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 PM / PHONE / EMAIL: Nicole Whealen 767.6354  
 BRANCH CHIEF / PHONE / EMAIL: \_\_\_\_\_  
 DIVISION CHIEF / PHONE: \_\_\_\_\_  
 DIRECTORATE / DIRECTOR / PHONE: John Byrd 767.5787  
 ENTERPRISE / OFFICE / PHONE: \_\_\_\_\_  
 PUBLIC AFFAIRS: Richard M. Cole (Chief, PA)

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# One Step Back?

## Reassessing an Ideal Security State for Northeast Asia 2025

Edited by L. Gordon Flake



THE MAUREEN AND MIKE MANSFIELD FOUNDATION

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Defense Threat Reduction Agency  
Advanced Systems and Concepts Office  
8725 John J. Kingman Road  
Ft. Belvoir, VA 22060-6201

[ASCOInfo@dtra.mil](mailto:ASCOInfo@dtra.mil)

**One Step Back?**  
**Reassessing an Ideal Security State**  
**for Northeast Asia 2025**

L. Gordon Flake, Editor  
Margo Grimm Eule, Co-Editor  
*The Maureen and Mike Mansfield Foundation*

**March 2011**

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## **Contributors**

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**Nobumasa Akiyama**, Associate Professor, Graduate School of International Law, Hitotsubashi University, and Adjunct Research Fellow, Center for the Promotion of Disarmament and Non-Proliferation, Japan Institute of International Affairs

**Andrew Elek**, Research Associate, Economics Division, Australian National University

**Thomas Fingar**, Oksenberg/Rohlen Distinguished Fellow, Stanford University

**L. Gordon Flake**, Executive Director, The Maureen and Mike Mansfield Foundation

**Ku-Hyun Jung**, Visiting Professor, KAIST Business School

**Ming Liu**, Executive Director, Institute of Asia-Pacific Studies, Shanghai Academy of Social Sciences

**Daniel Pinkston**, Senior Analyst, International Crisis Group

**Sara M. Seavey**, Program Associate, The Maureen and Mike Mansfield Foundation

**James T. H. Tang**, Professor, Department of Politics and Administration, The University of Hong Kong

**Jon M. Van Dyke**, Professor, University of Hawaii, and Visiting Professor of Law, University of California, Berkeley (Spring 2011)

**Alexander Vorontsov**, Director, Department of Korea and Mongolia, Institute of Oriental Studies, Russian Academy of Sciences



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# Preface

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By almost any account, 2010 was an unsettled year in Northeast Asia and one during which the prospects for medium-to-long range visions of regional cooperation and integration appeared to recede. The year marked the 50th anniversary of the U.S.-Japan Security alliance, yet this opportunity for looking forward was sidelined by disputes over—and the lack of progress on—longstanding plans to relocate the Futenma U.S. Marine base on Okinawa. During a time of political instability in Japan, this issue overshadowed all other areas of cooperation between the U.S. and Japan and directly impacted the leadership of the newly-elected Democratic Party of Japan government. 2010 also witnessed the rise of tension on the Korean peninsula and deterioration in regional cohesion in responding to North Korean provocations. Perhaps motivated by growing concerns about North Korean stability in the light of Kim Jong Il's failing health and the uncertainties surrounding a rushed succession plan, China scaled back its implementation of UN Security Council Sanctions resolutions imposed on North Korea and began to overtly back the Kim regime. Despite the sinking of the South Korean corvette *Cheonan* on March 26, China refused to hear the evidence on what can only be described as an act of war and essentially doubled its bet on North Korea, hosting Kim Jong Il not just once but twice in the months that followed. Tensions on the peninsula spiked further still in November as North Korea announced that it was constructing a new light water nuclear reactor, displayed what appeared to be a modern uranium enrichment facility, and for the first time since the end of hostilities in 1953 shelled South Korean civilians in an artillery barrage of Yeonpyeong Island. In addition to the very real short-term risk of escalating the conflict, these

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events exposed a growing divide in the region on how to respond to North Korea. While in the recent past the North Korea issue was once seen as a driver for regional cooperation, at least in 2010 it threatened such cooperation.

These tensions on the Korean peninsula took place in the context of perceptions of a broader fraying of the U.S.-China relationship in 2010. In addition to perennial difficulties surrounding U.S. arms sales to Taiwan and Chinese sensitivities over the Dalai Lama, other challenges to U.S.-China relations included U.S. charges that China undervalues its currency, continued limitations on military-to-military relations despite several naval incidents, and a firm U.S. response to what appears to have been a more aggressive foreign policy stance by China in territorial disputes including the South China Sea and Senkaku/Diaoyu Islands. These disputes spilled over into regional organizations including the ASEAN Regional Forum. Furthermore, Chinese policy on North Korea, coupled with their response to incidents related to the Sengaku Islands, served to push both South Korea and Japan much closer to the United States. These events, and the lack of progress toward any type of sub-regional architecture in Northeast Asia, all have potential implications for years to come.

With support from the Defense Threat Reduction Agency (DTRA) through Science Applications International Corporation (SAIC), in 2009 the Maureen and Mike Mansfield Foundation organized a series of strategy sessions and international conferences designed to carefully define the characteristics of an “ideal” security state in Northeast Asia in the year 2025. We identified divergent trends and obstacles to that ideal and in an international conference specifically focused on a prioritized number of issues with the intent of better understanding, and hopefully surmounting, those trends or obstacles that most threatened regional coordination and cooperation. The results from that first year of the project were published in an edited volume, *Toward an Ideal Security State for Northeast Asia 2025* (Mansfield Foundation, Washington D.C. 2010).

In the fall of 2010, DTRA and SAIC supported a follow-on project designed to build upon and further refine the previously defined ideal state of peace and security in Northeast Asia in the context of developments in the region in the intervening year.

## **Strategy Session with Core Group Members**

In August 2010, the Mansfield Foundation convened separate project planning meetings with core group members and representatives from DTRA and SAIC. The Foundation invited a number of the original core members who participated in the first year of this project, all renowned experts from Asia and the Pacific, to participate in a Montana strategy meeting. We also included former paper writers from our July 2009 meeting in Kanazawa, and we added a Russian representative to the core group. The primary objective of this strategy session was to take into account findings from the first year's meeting as well as recent developments in the region in the process of further refining the definition of the ideal and focusing the scope of the project on a prioritized group of issues most relevant to prospects for regional integration. Participants in the Montana strategy session also further developed a strategy and timeline for project implementation, identified new and priority issue areas, and identified the best possible international experts to serve as paper writers to participate in a November 2010 program.

The core group contained key representatives from the major countries and stakeholders in the region (China, Korea, Japan, the U.S., Canada, Russia and Australia) including:

- **Paul Bernstein**, Vice President, Science Applications International Corporation (SAIC)
- **Peter Drysdale**, Emeritus Professor of Economics and Head of the East Asian Bureau of Economic Research and East Asia Forum, Crawford School of Economics and Government, Australian National University

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- **Paul Evans**, Director, Program for Canada-Asia Policy Studies, Institute of Asian Research, University of British Columbia
  - **Gordon Flake**, Executive Director, The Maureen and Mike Mansfield Foundation
  - **Linda Greiner**, Finance Officer, The Maureen and Mike Mansfield Foundation
  - **David Hamon**, Chief Scientist & Senior Research Advisor, Office of Advanced Systems and Concepts (ASCO), Defense Threat Reduction Agency
  - **Ni Shixiong**, Professor of International Relations, Fudan University, China
  - **Alan Romberg**, Distinguished Fellow, the Henry L. Stimson Center
  - **Sara M. Seavey**, Program Associate, The Maureen and Mike Mansfield Foundation
  - **Cheol Hee Park**, Professor, Seoul National University
  - **Hitoshi Tanaka**, Senior Fellow, Japan Center for International Exchange
  - **Georgy D. Toloraya**, Professor of International Relations (Korean Studies) and Director of Korean Research Programs, Institute of Economics, Russian Academy of Sciences

During the course of the strategy meeting, the group reviewed the original proposed ideal identified during the 2008–2009 program, debated the continued relevance of each bullet point, and suggested new characteristics of the ideal that had not been previously identified or prioritized. The result was a considerably tightened list of key characteristics, numbering nine points as opposed to the previous fourteen.

## **NOTIONAL “IDEAL” SECURITY STATE FOR NORTHEAST ASIA IN 2025**

*On August 13, 2010, with support from SAIC and the Advanced Systems and Concepts Office of the Defense Threat Reduction Agency, the Mansfield Foundation convened a meeting in Whitefish, Montana in an effort to further refine a previously drafted notional “ideal” security state for Northeast Asia in the year 2025. While this ideal was geographically focused upon Northeast Asia, the discussion incorporated the role and interests of the United States and broader international factors that impact upon the region. A core group of participants from Australia, Canada, China, Japan, Korea, Russia, and the United States identified the following nine characteristics as representative of an ideal security state for Northeast Asia in the year 2025:*

- In the context of regional harmony, all countries are satisfied that their national interests are being respected and that effective mechanisms exist to address common security and other interests.
- Tensions on the Korean peninsula have been eliminated. In particular, the North Korea issue is no longer a source of contention or instability and the Korean peninsula as a whole participates in regional cooperation and economic development.
- Northeast Asia has developed an effective framework or institutional mechanisms for addressing and managing security concerns, including territorial issues.
- Northeast Asia as a region upholds common and mutually accepted international rules, norms, and standards. The security of the region is enhanced by respect for democratic governance, social and economic justice, and human rights.

