

East Asian Stability and the US-Japan-UK Alliance

Distinguished guests, ladies and gentlemen -

I can guess why I was invited to participate in this conference. One of the most difficult security challenges faced by both the UK and Japan is the management of their ally the United States . . .

Having spent three years studying in the UK, and three years driving a ship in Japan, I suppose I can help with this challenge.

More seriously, as an American with many colleagues and friends in both Japan and the UK, I believe it is important and positive that these two allies are rejuvenating their relationship in the security area. Stronger security relationships between these two countries can only be positive for the United States.

Renewal and updating of Japanese-UK relations take place against the backdrop of a very dynamic East Asian security landscape. The United States for over three decades has been the most powerful supporter of the fundamental Asian security architecture that has maintained generally peaceful relations in this part of the world. This security architecture, along with the American-led free trade system and open market, has provided the foundation for the phenomenal economic, as well as political, development first in Japan, then in the Asian tigers, spreading to other Asian countries, and, most recently, to China. It is this economic growth, and the corresponding political weight of the

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region that will make East Asia a dominant center of the world in the 21st century.

However China's size, history and conception of its place and role in the region are now posing a challenge to the system that allowed it to grow in the first place. The key to continued development in the region, development that has hugely benefitted China's citizens, is for China to assume a leadership role that maintains the security and economic system, as well as its own continued development. Bob Zoellick's phrase is still accurate - the challenge for China is to become a "responsible stakeholder."

China has recently changed its government, and changes may be coming in its policies, but let me take a few minutes to describe the important China-related security issues of the past few years.

Three major sets of developments in recent years have been the most important: the China-Taiwan relationship; China's assertiveness with its neighbors; China's domestic economic weaknesses.

One of the most striking and positive recent developments has been China-Taiwan relations. Five years ago Taiwan was the single most important, and a very contentious, factor in the US-China relationship. It had been so for the previous decade. However Ma Ying-jeou's election in 2008 started a new era in China-Taiwan relations. President Ma's predecessors had tested the limits of both the Taiwanese electorate's support for and the Chinese government's tolerance of steps towards independence. It was clear that the

Taiwanese people were more interested in practical steps towards better relationships with China than they were in symbolic gestures that antagonized it. At the same time, China had learned that heavy-handed attempts to intimidate the Taiwanese people with military demonstrations, to blackmail Taiwanese businesses and endorse specific parties and candidates, were counterproductive. Both sides were ready for a new phase in their relations, and President Ma's policy of the "three no's" (no unification, no independence and no use for force) provided a sound basis for a fresh start.

Since then China and Taiwan have made steady progress on a series of agreements in transportation, financial and cultural relations that have removed many of the impediments to much greater business and personal contact across the Taiwan Strait. It is striking how Taiwan has moved from the central place in China's international concerns to a secondary position. Before 2008 the first half hour of any meeting of a foreign leader with a Chinese official would be devoted to a Taiwan; now there are meetings in which the subject never comes up.

However this absence of the barking dog is less reassuring than it seems. The issue of sovereignty between Taiwan and China has been postponed, not resolved. According to polling data, the citizens of Taiwan are less and less thinking of themselves as Chinese, and fewer every year actually believe that they are part of "one China." They have no desire to cede to Beijing the influence that, for example, the citizens of Hong Kong have been forced to give up. China, as it grows in economic and military power, increasingly believes that others, especially Taiwan, will have to bend to its will and

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China in future will probably be less willing to concede to Taiwan a *de jure* recognition of the *de facto* autonomy it now enjoys.

Taiwan is probably willing to put off any discussion of the sovereignty issue indefinitely, but China is not. The other countries in the region and in fact around the world, need to be thinking through the actions they would take should the China-Taiwan relationship heat back up and resume center stage in China's external strategy. Better yet, the countries in the region should be thinking through a more positive approach than waiting and hoping. How can we encourage China and Taiwan to reach a peaceful resolution of their political differences?

If the Taiwan issue was surprisingly quiet in recent years, China's relationships with its neighbors in the South China Sea and in the East China Sea have been surprisingly confrontational. It was only a decade ago that China signed the Declaration of Principles for resolving disputes in the South China Sea, and made no claims on the Senkakus.

The Chinese claim that it was more aggressive pressing of their territorial claims in the South China Sea by Vietnam and the Philippines, in particular, that derailed the peaceful progress of prior years. They claim that it was Japanese actions in what they call the Daioyus - arrest of a Chinese fishing boat captain and the purchase of the islands by the Japanese government - that upped the ante there. Most other countries are convinced that it was China's more aggressive military and diplomatic actions that caused the cycle of confrontation and crisis of the past several years. However it started, the cycle of military deployments, diplomatic claims and intense media focus in all

countries, has now been firmly established. Fortunately to date all military actions have been shows of force rather than uses of force, but there is always the danger of escalation.

