

## COMMENTS AND NOTES

# China and the New Geometry of East Asia

Brad GLOSSERMAN

THE TRILATERAL RELATIONSHIP between the United States, Japan, and China may be the most important strategic triangle in the world; it is certainly the most dynamic and most confusing. The United States is the world's sole remaining superpower and possessor of national power unmatched by any other nation, now or at any other time. Japan, Asia's leading nation and America's sometime surrogate within the region, has entered a crisis of confidence after a decade of economic stagnation that shows no sign of ending. China appears to be waking from its century-and-a-half long slumber and is reclaiming its rightful place on the regional and international stage.

These changes challenge the accepted international order in the Asia-Pacific. While there are uncertainties aplenty, a continuation of existing trends would transform the region's geopolitical landscape. The thoughts that follow assume that current trajectories generally continue.<sup>1</sup> For American strategists, this new international environment requires a substantial change in perspective. The instruments of United States foreign policy in Asia can and should continue. A continued United States forward presence in the region that rests upon America's bilateral alliances will continue to play an essential role in guaranteeing peace and stability throughout the Asia-Pacific.

The survival of those alliances will depend upon an equally important transformation in United States' thinking about relations with its treaty partners. First, Washington will have to start treating them more like partners and less like subordinates. Burdens,

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responsibilities, and, yes, credit will have to be more evenly shared. This means those partners will have to act responsibly as well. Second, the alliances themselves will have to be transformed. In the 21st century, alliances will have to be based upon shared values and interests, rather than shared threat perceptions. Quite simply, alliances will have to be *for* something rather than merely counters to some external threat. Finally, the alliances will have to reach out to other nations, both friends and potential adversaries, to build a framework for strategic dialogue and the creation of *ad hoc* coalitions when situations warrant.

This paper begins with an examination of American interests and strategic concerns in the Asia-Pacific region. It then assesses Japan's prospects and concludes that they are not good. This poses particular problems for Washington since a pillar of its presence in Asia is its alliance with Tokyo. The paper then turns to China, and American approaches to dealing with Beijing. While hardliners and the media appear eager for a fight, the United States is in fact hedging: hoping for the best, but *preparing* for the worst. Next, the paper looks at two arenas of geopolitical competition between Japan and China, Northeast and Southeast Asia. In both cases, Beijing's diplomacy is more dynamic and Japan appears to be reacting to Chinese initiatives. The paper concludes with an examination of the trilateral relationship shared by the United States, China, and Japan. The three countries have to escape the zero-sum thinking that has dominated strategic calculations since World War II.

## United States Interests in Asia

The United States is a Pacific power. Hawaii gives the United States a physical presence in the region, but ever-growing parts of the United States look west to Asia when they contemplate the future. An expanding number of Americans — 10.9 million people, or about 4% of the population — cast their eyes in the same direction when they think about their past.<sup>2</sup> As Secretary of State Colin Powell pledged in a recent speech, “America’s commitment to Asia’s security and stability is

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<sup>1</sup> In fact, these are debatable propositions. The American commitment could be shaken by an economic crisis or lessened by new military technologies that eliminate the need for forward bases. Japan's decline seems inevitable, given the scale of the changes needed to arrest the current slide, the Japanese public's aversion to such change, and the demographic forces that make incremental adjustment increasingly non-viable. China's rise is the most easily challenged, given the magnitude of the problems it faces and the difficulties that have already been encountered.

<sup>2</sup> Karen Humes and Jesse McKinnon, “The Asian and Pacific Islander Population in the US,” *Current Population Reports* (Sep. 2000). <[www.census.gov/prod/2000pubs/p.20-529.pdf](http://www.census.gov/prod/2000pubs/p.20-529.pdf)> [1 Aug. 2002].

an enduring one.... We are a Pacific power. We will not yield our strategic position in Asia.”<sup>3</sup>

The United States has many reasons to remain engaged. The first is economic. As Powell explained, “Under the protection of America’s security umbrella, two-way trade between the United States and East Asia and Pacific has risen to \$700 billion annually, larger than our trade with Europe. Between 1990 and 2000, exports of American products to Asia grew by over 80% and imports to the United States from Asia went up 150%. United States direct investment in Asia nearly tripled during the past decade to over \$200 billion, roughly equal to the amount Asians have invested in the United States.”<sup>4</sup> Economic concerns have been a powerful force in United States foreign policy, as Admiral Michael McDevitt has noted. “The primary motivation behind United States statecraft in all of its manifestations of the past 200 odd years has been to be included in — or perhaps more aptly, not to be excluded from — East Asia.”<sup>5</sup>