*continued on page 12*

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**NOTIONAL “IDEAL” SECURITY STATE** *continued*

- Economic interaction in the region is characterized by open trade and investment, lower barriers to cooperation and development, and integration within the broader regional and global economies.
- Bilateral relationships in the region are characterized by cooperation and complement regional relationships.
- All countries in the region strongly support international efforts to prevent the proliferation of weapons of mass destruction and work collaboratively in pursuit of that goal. The region is characterized by the low salience of nuclear weapons, the absence of nuclear competition, and the successful development of civil nuclear energy infrastructures that do not create proliferation risks.
- The region plays a leading role in addressing long-term issues such as energy security, climate change, environmental degradation, and resource depletion.
- Governments and civil society in Northeast Asia collectively address non-traditional security challenges such as terrorism, pandemics, demographic change, natural disasters, etc.

The above ideal was not intended to be a stand-alone document, but rather a tool in the overall process of facilitating a more focused and meaningful policy dialogue within the region. Based on this ideal, participants in the Montana strategy session then identified a list of divergent trends, obstacles, or other factors that were likely to impact on the defined ideal. They then carefully reviewed this rather lengthy list of divergent trends and other relevant factors and engaged in a prioritization exercise based upon the imminence, importance, and receptivity to policy prescriptions of the listed factors. The product of this exercise was a list of five key issues

related to the ideal, which in turn formed the content of the three-day international workshop in Korea in November 2010. Finally, members of this core group assisted the project planners in identifying qualified scholars from throughout the region to conduct research and write policy papers on the core issues on the agenda.

## **Regional Experts Workshop**

Following the strategy session in Montana, nine leading scholars from the United States and Northeast Asia prepared working papers on the following five topics:

- Nuclear Order in Northeast Asia: The Role of Nuclear Weapons in the Region, Nonproliferation, and the Tension between Disarmament and Deterrence
- The Role of Northeast Asian Leadership in Addressing Global Economic Imbalances: Prospects and Sustainability of the G-20 and Regional Economic Infrastructure
- Maritime Security in Northeast Asia: Naval Competition and Maritime Safety
- Alternate Visions on the Trajectories of the Role and Influence of China and the United States in Northeast Asia and the Resultant Power Configuration in the Region
- Northeast Asian Regional Policy Coordination in an Era of Fundamental Change in North Korea

Paper authors joined with the core group of scholars from the Montana strategy session in November 2010 for a workshop and public conference in Busan and Seoul, South Korea, respectively. Each author was asked to address the state of play of the issue and its relationship to the ideal, and to make specific policy recommendations to reduce the degree of divergence between the current trends and the identified ideal. The edited chapters that follow represent papers as modified following a productive and thought-provoking exchange in Busan.

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Daniel Pinkston (Senior Analyst, International Crisis Group) and Nobumasa Akiyama (Professor, Hitotsubashi University) both addressed **“Nuclear Order in Northeast Asia: The Role of Nuclear Weapons in the Region, Nonproliferation, and the Tension between Disarmament and Deterrence.”** Dr. Pinkston questions and dissects the historical role of nuclear weapons in the region and examines how the region’s history and other variables impact Northeast Asia’s nuclear landscape. Professor Akiyama explores the security paradox of nuclear deterrence and the challenges involved in achieving nuclear disarmament. He also discusses the importance of the U.S.-China strategic relationship and alliances in shaping the ideal strategic environment in Northeast Asia.

Given the focus last year on the South China Sea and the Senkaku Islands, we were fortunate to have an excellent paper from Jon M. Van Dyke (Professor, University of Hawaii) on **“Maritime Security in Northeast Asia: Naval Competition and Maritime Safety.”** Professor Van Dyke outlines the numerous maritime disputes and other obstacles that have made it difficult for East Asian countries to work together and proposes diplomatic strategies for addressing them. He suggests that making progress toward resolving these challenges is critical to strengthening regional cooperation in Northeast Asia, which he notes is urgently needed to protect common environmental resources.

Another timely topic in the context of Seoul hosting the November 2010 G-20 summit is **“The Role of Northeast Asian Leadership in Addressing Global Economic Imbalances: Prospects and Sustainability of the G-20 and Regional Economic Infrastructure.”** We had two excellent papers by Ku-Hyun Jung (Visiting Professor, KAIST Business School) and Andrew Elek (Research Associate, Economics Division, Australian National University). Dr. Jung argues a multilateral mechanism is needed to correct the global imbalance and suggests the G-20 as an appropriate venue for addressing macro-economic issues and designing a new financial structure. Dr. Jung also examines the potential impact of various free trade agreements (FTAs) in the region. While he notes that it is difficult

to speculate on the possibility of a regional FTA in the next ten years, he predicts economic interdependence will increase as long as regional peace is maintained. Dr. Elek argues that the G-20 offers an excellent opportunity to shape a global economic and security environment and that Northeast Asia should integrate through open regionalism and cooperative arrangements, like ASEAN and APEC, but not through discriminatory free trade agreements and transpacific partnerships. Dr. Elek continues to argue for an outward-looking approach to economic cooperation in Northeast Asia that will reduce poverty, boost productivity, and reduce gaps in living standards.

On the question of **“Alternate Visions on the Trajectories of the Role and Influence of China and the United States in Northeast Asia and the Resultant Power Configuration in the Region,”** James Tang (Professor, Department of Politics and Public Administration, The University of Hong Kong) presents a paper on “Northeast Asia Without the United States: Towards Pax Sinica?” His paper explores five possible paths for Chinese dominance, but concludes that even without a strong U.S. presence in the region, Asia is unlikely to be fully Sino-centric. Moreover, new alliance relationships will emerge to challenge Chinese dominance. Ultimately, Dr. Tang argues that countries in Northeast Asia need more trust and a concrete vision for regional cooperation. Thomas Fingar (Oksenberg/Rohlen Distinguished Fellow, Stanford University) similarly argues that the degree to which the United States and China interact as either partners and or rivals will be one of the most important determinants of what happens in Northeast Asia. He emphasizes that trust and comprehensive dialogue is necessary for their relationship and that wildcard issues—like Taiwan, DPRK, and territorial disputes—will be difficult, but not impossible, to overcome with patience and time.

On the difficult issue of **“Northeast Asian Regional Policy Coordination in an Era of Fundamental Change in North Korea,”** Alexander Vorontsov (Director, Department of Korea and Mongolia, Institute of Oriental Studies, Russian Academy of Sciences) focuses on the need for a multilateral security

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system in Northeast Asia, while remaining skeptical about the prospects for such. He paints a dark picture for the possibility of a regional security forum in Northeast Asia. In contrast, Ming Liu (Executive Director, Institute of Asia-Pacific Studies, Shanghai Academy of Social Sciences) points more optimistically to the regional powers' successful experience with policy coordination in the Six-Party Talks. He suggests that successful Six-Party Talks could evolve into a Northeast Asian security mechanism, but notes that a number of issues must be addressed before trustful cooperation on the North Korea nuclear issue and military conflict on the Korean peninsula can be achieved.

Following the closed door workshop in Busan, we were pleased to collaborate with the Graduate School of International Studies at Yonsei University in Seoul on a public program that highlighted the key findings of this project. The caliber of our discussion was greatly enhanced by the participation of former Republic of Korea Prime Minister Lee Hong Koo.

Reviewing the ideal security state for Northeast Asia for a second consecutive year provided an opportunity to evaluate the ideal in the context of developments in the region during the intervening period and perhaps more importantly the relative proximity of the current state of the region to the ideal. In this context, 2010 was a year of backsliding, as evidenced by the following preliminary conclusions from our deliberation in Busan:

- The fraying of the U.S.-China relationship has negatively impacted most efforts at regional integration and cooperation.
- Regional consensus and cooperation on North Korea has weakened, as evidenced by the divided response to the sinking of the *Cheonan*. Whereas the North Korea issue was once seen as a driver for regional cooperation, it now threatens such cooperation even in other areas.
- Territorial disputes, and in particular more aggressive Chinese claims in the South China Sea, Yellow Sea, and the Senkakus have alarmed countries throughout the region and raised concern about China's intentions.

- There is less confidence on economic liberalization within the region. Regional efforts at trade liberalization have stalled, APEC is seen as increasingly irrelevant, and at the time of our November 2010 program, prospects for the KORUS Free Trade Agreement or the Trans-Pacific Partnership looked relatively bleak.
- One potential area of progress could be seen in the region's positive response to President Obama's Prague speech on nuclear disarmament and the region's active involvement in the April 2010 Nuclear Security Summit in Washington, D.C. Yet even on this issue, revelations by North Korea about its uranium enrichment program further heightened the challenges faced by the region.

Once again, the Mansfield Foundation is pleased to have received generous support from DTRA through SAIC for implementing their vision in creating this project series. The program was an intense strategic exercise for the core group of regional specialists, paper writers and observers. The nine papers that follow provide valuable insights into key issues related to the ideal security state for Northeast Asia. We are confident that these papers will contribute to a better understanding not only of the numerous obstacles to reaching that ideal, but also of the many ways regional powers can address these obstacles and work toward the cooperation and integration critical to the future of this important region.