China's behavior during this period, however, has been a rude shock to those who believed in its commitment to peaceful development. In Southeast Asia in particular, China's economic and diplomatic strategy had been generally admired as masterful. It used access to its own import market for influence with more advanced countries like Singapore, Thailand and Vietnam, and generous development projects for the poorer countries like Cambodia and Laos. It sent skilled diplomats to ambassadorial posts who presented the most benign possible picture of China's intentions and actions. In 2002 it had signed a declaration of principles for the settlement of maritime disputes in the South China Sea that renounced the use of force in favor of negotiated peaceful settlements.

Yet in July of 2010 another face of China showed itself at a meeting of the ASEAN Regional Forum in Hanoi, as foreign minister Yang Jiechi lectured his fellow diplomats in strident tones, "China is a big country and other countries are small countries and that is just a fact."

Several factors formed this different and more aggressive Chinese approach. At the heart of it seemed to be a Chinese idea that rather than its interests and ambitions being stable and limited, they grew commensurately with Chinese relative power. By 2010 China had not only weathered the world economic recession, but had assisted other Asian countries to do so also. That recession, which had spread to

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much of the world, had been started by the United States, and the United States, and Western Europe had not yet recovered from it.

China's GDP had surpassed Japan's and predictions of the date of its overtaking the United States were shortening. Much of China's military buildup had gone into its Navy and Air Force units in the south, where the South China Sea was their operating area. The Chinese acted as if this greater economic and military power in Southeast Asia meant that other countries now owed them new concessions on old issues. Even the seasoned and careful observer Lee Kwan Yew of Singapore says in his most recent book that China's definition of its interests seems to be elastic and expanding.

The reaction of China's neighbors was to band together to oppose Chinese demands, to increase their defense spending and acquisitions, and to turn to the United States for support. Seeing this reaction, China seemed to realize that it had overplayed its hand. State Councillor Dai Bingguo published an authoritative article reiterating China's commitment to peaceful development, President Hu Jintao in his January, 2011 trip to the United States did the same in all his public statements, and the immediate crisis passed. Later in 2011 China agreed to develop further the declaration of principles for the settlement of maritime disputes.

However the memories of 2010 remain vivid in the minds of China's neighbors. In addition, Chinese military deployments in both the South China Sea, especially near the Philippines, and around the Senkaku/Diaoyu islands have continued and increased in their level and aggressiveness. Targeted economic measures against the

Philippines, Japan and Vietnam have continued. Yang Jeichi - he of the big and small countries outburst - has replaced Dia Bingguo as State Councillor.

The nature of China's future security policies will be determined in large measure by its economic performance. Behind the impressive overall growth numbers of recent years problems are arising. China's economic growth began in 1979 when it decided to open to the rest of the world. It followed the path already blazed by its neighbors in Asia - Japan, South Korea, Taiwan, Singapore, Hong Kong - freeing the private sector of the economy, welcoming foreign investment, exporting manufactured goods, and investing in infrastructure.

This formula worked well, resulting in roughly 10% GDP growth rates, moving hundreds of millions of China's citizens out of poverty, and providing a justification for its continuing grip on power for the Chinese Communist Party, which had abandoned both its ideological justification and its responsibility to provide planned and reliable jobs, goods and social services to its citizens.

However it has become clear to thoughtful Chinese in the last few years that the economic development model of the past thirty years has run its course. It has resulted in income inequality and corruption that are among the highest in the world, and major sources of domestic discontent. It has resulted in damage to the environment - foul air in major cities and polluted rivers in many regions - that arouse citizen anger and calls for action. The foundations of sustaining the old model have been undermined. Wages are rising rapidly throughout the country, adding to the cost of exports; import markets

in the developed world are shrinking, and aggressive Chinese policies of indigenous innovation, protection of a low exchange rate for its currency and use of punitive economic measures for political purposes are provoking backlash in its former export markets. Capital expenditures on infrastructure, a major component of GDP growth in the past, have exhausted their purpose and are not productive any longer. Most economists believe that state owned enterprises are destroying value rather than creating it. Despite the gains of the past, there are more Chinese below the poverty line today than there were in 1979, when the current burst of development began.

In the face of all these imperatives for change, the Chinese political leadership system has grown more conservative, careful and slow. It relies on consensus, and the circle of those who must give their consent to major policy decisions represents entrenched political and economic interests in the country with large stakes in the current system. It is difficult to imagine that another Deng Xiaoping, or even another Zhu Rongji could emerge with the personal stature and authority to take the unpopular decisions that are needed to shift to a consumption-based economy with a private sector that is growing again, much less to institute the democratic reforms that would root out corruption and inequality in the party itself and in the country. The Xi Jinping government is attacking high-level corruption by well publicized investigations of a few prominent figures, but it is unlikely that this approach will have far-reaching effects. Modest steps like the creation of experimental economic zones in Shanghai will be difficult to translate into structural transformation of the Chinese economy.

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What happens within the economy and domestic governance of China will be the most important indicator of the course of its future, and those of us in countries that deal with China should watch closely. The safe bet is that China will muddle through in the near future, with reduced but still significant economic growth and slow progress on its many problems. A dramatic shift to consumption-based economic growth and strengthening of more open media and social communication and the independent rule of law would be welcome; greater repression to control instability resulting from continued high levels of inequality, corruption, pollution and lower levels of growth would keep Chinese leadership attention focused at home, but would be bad for the Chinese people, with the potential for domestic violence and tension in the region.