Not only does the United States want to secure access to those markets. Washington also wants to ensure that no other nation can utilise that wealth, and the power that it confers, against United States interests and allies. A recent study by the Rand Corporation, which has reportedly had some influence on the administration’s thinking, makes this point explicit. “The United States must begin to formulate a strategy aimed at a pivotal long-term objective: preventing the worsening of the security situation in Asia. Central to this objective is the need to preclude the rise of a regional or continental hegemon. This is important for two main reasons: to prevent the United States from being denied economic, political, and military access to an important part of the globe; and to prevent a concentration of resources that could support a global challenge to the United States in the order of that posed by the former Soviet Union.”<sup>6</sup>

In addition, there are the values shared by the United States and governments throughout the region. Mutual concerns for democracy, human rights, and other forms of individual expression have created a political and philosophical community. There is a shared desire for market-based economic systems and the wealth and prosperity they create. The United States and other Asian nations — and other governments around the world,

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<sup>3</sup> Speech by Secretary of State Colin Powell to Asia Society Annual Dinner, New York City, 10 Jun. 2002.

<sup>4</sup> *Ibid.*

<sup>5</sup> Paul D. Taylor, ed., *Asia and the Pacific: United States Strategic Traditions and Regional Realities* (Newport, Rhode Island: Naval War College Press, 2001), p. 101.

<sup>6</sup> Zalmay Khalilzad *et al.*, *The United States and Asia: Toward a New United States Strategy and Force Posture* (Santa Monica: Rand Corporation, 2001), p. 43.

for that matter — are convinced that these values perpetuate peace and stability, and are committed to their spread throughout the region.

In practical terms, that has meant active United States engagement with governments of the region and the creation of an alliance system that locks in the United States presence in the region. The United States has preferred bilateral engagement and the linchpin of its presence is Japan.

## The Slowly Sinking Sun

Ever since former Ambassador Mike Mansfield declared the Japan-United States alliance to be “the most important bilateral relationship in the world, bar none,” that language has become the equivalent of diplomatic boilerplate for any ambassador departing for Tokyo. Assistant Secretary of State for East Asia and the Pacific — and the former head of this author’s think tank, Pacific Forum CSIS — James Kelly provided the standard view of the relationship in recent Congressional testimony: “Japan is our linchpin Asian ally of over 50 years, and a nation with which we share a vibrant and multifaceted relationship based on common ideals and interests.... Our presence in Japan is crucial not only to our commitment to help defend Japan, but also to having forward deployed forces that foster regional stability and security throughout the Asia Pacific region.”<sup>7</sup>

The relationship has had its ups and downs. The 1990s were a particularly tumultuous decade as Japan showed a new-found determination to challenge United States leadership on economic issues and the United States became increasingly frustrated with what it considered to be Japan’s unwillingness to share the burdens of the alliance. The iconic image of the times was then Trade Minister Hashimoto Ryutaro holding a *kendosword* to the throat of his United States counterpart Mickey Kantor during particularly contentious trade negotiations. Within a few years, though, the rot in the Japanese economy was quite apparent, and the contrast with the booming United States economy was impossible to miss. Japan-bashing gave way to “Japan passing” when President Bill Clinton went to China on a state visit and flew over Japan without stopping on either leg.

If the economic dimension of the relationship was changing, so was the security component. The 1996 Taiwan Strait crisis and the 1998 Taepodong missile test by North Korea reminded Japanese that the end of the Cold War had not ushered in a new era of peace and stability, that military weapons maintained their utility, and that Northeast Asia was a dangerous corner of the world. The result was a shift in Japanese strategic

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<sup>7</sup> Testimony of Assistant Secretary of State for East Asia and the Pacific James Kelly before the House International Relations Subcommittee of the Foreign Affairs Committee, 14 Feb. 2002.

thinking, the embrace of greater realism in security planning and a convergence in strategic thinking in Washington and Tokyo.

This convergence has become much more visible in Japan's relations with China. The 1996 Taiwan Strait crisis was an important factor in this process. It focused Japanese policy makers on Beijing's willingness to flex its muscles in a crisis and reminded them of the utility of the security alliance with the United States.<sup>8</sup> While it was still too politically sensitive to speak openly of a "China threat," the tone shifted. Japanese defence officials often acknowledged (off the record, of course) that references to "North Korean threats" in documents were usually a surrogate for China.<sup>9</sup> Official Japanese reports ask whether China's defence budget is expanding beyond that absolutely necessary for defence.<sup>10</sup>

Many in the United States applauded and encouraged this new thinking. The most fervent advocates of a higher profile for Tokyo assumed a prominent role in the new Bush administration. These same individuals criticised the Clinton administration for bypassing Japan in 1998, and for strengthening ties with China at Tokyo's expense. They viewed China as a potential threat rather than a potential partner and vowed to rebuild the United States–Japan alliance both for its own sake and to counter "the China threat." Michael Green, one of the pre-eminent students of the alliance who now serves as the Japan officer at the National Security Council, explained that "The alliance was not necessary as an instrument of containment, but it was an essential backdrop to the policy of engagement. Strong ties between Tokyo and Washington would increase United States leverage *vis-à-vis* China by deterring Beijing from any attempt to increase its own hegemony in the region through a strategy of separating the United States from its allies."<sup>11</sup>