**L. Gordon Flake**

Executive Director

The Maureen and Mike Mansfield Foundation

**Sara M. Seavey**

Program Associate

The Maureen and Mike Mansfield Foundation

*March 2011*



# Nuclear Order in Northeast Asia: The Role of Nuclear Weapons in the Region, Nonproliferation, and the Tension between Disarmament and Deterrence

Daniel A. Pinkston

## History Matters

Policymakers and scholars in the fields of security studies and international relations often neglect historical lessons, draw the wrong historical inferences, or select the wrong historical cases in their efforts to understand current policy issues. In contrast, historians are prone to argue history explains everything, but that approach is not useful for policy. Path dependence is undeniable, and the history of the nuclear age has had a tremendous impact on nuclear doctrine. However, the historical lessons are not universal, and nuclear policy varies widely across the region. The task for scholars and policymakers is to understand the relevant historical lessons along with other variables that impact the regional nuclear landscape.

Northeast Asia is the only place where nuclear weapons have been used in conflict. Chemical and biological weapons were also used in the region, and memories of imperial aggression and colonialism—although fading—still affect Northeast Asian political leaders today. However, the U.S. atomic bombings of Japan left dissimilar psychological effects. The horror of the nuclear attacks on Hiroshima and Nagasaki led to the development of

a “nuclear allergy” in Japan, but at that time, many believed the bombings demonstrated the utility of nuclear weapons in achieving political objectives. After the indiscriminate aerial bombings of civilian targets by both the allied and axis powers in World War II, many had expected a low threshold for the use of nuclear weapons. Superpower military planners believed they could be introduced into the battlefield like any other weapon—except that nuclear weapons could reduce or eliminate the need for protracted wars.

The international and regional security environment changed when the U.S. nuclear monopoly was broken in 1949. That year also ushered in a dramatic structural shift when the Chinese Communist Party defeated the Kuomintang in the civil war and established the People’s Republic of China (PRC) on the mainland. As the PRC aligned with the Soviet Union, Northeast Asia became deeply enmeshed in the emerging Cold War. Korea and the Taiwan Strait were on the fault line of the Cold War in Northeast Asia, and the Korean and Taiwan issues have yet to be resolved.

The literature on nuclear weapons, deterrence, arms control and disarmament focuses extensively on the U.S.-USSR rivalry during the Cold War, but the world has changed significantly. The political, economic, and technological changes at the global, regional and domestic levels have introduced new challenges and opportunities that were not part of the bipolar Cold War structure. Is the literature on the superpower nuclear rivalry still relevant now? Is it relevant for Northeast Asia? If so, how? Are the relevant nuclear lessons from the Cold War universal? Or do different powers and nuclear aspirants have different interpretations? Will those interpretations change over time? Can we predict how or why?

Nuclear weapons have been part of the Northeast Asian security environment since 1945. The U.S. implicitly and explicitly threatened to use nuclear weapons to end the war in Korea, which motivated the PRC to pursue its own nuclear deterrent. The U.S. deployed nuclear weapons to the region during the Cold War as part of its global security strategy and to

deter the Democratic People's Republic of Korea (DPRK or North Korea).<sup>1</sup> Despite several close calls, the region has remained relatively stable; no war has broken out since the Korean War Armistice was signed in July 1953.

Have nuclear weapons been the source of this stability? Or has something else stopped us from going over the brink? Scholars and policymakers have divergent views on nuclear weapons and their effects on strategic behavior. Under conditions of strategic balance and credible second strike capabilities, nuclear weapons only appear to be useful when they are not used. Some believe nuclear weapons induce caution, but others believe we cannot rely on the rationality of those who command and control nuclear arsenals.

The U.S. and Japan particularly were concerned when China joined the nuclear club in 1964, and after a serious internal debate Japan decided against the nuclear option. However, Japan has a large nuclear power industry and full fuel cycle capabilities.<sup>2</sup> The Republic of Korea (ROK or South Korea) had an active nuclear weapons program in the early 1970s, but abandoned that program under extreme U.S. pressure. The Republic of China (ROC or Taiwan) also pursued a nuclear weapons option following the PRC's nuclearization, but the ROC program was abandoned under U.S. pressure in the 1970s as well.

U.S. extended deterrence has kept Japan, South Korea, and Taiwan non-nuclear, but North Korea appears to have achieved a nuclear breakout that will be very difficult to reverse and will have serious implications for regional security, nonproliferation, deterrence and disarmament. In 1961, the DPRK signed treaties of "friendship and mutual cooperation" with the PRC and the Soviet Union. Those treaties included security clauses providing for the signatories to assist the other in case of a military attack by a third party. The treaty with the Soviet Union has lapsed, but the DPRK-PRC treaty has been renewed and the security clause is still in effect, although many question its credibility, particularly if the DPRK were to start a military conflict. Nevertheless, the treaties and their security assurances could not

dissuade North Korea from developing nuclear weapons.

Should we be worried about nuclear proliferation in Northeast Asia? Do leaders and military strategists in Northeast Asia believe nuclear weapons have uses or utility other than deterrence? Can they be used for coercive bargaining? What do leaders in Northeast Asia think about nuclear capabilities and their impact on conventional posture and doctrine? Can we estimate or make generalizations about regional leaders and risk, and how nuclear weapons might change their calculations? Are they risk averse? Risk neutral? Or risk accepting?

## **The Security, Political and Economic Environments in Northeast Asia**

**History and Institutional Landscape:** Northeast Asia has a historical legacy of violent conflict, colonialism, decolonization, intense ideological rivalries, revolution, great power rivalry, and mutual suspicion. Analysts in the tradition of the realist school believe this legacy of acute security dilemma dynamics and mistrust will spoil the development of regional cooperative or collective security institutions, especially in the realm of nuclear security. The San Francisco Treaty system of U.S. bilateral alliances in East Asia is quite dissimilar to the collective security arrangement constructed in Europe after World War II, but the insecurity and mistrust in Northeast Asia during the last century is not incomparable to the western European experience prior to 1945. During the period of the two world wars, probably no one could have imagined the security cooperation and economic integration we see in Europe today. We could be pleasantly surprised in Northeast Asia as well.

Institutional development started much later in East Asia, and compared to Europe and the West, institutional initiatives initially were driven by smaller states in Southeast Asia. This contradicts the realist view that institutions are created by the great powers and serve great power interests. The regional institutional environment is still developing and the future

remains uncertain. Economic issues are creating strong incentives for regional actors to cooperate and create regional institutions in order to reduce transactions costs. Greater progress has been made in the economic realm, but whether similar results will follow in the political or security dimensions remains to be seen.

The rise of new institutions has coincided with the rise of China, which already has influenced institutional design and effectiveness. About two decades ago the PRC reversed its distrust of international institutions and has joined them in earnest. Beijing realized membership increased the credibility of China's expressed commitment to a "peaceful rise." Regional actors and the West welcomed this development in the belief that institutions constrain powerful states and reduce uncertainty and mistrust.

Beijing's strategy was very successful, but recently has been undermined by Chinese posture and statements on: the South China Sea; U.S.-ROK combined military exercises in the Yellow Sea (West Sea) after the *Ch'ōnan* sinking in March 2010 and the artillery attack against Yōnp'yōng Island in November 2010; and the recent spat with Japan over the Diaoyu Islands (釣魚台群島) or Senkaku Islands (尖閣諸島). Currently, there is an internal debate in China on China's appropriate role in a changing global environment. Some believe U.S. power is in irreversible decline and that China should challenge the U.S. in East Asia. However, many Chinese realize that Beijing's recent actions have been perceived as hostile or belligerent abroad and ultimately can damage China's interests. While Beijing will adjust its approach, we should not expect China to remain passive on foreign policy issues. China will continue to pursue its national interests abroad with greater confidence and assertiveness as China becomes more powerful.

The constructivist school in international relations argues that socialization affects the identities and interests of agents, but outcomes are indeterminate. Greater social interaction or "dynamic density" can accelerate the construction of common identities and reveal common

interests. But socialization can also expose divergent interests and enmity and conflict can result. The constructivist school is agnostic about the final result, but social interaction is a necessary condition for the establishment of a community with shared identities and common interests. Northeast Asia has a long way to go, but the institutional foundation arguably is being built for the eventual establishment of a regional community.

**Geography:** U.S. and Soviet interests were global and their allies or client states confronted each other in several regions. However, the superpowers did not share significant borders, and they are geographically large countries. In Northeast Asia, geographic proximity can exacerbate crises, especially when nuclear weapons are involved. Confidence-building, transparency, and the establishment of crisis management mechanisms could be critical in avoiding violent conflict. While China and Russia have huge land masses, Japan, the Koreas, and Taiwan do not have the strategic depth to withstand even limited nuclear attacks. This could exacerbate a crisis on the Korean peninsula, for example, if ROK leaders felt they had to use extensive force in a quick preemptive strike to eliminate the possibility of DPRK nuclear retaliation.

**Power Asymmetries:** Northeast Asia is also characterized by significant power asymmetries. The region has both nuclear powers and non-nuclear powers, and significant differences in conventional military capabilities as well as other general elements of national power. North Korea once again is the outlier. Although the DPRK allocates an extraordinary proportion of national resources to the military, the country continues to fall behind in the conventional realm. Most of the military hardware is 1950s or 1960s vintage, and the country is having difficulty feeding its one-million-man conscript army. The North Korean military leadership recognizes this conventional weakness, but the country does not have the economic or technical resources to modernize its military, so Pyongyang emphasizes the development of asymmetric capabilities, including nuclear weapons.

