address the need to enable “increased cooperation in the acquisition of defense systems with Alliance strategy and capability needs,”¹⁴³ this is the first very positive step for the US and Japan toward addressing their fiscal constraint as a “shared” alliance challenge.

But Tokyo and Washington can do more. As the October 2013 SCC Joint Statement reiterated, the US-Japan alliance is “the cornerstone of peace and security” in the Asia-Pacific region. As the two countries aspire to be “full partners in a more balanced and effective Alliance...by investing in cutting-edge capabilities... modernizing force structures, and adapting Alliance roles and missions to meet contemporary and future security realities,”¹⁴⁴ they can form deeper alliance cooperation at all levels — strategic, policy, and operational. An honest conversation on each other’s fiscal reality and its implication

on their respective force posture and capabilities can serve as an opportunity to facilitate a more effective US-Japan alliance.

As Secretary Hagel said in his speech at the Shangri-La Dialogue, fiscal realities can “present an opportunity to conduct a thorough and much-needed review to ensure we are matching resources to the most important priorities.”¹⁴⁵ We hope that our preliminary studies to identify the potential area of communication gaps on this critical issue between the United States and Japan will facilitate a broader conversation on how the US defense establishment should navigate the era of fiscal uncertainty at home while preserving robust alliances and partnerships in the Asia-Pacific region.

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