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<sup>8</sup> For example, a recent Japan Defense Agency regional overview notes that "The close cooperative relationship that is based on the Japan–United States Security Arrangements forms the basis for the engagement of the United States and the deployments of United States forces necessary for the peace and stability of the region surrounding Japan ... the Japan–United States partnership continues to play a key role in securing the peace and stability of the region in the post-Cold War." See "Overall View of Japan's Defense Policy 2002," Japan Defense Agency No. <[www.jda.go.jp/e/index\\_.htm](http://www.jda.go.jp/e/index_.htm)> [1 Aug. 2002].

<sup>9</sup> Of course, there are also moderating influences on Sino-Japanese relations: longstanding cultural ties, a deepening web of economic exchanges, and feelings of guilt from Japanese behaviour during World War II. Nevertheless, the relationship seems to have found a new centre of gravity in the last decade. The economic decline and the talk of an economic "China threat" consolidate the swing.

<sup>10</sup> James Przystup, "Japan–China Relations: Spiraling Downward," *Comparative Connection* 3, No. 3 (Oct. 2001).

<sup>11</sup> Michael J. Green, "The Search for an Active Security Partnership," in *Partnership: The United States and Japan 1951–2001*, ed. Akira Iriye and Robert A. Wampler (Tokyo: Kodansha International, 2001), pp. 146–7.

For this group, the vision for United States–Japan relations is captured best by the Armitage Report,<sup>12</sup> which called for a radical transformation of the alliance. It invoked the Anglo-American alliance as its model, and Japan would, accordingly, become the “UK of Asia.” It is noteworthy that the document’s namesake, Richard Armitage, is now the number two official at the State Department.

When the Bush administration took office, it was determined to build better relations with Japan and make that vision a reality. The natural affinity toward Japan that many in the administration feel, Japan’s unprecedented response to the tragic events of Sep. 11, and the personal relationship that President Bush and Prime Minister Koizumi Junichiro have built have made the alliance as strong as it has ever been. Observers say the relationship may be even more solid than the “Ron-Yasu” era of the 1980s, when President Ronald Reagan and Japanese Prime Minister Nakasone Yasuhiro established a high-water mark for the Pacific alliance. During his Tokyo visit in February, President Bush underlined the solidity of the relationship in his speech to the Diet. “The bonds of friendship and trust between our two peoples were never more evident than in the days and months after September 11... Your response to the terrorist threat has demonstrated the strength of our alliance, and the indispensable role of Japan — a role that is global, and begins in Asia.”<sup>13</sup>

Japan’s response to the terrorist attacks of Sep. 11 validated the views of the Japan-hands. Not only in terms of content — a package of diplomatic, financial and, yes, even military measures that eventually included the first ever post-war dispatch of Maritime Self-Defense Forces vessels to support a military effort — but in speed as well. There was none of the hand-wringing and prevaricating that the world has come to expect of Japan in a crisis. Prime Minister Koizumi Junichiro immediately condemned the attacks and declared that Japan would help the United States in whatever ways it could.

Earlier in 2002, Assistant Secretary of State Kelly put these developments in perspective in testimony before the Congress. “The steps that Japan has taken since Sept. 11, 2001 suggest Japan is interested in redefining its role in Asia and confirming to the world that Japan can participate meaningfully and responsibly and legitimate international military operations. ... We look forward to strengthening further the United States–Japan security relationship, using the experience gained over the last few months and build on it to encourage further cooperation security and defense matters.”<sup>14</sup>

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<sup>12</sup> Institute for National Strategic Studies, *The United States and Japan: Advancing Toward a Mature Partnership* (Washington, DC: National Defense University, 2000).

<sup>13</sup> Remarks by President George Bush to the Japanese Diet, 18 Feb. 2002. <[www.whitehouse.gov/news/releases/2002/02/20020218-2.html](http://www.whitehouse.gov/news/releases/2002/02/20020218-2.html)> [1 Aug. 2002].

<sup>14</sup> Testimony of James Kelly, 14 Feb. 2002.

Despite this encouraging start, Japan may be reaching the limits of its ability to contribute. On one hand, there are the perennial political obstacles to a higher international profile. They were on display in the most recent Diet session, which concluded as this paper was written at the end of Jul. 2002. It is revealing that the “emergency measures” legislation, which was one of the prime minister’s priority pieces of legislation, was shelved after a scandal in the Defense Agency. It appears that the political momentum created by the events of Sep. 11 has been exhausted.