**Domestic Politics:** The region varies in terms of domestic politics as well. Japan is a democracy based on a cabinet system of government, and the ROK is a democracy with a strong presidential system. The ROC is a democratic presidential system, but the PRC and DPRK are one-party states. All countries in the region except the DPRK have outward oriented economies. North Korea is an authoritarian and “personalistic” system based on the Kim family dynasty. The country has only known two leaders and the country is now in the process of transferring power to Kim Jōng-ūn, the third son of Kim Jōng-il.

The succession process was formalized during the Korean Workers Party (KWP) Third Party Conference in September 2010, the first major party meeting since the KWP Party Congress in 1980. However, plans and institutional arrangements for succession were underway in 2009, shortly after Kim Jōng-il suffered a stroke in August 2008. North Korea, apparently as part of succession plans, tried to reassert state control over the informal economy with its currency reform that was announced on 30 November 2009. Over the last year, the DPRK government has tightened restrictions on market activities and has been reversing even very modest economic reforms that were implemented in July 2002. This effort to revive the economy by turning more towards orthodox central planning was designed to give the ruling elite greater control over resources and thus greater control of political supporters as well as opponents.

Domestic political orientation can also help explain why some countries have renounced nuclear weapons or abandoned weapons programs. Etel Solingen argues that liberal democracies with outward economic orientations are much less likely to pursue nuclear weapons than inward-looking authoritarian regimes.<sup>3</sup> Japan, the ROK, and Taiwan economies would be vulnerable to international sanctions in the case of nuclear breakout, and furthermore, they are dependent upon uranium imports for nuclear fuel. It’s difficult to imagine the citizens of these developed economies being willing to forgo the electricity provided by their nuclear power reactors.

**Threat Perceptions:** Sources and degrees of insecurity also vary greatly in the region. The most acute problems are associated with the zero-sum national division issues of China and Taiwan, and the two Koreas. While the U.S. and its alliance partners view the U.S. military presence and extended deterrence as public goods for the region, China is ambivalent and North Korea is vehemently opposed to the U.S. presence. China is most suspicious of U.S. intentions regarding Taiwan and fears U.S. support could lead to Taiwan's independence. On the other hand, most Chinese recognize the constraining effect the U.S.-Japan alliance has on Tokyo, but Beijing believes the overall security architecture is suboptimal.

As China continues its rise, Beijing likely will continue to probe and challenge the U.S. and its allies in the region. China's recent words and actions regarding the South China Sea, the Diaoyu Islands, and U.S.-ROK combined military exercises are prime examples. Although China would prefer to see a regional security arrangement under Beijing's influence or control, the withdrawal of the U.S. from the region and movement towards such an arrangement could trigger a regional arms race contrary to China's interest.

North Korea consistently has demanded the withdrawal of the U.S. from the region, but Pyongyang never has suggested it would support or participate in any regional collective security institution even though the vague concept is one of the commitments in the Six-Party Talks. Pyongyang generally views the world as hostile and is suspicious of multilateralism, particularly as a provider of national security. North Korea's increasing reliance upon asymmetric threats such as weapons of mass destruction (WMD) and ballistic missiles is perceived to be the greatest regional threat by Japan, South Korea, and the United States.

North Korea's economic autarchy based on *chuch'e* (主體) makes it difficult to modernize the economy and society, but it also makes it difficult or impossible to modernize the military even though Pyongyang has adopted a "military first (先軍)" doctrine. Greater reliance upon WMD has resulted

in international sanctions, which has affected the ability of the regime to earn foreign exchange and consequently has increased incentives for Pyongyang to engage in illicit activities including WMD proliferation.<sup>4</sup>

The U.S. and international community consider the DPRK's nuclear proliferation activities the most serious security threat emanating from the region. In the early years of North Korea's nuclear development, Pyongyang was a recipient of materials, components, and technology, but in more recent years North Korea has emerged as a supplier as well. Nonproliferation and counter-proliferation actions require multilateral cooperation to succeed, and in the DPRK case, China's commitment to active participation is critical. However, China's perception of the proliferation threat diverges from that of Japan, the ROK, and the U.S.

**Ideology and “Strategic Culture or Military Culture”:** The DPRK is the outlier here once again as it adheres to an ideology of *sŏn'gun* or “military first.” *Sŏn'gun* was developed in the mid-1990s following the collapse of Marxism-Leninism in the former Soviet Union and the Eastern European countries. *Sŏn'gun* places the soldier before the worker, but it retains the Leninist view of the international system, describing it as exploitive and unjust. An assumption is that the major capitalist power, now the United States, must be exploitive as it cannot control the greed to expand and earn profits abroad. Other countries and their citizens are doomed to become “slaves of the imperialists” unless the nation and people have strong military power to resist. In this sense, it is very “realist” in orientation, but according to *sŏn'gun*, the military and the people need a strong leader to maintain unity and survive.<sup>5</sup>

This distorted lens is dangerous because of the concentration of power in one person and the disproportionate influence of the military. Military leaders are more prone to turn to force as a solution to problems since it is what they are most familiar with and most adept at implementing. The leader must establish his credentials to be recognized as a great commander, so this raises the likelihood of military adventurism. This

is particularly the case if Pyongyang feels it has a military advantage, the U.S.-ROK alliance is fragile or not credible (the U.S. is distracted or disengaged), and when the DPRK is experiencing leadership transition. That was the case in the 1960s and early 1970s when the DPRK had a conventional military advantage over the ROK, the U.S. was preoccupied with Vietnam, and Kim Il-sung was starting to pave the way for a transfer of power to Kim Jong-il. History could be repeating itself now as the North Korean leadership could believe it has acquired military superiority with its WMD arsenal, the U.S. has been stretched thin in Iraq and Afghanistan, and succession to the next generation is underway in the DPRK.

Brian Myers argues that North Korea is organized around an extreme racist ideology that extols the genetic purity of the Korean people, who must be protected by a “maternal” Great Leader from global decadence. In *The Cleanest Race: How North Koreans See Themselves and Why It Matters*, Myers never answers this question as it applies to international relations.<sup>6</sup> While Myers’ thesis is another perspective on the mythmaking surrounding the Kim family cult, there is no evidence to suggest that North Korean racist views are similar to those of Nazi Germany or imperial Japan whereby the nation-state had to expand in a system of geo-political Darwinism. On the contrary, North Korea prefers to be left alone and “clean” except on the issue of national unification. However, the national ideology sometimes shows signs of satisficing and settling for a “clean” half of the Korean peninsula based on Koryŏ traditions rather than be contaminated by the “globalized” or “bastardized” south.

While North Korea could try to use its small nuclear arsenal for blackmail or coercive diplomacy, carrying out the threat to use its nuclear weapons unless its demands are met is not credible under conditions of robust extended deterrence by the U.S. The DPRK nuclear arsenal has little use except for deterrence, but unauthorized or accidental use, or a nuclear accident cannot be ruled out.

**Outstanding Issues:** Korea and Taiwan present extraordinary challenges, and their disposition can cut both ways. A peaceful resolution satisfactory to all parties would be very positive in achieving the goals outlined in this project; or they could escalate with very bad consequences. In the interim, the best we can hope for is smart management to avoid bad outcomes. Transparency and communication regarding preferences over outcomes is important. Respect for differences is critical and the commitment to seek peaceful resolution of differences must be clear. Growing regional economic integration and the cost of conflict create strong incentives to cooperate, but it cannot happen on its own.

## **Nonproliferation, and the Tension between Disarmament and Deterrence**

The paradox in Northeast Asia is that extended deterrence has both positive and negative effects on nonproliferation. U.S. extended deterrence reassures U.S. allies in the region who otherwise could be highly motivated to develop nuclear weapons. However, U.S. extended deterrence is not reassuring to North Korea, and China is often suspicious or sensitive about the posture of U.S. forces in the region.

If the U.S. continues to reduce its nuclear stockpile while China modernizes and increases its nuclear forces, Japanese security planners are worried that the U.S. and China could conclude an arms control agreement that somehow neglects Japanese security concerns. Tokyo and Seoul are also concerned that Washington could acquiesce and accept a small DPRK nuclear arsenal that is capped with assurances of no proliferation. These worries are probably exaggerated, but some form of these scenarios certainly would lead Japan and the ROK to reconsider their nuclear options.

Another fear is that if North Korean nuclear and missile development is not checked, an ICBM capability could expand North Korea's options in the region as it could deter U.S. intervention. The "decoupling" would raise insecurity in Japan and the ROK, with uncertain ramifications.

To enhance the credibility of extended deterrence, the U.S. and its allies will have to remain closely engaged on deployments, doctrine, operational planning, command and control, the rules of engagement, etc. The institutional mechanisms for this coordination are in place, and they should be sustained despite domestic political changes in Japan, the ROK, and the U.S. until there is a fundamental change in the region's security environment.

Nonproliferation will require multilateral cooperation, but it does not apply only to the DPRK. The peaceful use of nuclear energy is expanding in the region, and China and the ROK aggressively are seeking foreign markets for their nuclear suppliers as demand for nuclear energy increases in the Middle East and Southeast Asia. Nonproliferation and export control compliance will require the enforcement of international rules, standards, regulations and norms—which must keep pace with emerging technologies. This will require international cooperation, but also cooperation among governments, private firms, industry associations, nongovernmental organizations (NGOs), and intergovernmental organizations (IGOs).