With this sort of uncertainty about the future of China - the country whose development will play the largest role in the future of the East Asian security architecture - what is the best policy for Japan, the United States and the United Kingdom ?

Our strategy should be a blended set of policies towards China, with an emphasis on the positive.

We should continue to do business with China, while encouraging it to improve its compliance with WTO norms, especially to protect intellectual property, and to shift to a consumption-led economy. China is welcome to join the leadership of international economic and security structures. However it cannot view its responsibilities in those structures as only benefitting China. It must adopt policies and take

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actions that will allow the international business, financial and trade systems to function for the benefit of all - this means adjusting China's currency closer to its real value; this means protecting intellectual property of international companies that compete with Chinese companies; this means refraining from using economic measures to intimidate or retaliate against countries with which China has political disputes.

We should continue to encourage China to join formal and informal international bodies to deal with common concerns from halting the spread of nuclear weapons to dealing with climate change to handling North Korea to ensuring the free flow of energy around the world.

But at the same time, those whose futures will be affected by China need to maintain relationships such as the US-Japan alliance, and the US-UK alliance, along with the military capability to handle China's rapidly growing naval and air capability off its coasts. American and Japanese military capability in Asia is not for aggressive purposes - and there is a 50-year record that verifies this assertion. The military power of the United States and its allies in the region have rather deterred the use of military force within the region, allowing for the economic growth that has benefitted the people and countries of the region. However the future course of China is uncertain, and those who deal with China must have ways to deal with a powerful and aggressive China if it develops in that direction.

I should also emphasize that a related challenge for both China, on the one hand, and the United States, Japan and the United Kingdom, on the other. None of us should allow worst-case assumptions and

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mutual suspicion to undermine more positive aspects of the relationships. Prudent military preparations do not mean military containment of China. A hedging strategy is not a ruse for aggression.

What is it that the United States expects of long-time allies like Japan and the United Kingdom ?

There is a limited number of countries in the world that feel a responsibility to support the formal and informal agreements, understandings and practices, that underlie the world economic and security order from which all nations benefit. There are fewer still that have and are willing to spend diplomatic capital and effort, economic resources and military deployments to support them.

The international order is not a *pax Americana* nor is it the orderly and lawful world envisioned in the UN Charter. It is a much more modest, but vital construct in which there are limits on aggressive international and brutal domestic behavior, and dictators are contained, and on occasion removed from power. It is an order in which massive suffering is relieved. On the economic side, it is a general commitment to freer trade and to making compromises in economic disputes in the interest of greater common prosperity. It is an order in which international cooperation is expected to deal with cross-cutting common dangers from global warming and environmental pollution to drug dealing and international crime. The United States counts on the United Kingdom as one of the handful of countries that feels the responsibility for supporting these arrangements, and for contributing real resources, commensurate with its size, to addressing the challenges to the order when they break out. It would like to count on

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Japan in the same way, and there are many hopeful signs that Japan is moving in this direction. Certainly Prime Minister Abe, and I would suspect most Japanese attending this conference, favor Japan's development in this direction. The challenge is to bring the Japanese people along.

Finally, returning to my opening light-hearted comment, I believe that Japan and the United Kingdom can learn from one another about helping the United States to achieve common goals.

For example, American friends of Japan would like Japan to develop the close working relationship with the United States that the UK has developed:

- ambassadors and their country teams working closely together in the world's trouble spots and in the headquarters of international organizations;

- military commanders and their staffs and units continually planning and exercising with American regional commands;

- intelligence agencies and their American counterparts continually comparing views of developments in the world, both ongoing and potential.

- embassies in each other's capitals interacting continually with US departments and agencies across the full range of issues, counterpart

officials in Tokyo in constant direct communication with counterparts in Washington and London.

In short, Japan should develop a dense and routine set of relationships with Washington and London based on a common view of the world's challenges and commitment to work on them together.

Let me conclude by summarizing a few major points:

- Since the end of the post-colonial wars in Southeast Asia in the mid-1970s, East Asia has experienced a period of economic and political development that has enormously benefitted its citizens;
- Enabling that development has been a security framework, led in large measure by the United States, consisting both of defensive alliances and deployed military force, that has deterred the use of threat of force in the region;
- China's economic, and, more recently, military development, have been enabled by that same security framework, but China's power and influence have meant that it can now challenge and shape the framework;
- Future success depends on China assuming a stronger leadership role in the region while maintaining the security and well-being of its neighbors so that broad-based development can continue;

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-The United States, Japan and the United Kingdom should help China assume that role, while ensuring the capability to protect their interests and the system in case China adopts a more aggressive course.

-The United States and the United Kingdom should assist Japan to develop the network of cooperative ties that enable them to maintain a secure and prosperous world by working together effectively on dealing with the many issues that arise a dynamic 21st century.

To the Sasakawa Peace Foundation and the Royal United Services Institute, thank you very much for inviting me to join this conference, and I look forward to your comments and questions.