Not only is there the post-war aversion to involvement in military matters, but there is also no consensus in Japan that the country should assume a leadership role in any matter. While it is always hazardous to put an entire nation on the couch, it is little exaggeration to say that Japan is in the midst of a national identity crisis. Old policy options do not seem to be working and traditional answers to fundamental questions about national purpose no longer provide reassurance. For all the soul-searching, there is little reason to think that Japan will look beyond its shores for answers. Rather, it will focus its energies inward. This author believes that it will tolerate gradual decline.<sup>15</sup>

Conversations with Japanese officials and influential foreign policy analysts indicate that a growing number of the elite share this view. Advisors to the current government have declared that Tokyo must stop “punching above its weight,” and that Japan must accept that it is a “middle power.”

Even more critical is the fact that the call for Japan to take a higher profile has occurred at a time when Tokyo’s resources are diminishing. It is difficult to appreciate the depth of Japan’s economic problems, but the fact that the 1990s are now known as “the lost decade” is a good start. As one commentator put it:

The growth of the Japanese economy during the last decade has been the slowest 10-year performance of any large industrial country in the postwar period, averaging about 1 per cent a year. ... Between 1992 and 2000 (except for 1996), the growth rate each year has been less than 2 per cent and the growth in 1998 was -2.5 per cent (later revised to -1.1 per cent when the price deflators used to calculate the national accounts were re-based), the worst in the postwar history of Japan.

Land and stock prices, which had risen three- and four-fold between 1985 and 1990, subsequently plunged by as much as 50–60 per cent in a few years. The gains in stocks and land between 1985 and 1990 were completely wiped out between 1990 and 2000. Official National Accounts statistics indicate that Japanese households lost

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<sup>15</sup> Brad Glosserman, “Japan’s ‘Swiss’ Option,” *PacNet Newsletter*, 15 Mar. 2002. See also George Wehrfritz, “Japan: What to Wear,” *Newsweek International Edition*, 13 May 2002, p. 14.

approximately 500 trillion yen (more than 100 per cent of GDP) of their net wealth between 1990 and 2000.<sup>16</sup>

This situation is not improving. Unemployment remains at postwar highs, bankruptcies continue to climb, increasing at a rate of over 1,400 cases per month. Japan's national debt is estimated at between 130 and 220% of GDP. David Asher, a special advisor in the State Department on Japan issues, has noted that "currently nearly 65 per cent of tax revenue is needed to service debt, while long term debt exceeds revenue by more than 15 times."<sup>17</sup> Optimists now forecast zero growth for 2002 and most experts expect the economy to bump along for the next decade.

More significant still are the demographic trends that limit Japan's ability to clean up the economic mess. The Japanese government estimates that the working age population peaked in 1997 and the total population will decrease from 2007. That means a dwindling pool of workers must finance Japan's debt.

It is a disturbing picture, especially given the high hopes that the United States has for Japan's assuming a higher role within East Asia. When contrasted with the rosy future most envision for China, the talk of a geopolitical earthquake makes some sense.<sup>18</sup>

## The Not So Hidden Dragon

The administration of President George W. Bush has made no attempt to hide its concern about China. From the beginning of his campaign for the presidency, Bush spoke of China as a "strategic competitor," and accused the Clinton administration of weakness toward Beijing. It is a mistake to attribute these views solely to the new administration. As one American China watcher observed, "China is perceived by some to represent a new Soviet Union. Indeed, in late 2000, Joint Chiefs General Henry H. Shelton remarked

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<sup>16</sup> C. Fred Bergston, Takatoshi Ito and Marcus Noland, *No More Bashing: Building a New Japan–United States Relationship* (Washington, DC: Institute of International Economics, 2001), p. 67.

<sup>17</sup> David Asher, "The Bush Administration's Japan Problem," *On the Issue Series* (Washington DC: American Enterprise Institute, Mar. 2001).

<sup>18</sup> It is important to put Japan's decline in perspective. While its assets may be diminishing, it is still exceptionally rich in just about every important dimension of national power. It has the world's largest foreign exchange reserves, the world's second largest economy and all that entails, cutting-edge technology, educated and motivated citizens, a culture that has deep roots, and a strong and stable civil society, to name just a few of its many advantages. Japan's power and influence may well decline, but it will still be an important player on the international stage. Even given the many negatives highlighted here, Japan's "irrelevance" is another matter.

that the United States must do all it could to ensure that China did not become 'the 21st century version of the Soviet bear'.<sup>19</sup>

Taiwan is a key source of friction in Sino–United States ties. The Bush administration has been more outspoken in its defence of Taiwan, a product of longstanding ties to the island, a respect for Taiwan's democratic and economic achievements, and concern about the strategic advantage that would be conferred if Beijing gained control of the island.