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## Chapter Endnotes

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1. The U.S. withdrew its nuclear weapons from the ROK in 1991.
2. Many people underestimate the timeline for a Japanese nuclear breakout. While Japan certainly has the advanced technical capabilities to produce nuclear weapons, the large inventory of plutonium from spent fuel is reactor grade and not usable for weapons. Also, Japan would have to develop a delivery system, and any breakout would almost certainly be observable.
3. Etel Solingen, *Nuclear Logics: Contrasting Paths in East Asia & the Middle East* (Princeton: Princeton University Press, 2007).
4. International Crisis Group, “North Korea under Tightening Sanctions,” Asia Briefing, no. 101, March 15, 2009.
5. After the collapse of the USSR, soldiers in the KPA were told in indoctrination sessions that it was because the USSR did not have a “great leader” and that Gorbachev and the leadership had become corrupted by personal profit and sold out the country. However, “the DPRK was not so unfortunate.”
6. Brian R. Myers, *The Cleanest Race: How North Koreans See Themselves and Why It Matters* (Hoboken, NJ: Melville House Publishing, 2010).

# Nuclear Order in Northeast Asia: The Role of Nuclear Weapons in the Region, Nonproliferation, and the Tension between Disarmament and Deterrence

Nobumasa Akiyama

## ***“Ideal” State on Nonproliferation for Northeast Asia in 2025***

*“All countries in the region strongly support international efforts to prevent the proliferation of weapons of mass destruction and work collaboratively in pursuit of that goal. The region is characterized by the low salience of nuclear weapons, the absence of nuclear competition, and the successful development of civil nuclear energy infrastructures that do not create proliferation risks.”*

## **Role of Nuclear Weapons in Shaping the Strategic Environment in Northeast Asia**

The existence of nuclear weapons has provided ambivalent values to countries in Northeast Asia. Nuclear weapons have served as a stabilization factor. As allies of the United States, Japan and the Republic of Korea (ROK) have been assured security under U.S. extended deterrence vis-à-vis aggression by potential adversaries. For China, its minimum deterrent nuclear capability vis-à-vis other nuclear weapons states such as the United States and Russia (or the Soviet Union) has guaranteed its sense of security. For the Democratic People’s Republic of Korea (DPRK),

its nuclear program is considered indispensable to securing its regime survival and getting more concessions from the United States, ROK, and Japan in economic assistance negotiations.

In the meantime, the persistent need for nuclear weapons as deterrents implies that the regional strategic environment remains unstable, and still cannot offer favorable conditions for nuclear disarmament. With the absence of confidence among states, East Asia remains in a security paradox. In such a security environment, nuclear weapons pose greater risks of catastrophe by accident, miscalculation, or misunderstanding. The paradoxical logic of nuclear deterrence—that the risk of nuclear catastrophe would serve the maintenance of peace by posing restraints on strategic challenges by states—has prevailed. Now Northeast Asia faces a serious challenge to address the agenda of nuclear disarmament, or a “world free of nuclear weapons” set by President Obama’s speech in Prague in April 2009, under such a security circumstance.

## **Nuclear Development of North Korea**

### *The Ideal*

The ideal situation regarding North Korea’s nuclear crisis is the complete dismantlement of its nuclear weapons program as well as abandonment of relevant delivery systems, while its civilian nuclear power program could be maintained under strict International Atomic Energy Agency (IAEA) safeguards based on the Additional Protocol of the comprehensive safeguards agreement between the IAEA and North Korea. The North Korean regime would choose to be more cooperative with others to get more economic assistance and assurance of regime survival. (Alternatively, the Korean peninsula may have been unified peacefully.)

The Six-Party Talks might have been transformed into a semi-permanent forum for discussing wider regional security matters such as multilateral confidence-building, items that are being discussed at working groups of the Six-Party Talks.

### ***State of Play***

In the agreement of February 2007, North Korea agreed with the rest of the Six-Party members on a disablement plan consisting of twelve measures at three nuclear facilities (a fuel fabrication facility, a 5MWe reactor, and a reprocessing plant). However, this disablement process has been suspended with two measures unfinished, namely, the discharge of the spent fuel rods from the reactor and removal of control rod drive mechanisms. North Korea suspended its disabling process, reacting against the U.N. Security Council President's statement regarding North Korea's missile testing in August 2008. Since then, North Korea has announced several times that it has been further escalating nuclear weapons production activities.

Currently, IAEA has been denied access to nuclear facilities. North Korea conducted a second nuclear test in May 2009. In November 2009, it reported to the President of the U.N. Security Council on the success of enrichment experimentation and weaponization of plutonium. The recent sinking of the South Korean ship *Cheonan* by North Korea symbolically showed the difficulty of inducing North Korea to get engaged in dialogue with the rest of the Six-Party members. And the consequent political struggle between China and South Korea, Japan and the United States over the U.N. Security Council resolution showed a divergence of views regarding North Korea's tit-for-tat policy among countries in the region.

Since the survival of the regime seems the prime objective of possessing nuclear weapons, the North Korean regime would not give up its nuclear weapons so easily under the current international environment, where it could not be so sure about any kind of commitment by the United States, South Korea and Japan (or even China). Without a major transformation of North Korea's relationship with the United States and Japan as well as South Korea, it is not likely that North Korea would forego its nuclear weapons capability as long as the current regime survives.

An intermediate policy objective is to move from the state of "crisis stability" or "crisis management" to complete dismantlement of the North Korean

nuclear weapon program. What North Korea has to do first to fulfill the obligation for verifying disablement of nuclear capabilities is to provide: a correct and complete declaration on plutonium-related activities; full disclosure of enrichment activities; a full account of alleged proliferation activities, including cooperation with Syria and Iran; and a complete declaration of weaponization activities. For reasons mentioned above, however, it is assumed that North Korea would not unconditionally agree to such confidence-building measures as a first step to total elimination of nuclear weapons capabilities. Although it is not appropriate to give “rewards” for each small step that North Korea takes, it may be important to multilaterally provide some kind of assurance to North Korea as an incentive for eventual achievement of the objectives.

But in the short run, while they need to encourage and press North Koreans to engage in dialogue and negotiation on the denuclearization process, countries concerned need to be jointly prepared for seeing North Korea’s nuclear program in turmoil/confusion during a future regime transition, even if it is a less likely scenario.

## **U.S.-China Strategic Relationship**

### *The Ideal*

The central factor in determining the shape of a strategic environment in Northeast Asia in 2025 will be the U.S.-China strategic relationship. Although it is not foreseeable that a “world without nuclear weapons” will be realized by 2025, the role of nuclear weapons in both deterrence and war fighting scenarios will be sharply reduced, and a nuclear exchange will become almost inconceivable. The United States and China will be engaged in an arms reduction process bilaterally, or even multilaterally involving India and Pakistan, with close linkage with U.S.-Russia arms reduction. By that time, China could make its nuclear posture more transparent, and verification mechanisms for arms reduction could be established among major nuclear weapons states.

### *State of Play*

A key element of an ideal situation regarding the U.S.-China strategic relationship is how to define and reach a consensus on “strategic stability,” in which all parties concerned (including those that are subject to U.S. nuclear extended deterrence) are in mutually acceptable relationships and are not tempted to take aggressive actions vis-à-vis others.

Due to asymmetrical force structure and doctrines as well as different strategic portfolios and interests, it may not be so easy to establish a new modality or strategic stability between the United States and China.

While the nuclear force structure of the United States is centered on long-range strategic forces, the weapons China possesses are mainly mid-range and long-range forces are limited (See Table 1). From a U.S. perspective, it would be enough to have long-range forces when considering only bilateral relations with China: nonetheless, when considering its allies such as Japan and ROK, it becomes crucial for the United States to take into consideration ways to deal with China’s short- and medium-range forces as a part of the nuclear threat it poses to these countries. Chinese nuclear launchers and storage facilities are located closer to its coast. From China’s perspective, on the other hand, it becomes vital to maintain its medium-range nuclear forces in order to preserve a strategic balance with those neighboring countries with nuclear weapons, such as Russia and India.

As far as declaratory policies are concerned, China has declared no first use of nuclear weapons, and an unconditional negative security assurance. It also states that nuclear warheads are not “mated with” delivery systems. China claims that such declaratory policies provide far more transparency in nuclear policy than other nuclear weapons states. It insists that transparency in declaratory policies serves the purpose of nuclear disarmament better than transparency in counting of warheads and delivery systems and mutual visits or other confidence-building measures. Here is a gap in understanding the priority in issues of transparency. Conventional theory of arms control stipulates the principle of “trust but verify,” and

numerical transparency is considered a critical basis for arms control and disarmament, as intentions cannot be verified. But China believes that self-declaration of doctrine is better.