Yet, even without the Taiwan problem, relations with Beijing would be problematic. The list of American concerns is long: China's growing military capabilities, its willingness to trade with "rogue nations," the export of missile technology, Beijing's human rights policy, and unfair trade practices that are depriving American workers of jobs.

The administration's hard-line views were seemingly confirmed by the maladroit handling of the EP-3 crisis in Apr. 2001. The mid-air collision between an American reconnaissance plane and a Chinese jet fighter brought tensions to a boil and put the relationship in deep freeze. China's handling of the crisis appeared to confirm the conclusion of the Rand strategists who pointed in thinly veiled terms to the emergence of a "China threat."<sup>20</sup>

Bilateral cooperation in the war against terrorism in the wake of the Sep. 11 tragedy has taken some of the sharper edges off the bilateral relationship. President Bush has gone out of his way to extend an olive branch to Beijing. He called Chinese President Jiang prior to the United States withdrawal from the ABM (Anti-Ballistic Missile) Treaty to give him advance notice, and insisted on visiting China during his Asian tour in Feb. 2002 even though he had visited China several months before for the APEC (Asia-Pacific Economic Cooperation) leaders' summit in Shanghai.<sup>21</sup>

There is a debate in Washington over how to deal with China. Secretary of State Powell explained the complexities in testimony before Congress. "A strategic partner China is not, but neither is China our inevitable and implacable foe. China is a competitor, a potential regional rival, but it is also a trading partner willing to cooperate in areas where our strategic interests overlap. China is all of these things, but China is not an enemy, and our challenge is to keep it that way."<sup>22</sup>

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<sup>19</sup> Andrew Scobell, "Crouching Korea, Hidden China: Bush Administration Policy toward Pyongyang and Beijing," *Asian Survey* (Mar./Apr. 2002): 356.

<sup>20</sup> Khalilzad, *The United States and Asia*, p. 43.

<sup>21</sup> See Ralph Cossa, "Powell Speaks ... Was Anyone Listening?", *Comparative Connections* 4, No. 2 (Jul. 2002).

<sup>22</sup> Scobell, "Crouching Korea," p. 364.

The only certainty in relations with China is that treating Beijing like an enemy will guarantee that it becomes one. Some in the United States would welcome that outcome. The hawks are eager to relive the “victories” of the Cold War. The lesson they learned from that tumultuous period — and the Reagan years in particular — is that the failure to go toe-to-toe with an adversary is equivalent to capitulation. For them, “peaceful coexistence,” or “engagement” in the Chinese context, merely helps the enemy survive.

But it is important to recognise that the hawks are merely one part of the American strategic community and are by no means dominant, even though they appear to have the upper hand at present. The proper characterisation of American strategy is that Washington is hedging. If China achieves the major power status that it seeks, will it become more secure or more arrogant? Will its achievements inspire the Chinese people to focus on acquiring more wealth and prosperity, or will the nation seek redress for past grievances, real and imagined?

Given the many uncertainties, the only prudent strategy is to be prepared for every contingency. Thus, the United States is strengthening relations with its allies, particularly Japan, and keeping a close watch on Chinese military developments. Washington continually promises that it bears no hostile intent toward China, but it does little to turn those words into gestures. In an atmosphere that is largely devoid of mutual trust, “hedging” increases suspicion and reinforces the action-reaction cycle in which the United States and China appear to be locked.

### Squeezed Out of the Korean Peninsula?

The impact of the changing fortunes of Japan and China is becoming apparent in Northeast Asia. Traditionally, Seoul has looked reluctantly to Tokyo for its benchmarks and despite the ugly past, many post-war South Korean governments turned to Tokyo for economic and regional leadership. Japan was the guidepost: its economic accomplishments set the standard; its corporate and business model shaped Korean thinking and the development of the *chaebol*.

But the combination of Japan’s decline and China’s rise are reorienting the Korean compass. Since the end of the Cold War, governments in Seoul have turned increasingly toward China as they contemplate the future. Ten years after the normalisation of diplomatic relations between Seoul and Beijing, South Korean businesses view China as the market of the future. South Korea was China’s sixth largest trading partner in 2001; total trade reached \$39.9 billion. China passed Japan in 2001 to become South Korea’s second-largest trading partner and surpassed the United States as South Korea’s number one destination for foreign investment; Korean investment in China reached \$2.2 billion in 2001. It is estimated that trade

between the two countries will top \$100 billion when Beijing hosts the Olympics in 2008.<sup>23</sup>

Over one million South Koreans visited China in 2000. There are nearly 1,800 Korean corporate offices on the mainland and more than 60,000 South Korean long-term residents in China. There are 13,000 Koreans studying in China, a figure roughly comparable to the total number of Korean students in the United States between 1953 and 1975.<sup>24</sup>

Just as important has been the recognition that Seoul needs Beijing on its side to maximise its leverage when dealing with North Korea. While it is unclear whether Beijing in fact has the ability to move Pyongyang, China has historically had both influence over and interest in developments on the peninsula. It makes sense for South Korean policy makers to hedge their bets. Thus, "... for Korea, the 'rise of China' has been real and concrete in economic, military, diplomatic, cultural and perceptual terms."<sup>25</sup>

The shift in South Korean attention towards China leaves Seoul with a lesser stake in the maintenance of good relations with Japan. The primary objective is securing better relations with North Korea. The critical question is what Beijing will demand in return. China is unlikely to be happy with a continued United States military presence on the Korean Peninsula post-unification. Given the difficulties in the United States–Korea relationship and the belief among segments of the South Korean public that the United States is the chief obstacle to better relations with Pyongyang, the long-term prospects for positive trilateral relations among Seoul, Washington, and Tokyo look increasingly slim. The proper response to this development can be found in the concluding section of this paper.

## Southeast Asia: The Main Battlefield

The real competition for influence between Japan and China is taking place in Southeast Asia. Like Northeast Asia, the region has traditionally been considered part of Japan's "sphere of influence."<sup>26</sup> Since the 1960s, Japan has worked to build solid relations with Southeast Asian governments. Originally, Japan saw the region as a source of raw materials. As Japanese businesses moved up the production ladder and Southeast Asia developed, the region became the natural location for Japanese investment and

<sup>23</sup> Scott Snyder, "China–Korea Relations: Transit, Traffic Control and Telecoms: Crossing the 'T's' in Sino-Korean Exchange," *Comparative Connections* 4, No. 1 (Apr. 2002).

<sup>24</sup> Jae Ho Chung, "Korea Between Eagle and Dragon: Perceptual Ambivalence and Strategic Dilemma," *Asian Survey* (Sep./Oct. 2001): 783.

<sup>25</sup> *Ibid.*, p.785.

<sup>26</sup> See, for example, Lam Peng Er, "Japan–Southeast Asia Relations: Trading Places? The Leading Goose and Ascending Dragon," *Comparative Connections* 4, No. 1 (Apr. 2002).

outsourcing of production. “Japanese leaders have long viewed the country’s Asian regional base, within which the national economies were seen as a ‘flock of geese’ with Japan in the lead, as a source of competitive advantage.”<sup>27</sup>

The United States encouraged Tokyo to engage Southeast Asia. Japan was to serve as the American deputy — without the six-shooter — when the sheriff was otherwise occupied. Throughout the Cold War, Washington saw the Japanese presence as a bulwark against communism. Japanese aid and investment helped these countries develop, and economic development was thought to be the best vaccine against the communist virus. And if those policies inoculated Japan against the Red menace better still. Over time, however, those countries became significant economic powers in their own right and United States interests shifted accordingly. As Assistant Secretary of State Jim Kelly pointed out in a recent speech, “ASEAN is our third largest overseas market after NAFTA and Japan. Americans shipped exports worth \$43 billion of ASEAN countries last year and imported \$76 billion worth of goods.”<sup>28</sup>

The United States has other reasons to be concerned about the region. With a population of over 500 million, Southeast Asia could be a major voice on the international stage. The United States State Department has identified the region as a “site of potential al-Qaeda hubs” and is considered the second front in the war against terror. Southeast Asians and Americans worry about economic stability, counter-terrorism, human smuggling, narcotics trafficking, infectious diseases, and environmental degradation.

Now Beijing is encroaching on Japan’s turf. China has been relentless in the pursuit of aggressive diplomacy to build better relations with Southeast Asian governments. China’s economic dynamism has shifted the terms of Beijing’s engagement with Southeast Asia. Before 1997, Southeast Asia was the preferred destination for foreign direct investment. After the Asian economic crisis, China is now number one. John Wong of the East Asian Institute, Singapore, has quantified the shift: “China has become the world’s most favoured destination of all developing countries since 1993. From 1988 to 2000, China’s realised FDI grew at an average rate of 23 per cent per annum, to reach a cumulative total of \$339 billion. In fact, China in recent years has captured about 70 per cent of all FDI in Asia.”<sup>29</sup> China is Asia’s 21st-century debutante, the apple of every investor’s eye.

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<sup>27</sup> Kenneth B. Pyle and Eric Heginbotham. “Japan,” in *Strategic Asia: Power and Purpose 2001–02*, ed. Richard H. Ellings and Aaron Friedberg (Seattle: National Bureau of Asian Research, 2001), p. 106.

<sup>28</sup> James Kelly, “Some Issues in United States–East Asia Policies” (speech to the Asia Society, Washington, DC, 4 Apr. 2002).