Although China's logic is less convincing to some, China's reluctance to disclose information on the number and types of nuclear weapons and their deployment makes sense strategically. It could cover up inferiority in the size of nuclear forces, while maintaining minimum deterrence capability at the strategic level and limited deterrence. In the meantime, China has been working on modernizing its nuclear arsenal to increase the survivability of the arsenal by developing mobile land-based launch systems and new Jin-class ballistic missile submarines (SSBNs). Its mod-

**Table 1: Chinese Nuclear Forces, January 2009**

Type/ Chinese designation (US designation)	No. deployed	Year first deployed	Range (km)	Warheads x yield	No. of warheads
<b>STRATEGIC WEAPONS</b>					<b>(186)</b>
<i>Land-based missiles</i>	134				134
DF-3A (CSS-2)	17	1971	3,100	1 x 3.3 Mt	17
DF-4 (CSS-3)	17	1980	5,500	1 x 3.3 Mt	17
DF-5A (CSS-4)	20	1981	13,000	1 x 4–5 Mt	20
DF-21 (CSS-5)	60	1991	2,100	1 x 200–300 kt	60
DF-31 (CSS-X-10)	-10	2007	>7,200	1 x ?	10
DF-31A (?)	-10	(2008–10)	>11,200	1 x ?	10
<i>SLMBs</i>	(12)				12
JL-1 (CSS-N-3)	(12)	1986	>1,770	1 x 200–300 kt	(12)
L-2 (CSS-NX-5)	(36)	(2009–10)	>7,200	1 x ?	(36)
<i>Aircraft</i>	>20				(40)
H-6 (B-6)	20	1965	3,100	1 x bomb	(20)
Attack (?)	?	1972–?	?	1 x bomb	(20)
<b>NON-STRATEGIC WEAPONS</b>					<b>(186)</b>
Cruise missiles (DH-10)	150–350	2007	>1,500	1 x ?	?
Short-range ballistic missiles (DF-15 and DF-11)					?
<b>TOTAL</b>					<b>(186)</b>

Source: Kile, S.N., Fedchenko, V. and Kristensen, H.M., "World Nuclear Forces," in Stockholm International Peace Research Institute, *SIPRI Yearbook 2009: Armaments, Disarmament and International Security* (Oxford: Oxford University Press, 2009), 366, table 8.6 Chinese nuclear forces, January 2009.

ernization focuses on long-range delivery capabilities (see the column “Year first deployed” in Table 1). It is not clear whether these phenomena combined suggest that China will depart from minimum deterrence against the United States and gain more confidence in its conventional capabilities at the regional level, as described in the 2010 U.S. *Quadrennial Defense Review*, which suggests that China is developing sophisticated weapons to increase anti-access and access denial capabilities. Due to the lack of mutual understanding regarding China’s military modernization, the risk of overestimation or miscalculation of—as well as over-reaction to—Chinese intentions and actions could happen.

However, it is not so clear if these declaratory policies will be maintained in the future. For example, China has been developing Jin-class submarines that could carry and launch JL-2 missiles. It is not conceivable that submarine-launched ballistic missiles (SLBMs) on submarines do not mate warheads.

Since the nuclear forces of the United States and China are asymmetric, this also presents issues. In the case of the United States and Russia, which traditionally maintained strategic stability by systemizing nuclear deterrence through arms control, two principles existed. First, both countries accepted vulnerability vis-à-vis each other. Second, guaranteeing the transparency of forces was an important factor in verifying the balance of forces. However, China has not announced its overall nuclear forces (number of warheads, delivery system and deployment status) in order to disguise its asymmetric inferiorities regarding its force. Moreover, since there is a gap in understanding on nuclear deterrence between the United States and China, it is extremely difficult to achieve agreement on securing transparency as a bottom line for strategic stability. In other words, this implies that there is no presupposition for “strategic stability.”

The equation of “strategic stability” in East Asia is expected to see many more variables than before, making it all the more complicated. Furthermore, the rivalry between India and Pakistan in South Asia has its own unique

structure and is a big problem for global nuclear disarmament. In addition, the nuclear race in South Asia will no doubt have a huge influence on neighboring China's strategic thinking. Therefore, security situations that have a crucial influence on regional nuclear disarmament are not confined within a certain region, but rather intertwine with multiple regions. Due to this strategic nexus of South Asia and Northeast Asia, the arms race or strategic environment in South Asia could also affect Northeast Asian nuclear disarmament and strategic stability.

The future nuclear disarmament process in Northeast Asia, whether it is a bilateral one between the United States and China or a multilateral one involving Russia, the UK, France and non-NPT (Non-Proliferation Treaty) nuclear armed states, has to be a process that establishes a new "strategic stability" among nations that possess an asymmetric force structure and asymmetric strategic interests. Indeed, the Nuclear Posture Review (NPR) of the United States implies that deterrence ought to be structured focusing on other areas besides the balance maintained by strategic nuclear weapons: the role of conventional weapons, pursuing balance through confidence-building with Russia and China over talks, and a tailored deterrence system as well as regional security architecture that takes into account the regional situation are important issues that must be considered.

In a time when we are experiencing a paradigm shift regarding the threat of nuclear weapons, a record of conventional nuclear deterrence does not necessarily guarantee the legitimacy of nuclear weapons or nuclear deterrence. Rather, the necessity of structuring a new logic of "strategic stability" is increasing more than ever. Nuclear weapons states and other concerned states should work among each other to frame a process for comprehensive strategic/disarmament talks as well as arms control negotiations in order to pull together their respective strategic understandings.

## **Alliances and Extended Deterrence**

### *The Ideal*

U.S.-led alliances in the region remain vital to the peace and stability of Northeast Asia as the foundation for regional security architecture. As long as nuclear weapons continue to exist, U.S. allies would prefer that U.S. nuclear force be extended to their defense. However, as nuclear threats decrease, the salience of nuclear weapons in the maintenance of security and stability of the region becomes lower. Consequently, the role of nuclear weapons in assuring allies will be reduced. There may be a declaration in nuclear doctrine that the “sole purpose” of using nuclear weapons is for deterring nuclear attacks by adversaries. A major task of the alliances would be to maintain regional/international order, which could ensure safe, secure and fair access to global commons such as freedom of navigation, cyberspace, and outer space, and could back rule-based, negotiated ways of resolving problems and conflict.

### *State of Play*

Although it is not easy to verify the causal relationship between the absence of major war in East Asia and the existence of U.S. extended nuclear deterrence, a consensus view in the region is that U.S. extended nuclear deterrence has played a critical role in assuring the security of U.S. allies such as Japan, the ROK and Australia, and reducing proliferation temptations in these countries. As long as nuclear armed states exist, non-nuclear allies of the United States would prefer to maintain the U.S. commitment of extended nuclear deterrence. Since it is unlikely that a “world without nuclear weapon” will be realized by 2025, extended nuclear deterrence will remain one of the important elements of strategic planning and alliance commitments.

In the meantime, if threats of nuclear weapons in the region are significantly reduced, the nuclear element of extended deterrence could be shrunk. In the 2010 Nuclear Posture Review, the United States defined that nuclear forces would play a “fundamental role” in deterring nuclear attacks on the United States, its allies and partners. A key is that it did not limit the

role of nuclear weapons to *solely* deterring nuclear attacks. But at the same time, during the drafting process it was suggested that the plausibility of adopting a nuclear option in war fighting, if not in deterrence, is shrinking, and in the Northeast Asian security environment, the likelihood of nuclear war among states is diminishing.

If this trend continues and the number of U.S. nuclear weapons keeps on decreasing, the credibility of U.S. extended deterrence will be at stake. Allies need to share strategic calculations on how extended deterrence would function with the reduced role of nuclear weapons, the increased role of conventional forces, and more emphasis on missile defense, as means of “deterrence by denial,” which could imply the shifting from “deterrence by punishment” with nuclear strike capabilities. When the ability of “deterrence by denial” such as the missile defense initiated by the United States and Japan improves, it may change the modality of the deterrent relations which used to center on “deterrence by punishment”; the way in which it may change as well as how its strategic implications are evaluated may alter the equation of balance between the United States and China. U.S. alliances should envision a better management of this possible transition.

## **A Northeast Asia Nuclear Weapon Free Zone**

### *The Ideal*

In relation to extended deterrence and the nuclear posture of nuclear weapons states, it may be necessary to examine the possibility of a nuclear weapon free zone in Northeast Asia. A nuclear weapon free zone treaty is a legal institutionalization of the commitment to a collective provision by nuclear weapons states of negative security assurance vis-à-vis non-nuclear weapons states. In an ideal situation of reduced nuclear threats in the region, all non-nuclear weapon states in the region could enjoy the assurance that they are not attacked with nuclear weapons.

### *State of Play*

In Northeast Asia, Japan, the ROK and the DPRK could be the subjects of such a security assurance. There is almost a consensus view in the

region that dismantlement of North Korea's nuclear weapons program is an essential factor for realizing this idea. However, views diverge in terms of the sequences of formulating such a zone. Should the complete dismantlement of the North Korean nuclear program be considered a prerequisite, and thus should the process of formulation start *after* realization of dismantlement? Many (at least in Japan) view complete dismantlement as a prerequisite to realizing the idea of a nuclear weapon free zone in this region. Alternatively, can members of the Six-Party Talks present this idea, a formalized negative security assurance, as an incentive for North Korea to implement the dismantlement of nuclear weapons programs?

If nuclear weapons states could agree on diminishing the role of nuclear weapons, and jointly adopt the "sole purpose" role of nuclear weapons (that means "upgrading" from the fundamental role stipulated in the NPR), it could be consolidated by legalization through a nuclear weapon free zone. Establishing such a treaty-based commitment would bind nuclear weapons states in their declaratory policy. However, as long as nuclear weapons continue to exist, there may need to be a verification mechanism to make such doctrinal commitments credible. Also, a concern could remain whether security assurance through extended nuclear deterrence of alliances can be given up for this declaratory commitment.