<sup>29</sup> John Wong, “The Rise of China: Challenges for the ASEAN Economies” (paper prepared for ASEAN and the Emergence of East Asia Regionalism conference, Hanoi, 27–29 May 2002).

As the funds flow to the mainland, Southeast Asian governments are reaching a new accommodation with Beijing. The most far-reaching initiative is the free trade area China has proposed with ASEAN that would solidify the association's ties to China. While ASEAN nations are wary of deeper involvement, they apparently feel that they have little choice.

According to Michael Marti, "China's ultimate goal is to create a yuan-based sphere of influence, dominated by its economic and military power. In short, China is intent on establishing itself as the regional hegemon, thereby ending United States pre-eminence in the Pacific."<sup>30</sup> Robert Sutter, a long-time China hand and former national intelligence officer, paints a slightly less menacing picture. "China wants to be in a position of sufficient strength (with both positive and negative incentives — carrots and sticks) so that other countries in the region will routinely take China's interest in equities into account in determining their own policies. Beijing wishes to be seen as the leading power in Asia and not as lower in prestige or regional influence than its neighbours. It also wishes to project military capability sufficient to counter hostile naval and air powers."<sup>31</sup>

China's rise has been facilitated by Japan's own difficulties. A decade of stagnation has taken the shine off the attractiveness of the Japanese economic model. A focus on domestic politics has prevented Japan from matching China's initiatives. At the beginning of 2002, Prime Minister Koizumi Junichiro toured the region and was expected to make a counter-offer to the China–ASEAN FTA. Instead, the prime minister was blocked by the Japanese agricultural lobby, which opposes any broad trade deal that might open the country's markets to foreign competition.

Economic woes have forced the banks, a critical instrument of the Japanese presence, to scale back. According to the Bank of International Settlements, "the balance of Japanese bank loans to Asian borrowers dominated in foreign currencies stood at some \$50 billion as of the end of 2001. That's about 10 per cent less than a year earlier, marking the fifth year-on-year decline and a 57 per cent drop on 1996."<sup>32</sup>

As a result, "Japan is generally (although not universally) disregarded as a force in Southeast Asia, certainly in the near term. Its continued economic weakness and reluctance to deploy military strength to support international security initiatives

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<sup>30</sup> Michael E. Marti, "The Seduction of Japan," *The Jamestown Foundation China Brief* 2, No. 1 (3 Jan. 2002). Marti's views are very hawkish, but they do reflect an important strand in United States thinking about China.

<sup>31</sup> Robert Sutter, "China's Recent Approach to Asia: Seeking Long-term Gains," *NBR Analysis* (National Bureau of Asian Research) 13, No.1 (Mar. 2002).

<sup>32</sup> "Falling Loans Threaten Asian Currency Initiatives," *Asahi Shimbun*, 11 Jul. 2002.

are noted as indicating that the country has little to offer (or threaten) the sub-region.”<sup>33</sup>

## Moving Beyond Competition

The evolving geopolitical landscape will necessitate adjustments in United States policy.<sup>34</sup> Radical shifts are not needed. The regional alliance system that currently exists is an important foundation for American involvement within the region. Those alliances must be modified, however, to reflect new international realities.

The United States–Japan alliance is an essential element of regional peace and security, serving the interests of both nations and all the other countries of the region. However, the United States will need to lower its expectations of what Japan can deliver. The country is in a period of soul-searching and its energies will be focused inward for the foreseeable future. Washington must accept the limits of Japanese capabilities and ambitions. A division of labour that accepts Japanese contributions in the diplomatic, financial and economic realm — while subordinating military issues — is vital. Most important, the two governments must closely coordinate policies to ensure that nothing slips through the cracks.

In Northeast Asia, the task is more complex. The “virtual alliance” of the United States, Japan and South Korea has served the three nations well, but it must adapt to a post-Cold War world if it is to survive into the 21st century.<sup>35</sup> They should adopt a “values-based relationship” that stresses their common outlook and the liberal-democratic values, norms, and institutions they share. It would give citizens in each country positive values with which to associate their alliance — regional peace and security, the propagation of freedom — rather than seeing the bilateral relationships as something to define themselves in opposition to, as is often the case in Korea and Japan.<sup>36</sup>

In Southeast Asia, the United States needs to work with Japan to guarantee regional peace and stability as well as access to regional markets and government councils. In this area, the division of labour is important — and easier, since there is less overt hostility to Japan in the region.

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<sup>33</sup> Jim Rolfe, “Security and Southeast Asia: It’s Not about the War on Terrorism,” *Asia-Pacific Security Studies* 1, No. 3 (Jun. 2002).

<sup>34</sup> See, for example, *Country Forecast: Asia and Australia, Regional Overview* (Economist Intelligence Unit, 15 Oct. 2001), p. 2.

<sup>35</sup> Ralph A. Cossa, ed., “United States–Korean–Japan Relations: Building Toward a ‘Virtual Alliance’,” *CSIS Significant Issues Series* (Nov. 1999).

<sup>36</sup> For a more detailed explanation of this process, see Victor D. Cha, “Values After Victory: The Future of United States–Japan–Korea Relations,” *Comparative Connections*, Special Annual Edition (Jul. 2002).

There needs to be engagement across a spectrum of issues and interests. Continued economic aid and assistance, access to Western markets and technology, and a less strident approach to human rights and governance will pay dividends. All of these elements are natural elements of Japanese foreign policy and diplomacy.

In particular, the United States must avoid the temptation to focus narrowly on the question of terrorism. Washington must accept that Southeast Asian governments are more insular than expected; that outlook will shape regional responses to United States requests. In all these dimensions, coordination with and perhaps even learning from Tokyo will be especially valuable.

## Balancing the Strategic Triangle

Managing the trilateral relationship between the United States, Japan, and China will be the core challenge in the years ahead. Given the interests and concerns shared by the three governments, that is not impossible. Mutual suspicion will ensure that it is not easy either.

China's leaders understand that they need a peaceful and stable international environment to pursue their goal of economic development. Since the EP-3 collision, Beijing has done its best to smooth relations with Washington. In the aftermath of the terrorist attacks of Sep. 11, some United States–China watchers say cooperation between the two countries has reached “unprecedented” levels and argue that the governments have laid the foundation for a more stable relationship in the future.

Relations with Japan are more complicated. As historian Akira Iriye has noted:

The Chinese and Japanese have lived as Asian neighbours for nearly 2,000 years. Being geographically so close and yet psychologically quite remote, despite their common cultural roots, the two peoples have developed a sense at once of commonality and disparity, independence and autonomy, mutual respect and suspicion, attraction and repulsion, and admiration and condescension toward one another. They have talked of their shared heritage and their identity as Asians, but did not hesitate to seek outside assistance to fight against one another. They have contributed to each other's cultural and modern transformation, but the patterns of development have been vastly dissimilar. Throughout, the fact of their existence and the patterns of their association had been among the most enduring features of the history of East Asia.<sup>37</sup>

Although the mainstream view in China is that Japan has no role to play in regional security affairs, there is slowly emerging a realist strand in Chinese thinking that accepts

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<sup>37</sup> Akira Iriye, *The Chinese and the Japanese: Essays and Political and Cultural Interactions* (Princeton: Princeton University Press, 1980), p. 3.

an enhanced presence in East Asia.<sup>38</sup> But China is confused about what Japan wants — and rightfully so, as it is not clear that Japan knows what it wants. There is an opportunity for strategic dialogue between the two governments, and a trilateral discussion would make the most sense given the role the United States plays in Japan's national security policy. Such a dialogue would be a confidence-building measure in its own right and could provide the foundation for a broader strategic framework for the three governments.

Every government has a stake in seeing the incipient rivalries — Japan–China, China–United States — contained. Neither Japan nor China has any desire to spend more money than necessary on the military. Both need to channel precious resources to more efficient sectors of the economy. Most Asian governments do not want to be caught between the eagle and the dragon. They want to stay on good terms with Beijing, while enjoying the benefits of American trade, investment, and its security presence.

Ultimately, cooperation is the only real option. Japan and the United States account for about 40% of the global economy, and China's entrance into the WTO and rapid development will give it a larger role in the regional economy. The United States and Japan can help Beijing cope with the stresses created by WTO membership. The United States and China are nuclear powers with permanent seats on the United Nations Security Council, a status that Japan is trying to claim for itself. Cooperation among the three is a must.<sup>39</sup>

Equally important is a renewed appreciation of what constitutes a “normal” relationship among nations. It is all too easy — and too common — to couch the various bilateral relationships in terms of cooperation *or* competition, rivalry, or conflict. In fact, there will be elements of all four in any normal relationship. Even close allies, such as the United States and Britain, do not agree on all issues at all times. The trick is managing the relationship to ensure that the disagreements do not overshadow shared interests and objectives.

This brings us back to the structural imbalances in the trilateral relationship. As allies, the United States and Japan will be better capable of managing the difficulties that arise between them. Neither country has a similar shock absorber when it comes to dealing with China. It is therefore imperative that the three countries create more regular channels for dialogue and exchange of views. Fortunately, it appears that those efforts are already beginning. Unfortunately, there is a long way to go.

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<sup>38</sup> Brad Glosserman, “Becoming ‘Normal’ in Exceptional Times,” *PacNet Newsletter*, 25 Jan. 2002.

<sup>39</sup> Jane Skanderup and Brad Glosserman, “United States–Japan–China: Developing Stable Trilateral Ties,” *Issues and Insights Series* No. 4-01 (Aug. 2001).