## **Proliferation Concerns in Northeast Asia**

### **Civil Nuclear Activities**

#### *The Ideal*

Peaceful use of nuclear energy will further expand. All countries (including Taiwan) have ratified and implemented their respective Additional Protocol to the IAEA Comprehensive Safeguards Agreement. Even China (a nuclear weapons state whose civilian program may require a different type of safeguards agreement with IAEA) clearly separates civilian and military nuclear facilities and submits the civilian parts of their nuclear program and materials to Additional Protocol equivalent safeguards and

verification. A sufficient level of confidence on nonproliferation would be established and verified under a strengthened IAEA safeguards standard.

A solution regarding spent fuel management may be sought through regional cooperation. Such a multilateral regional framework may also serve as a confidence-building mechanism by increasing transparency on their activities, sharing information on nuclear safety and security, and conducting joint research and development activities on future nuclear technology such as new types of reactors and proliferation-resistant technology in backend management, including reprocessing.

### ***State of Play***

Northeast Asia is a “nuclear-dense” region. In addition to four nuclear armed states, namely China, Russia, North Korea and the United States, all parties except Mongolia have extensive nuclear power programs. The role of nuclear energy is expected to increase further in response to rising energy needs and global warming concerns. For example, in the case of Japan, in June 2010 the Ministry of Economy, Trade and Industry (METI) announced a plan to increase energy self-sufficiency to 70% by 2030, for both energy security and CO<sub>2</sub> emission reduction purposes. In terms of energy security, at this moment, Japan needs to import approximately 80% of its energy needs. In terms of environmental concerns, METI announced the *Cool Earth 50* energy innovative technology plan in 2008. According to the estimate of the Japan Atomic Energy Agency (JAEA), a 54% reduction in CO<sub>2</sub> emissions from 2000 levels by 2050, proposed in the plan, could lead to a 90% reduction by 2100. To achieve this goal, nuclear energy needs to contribute more, by serving as an increased share of the energy supply.

Civil nuclear activities are usually considered non-threatening as long as they are under the strict safeguards of the IAEA. In other words, civil nuclear activities are also not *considered* threats if the states concerned have achieved the sufficient level of confidence among them. However, in this region, there are three factors that raise concerns over proliferation from civil nuclear activities.

First, the lack of trust and confidence as well as rivalry mentality among states could raise concerns about capabilities in the region. For example, although Japanese full scale fuel cycle activities are under strict IAEA safeguards and have proven non-diversion to military activities, some may still claim that this capability *per se* poses threats, fearing that Japan could change its mind and determine to pursue a nuclear option.

Second, the nuclear nonproliferation regime includes institutional deficits such as the imperfection of the IAEA safeguards system and export controls. In the region, there has been a record of a lack of IAEA enforcement capacity; the IAEA inspection team was kicked out of North Korea; and despite repeated adoptions of U.N. Security Council resolutions to impose sanctions, North Korea has not given up its program. Also, the case of Iran presented ambiguity in judging “non-compliance” politically as well as technically.

Third, combining the above-mentioned two factors with the fact that there are abundant nuclear materials and facilities scattered around the region (see Table 2 and 3 on the following page, as well as *Reference* on pages 48–49), potential capabilities *per se* are sometimes seen as threats of proliferation when they are considered as latent nuclear capabilities. As nuclear facilities and materials are increased in Northeast Asia, the amount of safeguards activities will also be mounting. Efficient, credible, precise and quick methods of safeguard will be required, and technical and financial resources must be put into safeguarding facilities in Northeast Asia.

As far as fuel cycle activities are concerned, except China, only Japan has extensive, full-scale fuel cycle activities including both uranium enrichment and reprocessing for separating plutonium from spent fuel. South Korea is not allowed to conduct activities related to the fuel cycle at home under its bilateral nuclear cooperation agreement with the United States. South Korean scientific and policy communities are eager to conduct research and development of pyro-processing technology despite the North-South joint declaration of denuclearization of the Korean peninsula

**Table 2: HEU stockpiles in the region (civilian use)**

Country	Amount
China	About 1000kg*
Japan	About 2000kg
North Korea	42kg
South Korea	Cleared of HEU (less than 1kg)
Taiwan	Cleared of HEU (less than 1kg)**
Indonesia	Cleared of HEU (less than 1kg)
Philippines	Cleared of HEU (less than 1kg)
Thailand	Cleared of HEU (less than 1kg)
Vietnam	Cleared of HEU (less than 1kg)

\* According to *Global Fissile Material Report 2009*, Chinese stockpile available for weapons is estimated at 20 MT. ([http://www.fissilematerials.org/ipfm/site\\_down/gfmr09.pdf](http://www.fissilematerials.org/ipfm/site_down/gfmr09.pdf))

\*\*All HEU was removed from Taiwan in September 2009 as reported by the U.S. Department of Energy at RERTR 2009, Beijing, November 2009.

Source: Data from Nuclear Threat Initiative (NTI), *Civil HEU Stock Map*, updated April 2010, <http://www.nti.org/db/heu/map.html>.

**Table 3: Global stocks of separated plutonium, 2008**

Country	Military Stocks	Civilian Stocks	Asia
Belgium	0	0 (does not include 1.4 foreign owned)	
China	4 ± 0.8	0	*
France	5 ± 1.0	54.9 (does not include 27.3 foreign owned)	
Germany	0	15 in France, Germany and the UK	
India	06.8 ± 0.14	6.4	*
Israel	0.6 ± 0.12	0	
Japan	0	46.7 (8.7 at home, and 38 in France and the UK)	*
North Korea	0.03	0	*
Pakistan	0.09 ± 0.018	0	*
Russia	145 ± 25 (34–50 declared excess)	44.9	
Switzerland	0	<0.05	
UK	7.9 (4.4 declared excess)	77.7 (includes 0.9 abroad, but not 26.8 foreign owned)	
USA	92 (53.9 declared excess)	0	
<b>TOTALS</b>	<b>~255</b> <b>(up to 108 declared excess)</b>	<b>~246</b>	

Source: Glaser, A. and Mian, Z., “Global Stocks of Fissile Materials, 2008,” in Stockholm International Peace Research Institute, *SIPRI Yearbook 2009: Armaments, Disarmament and International Security* (Oxford: Oxford University Press, 2009), 382–83, table 8A.2 Global stocks of separated plutonium, 2008.

in 1992. But the United States has not granted “programmatically consent,” which would allow South Korea to conduct fuel cycle activities. That is a clear contrast to the case of Japan, which receives such consent from the United States and conducts a full scale fuel cycle program, with a view to commercializing operations of these facilities. The United States is cautious in granting such an approval for fuel cycle activities to South Korea and Taiwan for geopolitical reasons.

In the region, however, growing nuclear power generation would pose the serious challenge of mounting spent fuel stockpiles and their disposition. It is notable that disposition of spent nuclear fuel will be a serious problem given the fact that thirty-three more reactors are in construction in four countries in the region—making up about 50 percent of the world’s reactors under construction. In the near future, interim storage facilities of spent fuel in Northeast Asian countries—Japan, South Korea, and Taiwan—could fall short, which could be worsened by the fact that spent fuel of U.S. origin could not be taken back to the United States under current U.S. regulations. In addition, smaller countries in Southeast Asia, such as Vietnam and Thailand, will also face a similar challenge once they start their nuclear energy programs. All countries in the region need to work together in addressing a common problem, namely accumulated spent fuel, to minimize proliferation dangers, technical obstacles, and economic costs.

## **Implementation of Nonproliferation Measures**

### *The Ideal*

Stringent enforcement of domestic export controls is in place in all countries in the region, including Taiwan. Regional cooperation in implementing interdiction of clandestine shipping of dual use technology as well as nuclear-related items would be deepened through the Proliferation Security Initiative (PSI). Since China, Japan, and South Korea may become major exporters of nuclear technology and equipment, strict compliance with export controls and nonproliferation rules is essential for further developing nuclear industry in the region.

REFERENCE:

**Expansion of nuclear activities  
in Northeast Asia**

*(This section is mostly cited from the World Nuclear Association's website.)*

**Nuclear Power**

***Japan***

Japan's fifty-four reactors provide some 30% of the country's total electricity production (29% in 2009), from 47.5 GWe of capacity (net). There are plans to increase this to 41% by 2017, and 50% by 2030. At present Japan has fifty-four reactors totaling 46,102 MWe (net) on line, with two (2756 MWe) under construction and twelve (16,532 MWe) planned.

***South Korea***

Today twenty reactors provide almost 40% of South Korea's electricity from 17.7 GWe of plant. In 2008 nuclear capacity was 17.7 GWe net (24% of total), supplying 36% of demand (151 billion kWh gross, 144 billion kWh net in 2008). In 2020 nuclear capacity of 27.3 GWe is expected to supply 226 billion kWh—43.4% of electricity, rising to 48% in 2022, and by 2030 the government expects nuclear to supply 59% of the power, from 41% of the installed capacity.

***China***

China has twelve nuclear power reactors in operation, twenty-four under construction, and more about to start construction soon. Additional reactors are planned to give more than a tenfold increase in nuclear capacity to 80 GWe by 2020, 200 GWe by 2030, and 400 GWe by 2050.

In 2007, nuclear power plants provided 62.86 billion kWh—2.3% of total—and there is now 8.6 GWe (net) installed. By the end of the 12th Five Year Plan (2011–15) some 25 GWe is planned to be operational, and 45 GWe by the end of the 13th Five Year Plan.

***Taiwan***

Nuclear power has been a significant part of the electricity supply for two decades and now provides one quarter of base-load power and 17% overall, though nuclear comprises only 11% of 46 GWe installed capacity.

Total power generated in 2008 was 238 billion kWh, nuclear being 17% of this, 40.8 billion kWh gross, 39.3 TWh net. Taiwan has six nuclear power reactors operating, and two advanced reactors are under construction.

### **Fuel Cycle Activities of Japan**

Regarding nuclear fuel cycle activities, Japan has no indigenous uranium, and its requirements of uranium (8872 t in 2007) were met by imports from Australia (about one third), Canada, Kazakhstan and elsewhere. To establish an indigenous energy supply and reduce its reliance on imports, Japan has been progressively developing a complete domestic nuclear fuel cycle industry, based on imported uranium. Currently, Japan Nuclear Fuel Ltd (JNFL) operates enrichment services in *Rokkasho*. It had seven cascades each of 150,000 SWU/yr, though only one has been operating. It has been testing a lead cascade of its new design, and is re-equipping the plant with this, to come on line in September 2011. The plant's eventual capacity is planned to be 1.5 million SWU/yr by about 2020.

As for reprocessing activities, the principle of Japan's policy is to fully utilize imported uranium, extracting an extra 25–30% of energy from nuclear fuel by recycling the unburned uranium and plutonium as mixed-oxide fuel (MOX). In October 2004 the Atomic Energy Commission advisory group decided to proceed with the final commissioning and commercial operation of JNFL's 800 t/yr *Rokkasho-mura* reprocessing plant, costing some JPY 2.4 trillion (US\$ 20 billion).

Japan's plutonium stocks have increased, with separated reactor-grade plutonium (about 65% fissile) stored and awaiting use in MOX fuel. (Construction of a MOX plant is delayed, though.) At the end of 2008 there were 25.2 tonnes of fissile plutonium (Puf) held by Japanese utilities overseas: 13.8 t in France and 11.4 t in the United Kingdom (UK), plus 6.6 t Puf (9.7 t Pu total) held domestically by JAEA and JNFL. At the end of 2009, there were 10.06 tonnes Pu stored in Japan and 24.13 t stored overseas. While Japan plans to use plutonium to make MOX fuel by mixing it with unburned uranium for the time being, Japan continues to research and develop a fast breeder reactor cycle. Once an MOX fuel cycle is established, the amount of stored spent fuel would be reduced.

***State of Play***

Currently, the significant proliferation concern from the region (for other regions) is North Korea's alleged cooperation with Syria and Iran. China's nuclear cooperation with Pakistan as well as nuclear cooperation with India by the United States, France, Russia and Japan (to come) may potentially deteriorate the strategic environment in South Asia if risks are not properly controlled.

Threat perceptions of nuclear proliferation vary across the region, reflecting their perceptions of the regional strategic environment and foreign policy priorities. For example, some countries may not see threats of nuclear proliferation as imminent to their security, thus in some cases export control regulations are not strictly applied. Therefore, levels of commitment to global nonproliferation measures including PSI, domestic implementation of UNSCR1540, and stringent export controls are different. The private sector in the region may not share the sense of urgency in coping with proliferation threats under the pressure of severe market environments. Since many corporations regardless of their size have occasions to deal with dual use items, the potential for getting involved deliberately or accidentally in a proliferation chain is not small. As international nuclear business expands, more robust export controls enforcement must be implemented region-wide.

There are also differences in views on the effectiveness of the enforcement mechanism of the international nonproliferation regime. With regard to U.N. sanction resolutions on North Korea and Iran, there is often discord between the United States and other western countries (which try to introduce stronger sanction measures) and China (which acts to soften sanctions). It fails to convey a strong message to proliferators, which should be inducement enough for them to return to compliance.

## Policy Recommendations

- Concerned states should establish a strategic dialogue process in the region to discuss how to reduce the role of nuclear weapons without deteriorating the stability of strategic relationships among states.
  - Existing U.S.-China strategic dialogues should be further deepened and upgraded. It is also important to involve U.S. allies such as Japan, the ROK and Australia in this process through establishing closer consultation mechanisms with the United States, linking up with U.S.-China dialogues, so that they can express and reflect their strategic concerns within U.S.-China dialogues.
  - At first, it is necessary to reach common understandings on the nuclear dynamics of the region, and even terminologies related to strategic and nuclear issues, such as “deterrence and extended deterrence,” “strategic stability,” and “transparency.”
  - At the same time, supplementary confidence-building measures should be undertaken between nuclear weapons states and non-nuclear weapons states in the region. One of the items to be dealt with in this context should be the transparency of nuclear arsenals and doctrines of nuclear weapons states, which would constitute a foundation for strategic stability.
  
- All parties should remain committed to the Six-Party process, and keep on sending a clear, unified message to North Korea that the total dismantlement of its nuclear weapon program is the only acceptable goal while clearly promising to provide negative security assurance.
  - Five parties of the Six-Party process, particularly China, the United States, South Korea and Japan, should better coordinate on the conditionality of economic assistance.
  - China, South Korea, Japan and the United States should agree on risk minimization measures in various scenarios, and increase their preparedness for contingencies, including the security of nuclear facilities and materials.

- Allies should deepen discussion on the relationship between reassurance of extended deterrence, the decreasing role of nuclear weapons in extended deterrence, and nuclear disarmament, in order to consolidate a foundation of regional security architecture.
  - Alliance dialogue mechanisms at the political and administrative level should be further upgraded, and they should discuss and consolidate their common understanding on the changing nature of threats to regional stability, complementarity of conventional forces with nuclear force, and various functional regional cooperation mechanisms and their linkages with alliance structures.
- Concerned states should establish better transparency measures for civilian use of nuclear energy in the region, and discuss how to fulfill the needs of energy security with nuclear energy without undermining nonproliferation values and how to cooperate in mutually reducing suspicion over nuclear programs.
  - Discussion items should include the possibility of a regional solution regarding the disposition of spent fuel, which is a common problem that non-nuclear weapon states in the region need to address as soon as possible.
  - The appropriateness of a regional solution for reprocessing and a regional nuclear fuel cycle control system should be examined for feasibility and the risks of proliferation and nuclear terrorism.
  - Institutionalization of the exchange of information on the operations of nuclear-related facilities should be enhanced in order to build confidence among states. Sharing environmental monitoring information, which could help nuclear accidents, should also be promoted as it would help increase awareness of the safety of operations of nuclear facilities.

# Maritime Security in Northeast Asia: Naval Competition and Maritime Safety

Jon M. Van Dyke

## **The State of Play**

Numerous difficult maritime disputes in East Asia continue to make it difficult for the countries of this region to work together. Among these disputes are:

- The Northern Territories dispute between Japan and Russia.
- The dispute between Japan and Korea over the sovereignty of Dokdo.
- The maritime delimitation of the East Sea/Sea of Japan.
- The appropriate name to be used for the East Sea/Sea of Japan.
- The continental shelf claim made by Japan in the Pacific.
- Whether uninhabited islands should be able to generate extended maritime zones and to influence maritime boundaries.
- The status and legitimacy of the maritime security zones claimed by North Korea and China.
- The legitimacy of the straight baselines claimed by Japan, North Korea, South Korea, and China.
- The maritime delimitation of the Yellow Sea/West Sea between North Korea and China.

- The maritime delimitation of the Yellow Sea/West Sea between South Korea and China.
- The maritime delimitation of the Yellow Sea/West Sea between North Korea and South Korea.
- The status of the waters in the Bohai Gulf.
- The maritime delimitation of the East China Sea between South Korea and Japan (and the status of the joint development zone between these two countries).
- The maritime delimitation of the East China Sea between China and Japan.
- The dispute over the Senkaku/Daiyudao islets in the East China Sea between China/Taiwan and Japan.
- Navigational rights through exclusive economic zones of other countries.
- Military activities in exclusive economic zones of other countries.
- The regime governing hydrographic surveying.
- The continental shelf claim in the South China Sea presented jointly by Malaysia and Vietnam.
- The role of regional organizations (NOWPAP, COBSEA, PEMSEA) in addressing environmental problems in shared ocean areas.
- The role of Taiwan (Chinese Taipei) in regional organizations and fishery organizations.

**The Cheonan Sinking.** The sinking of the 1,200-ton corvette *Cheonan* on March 26, 2010, resulting in the deaths of forty-six sailors, is a ready reminder of the instability of this region, and the unpredictability of North Korea, which, according to international investigators, launched the torpedo that sank this modern warship from one of its midget submarines.

Such a blatant military assault should not go unpunished, but finding the appropriate response is difficult, because no one wants to escalate the confrontation on the Korean peninsula. During the administrations of

Presidents Kim Dae-Jung (1998–2003) and Roh Moo-Hyun (2003–08), South Korea’s “Sunshine Policy” was designed to promote economic linkages with North Korea to reduce tensions. President Lee Myung-Bak has shown a less friendly face toward the North, but some economic activities between the two Koreas were continuing. His response to the sinking of the *Cheonan* has been to stop nearly all trade with North Korea, prohibit North Korean ships from using South Korean shipping channels, and ramp up broadcasting across the demilitarized zone. China and Russia appear to be blocking any action that the Security Council might take, so this incident does not seem to be headed for a satisfactory conclusion.

Talking is better than killing, and so efforts must continue to restart the dialogue between the two Koreas as well as the Six-Party Talks, which also include the United States, China, Japan, and Russia. A North Korean apology for the attack on the *Cheonan* as well as compensation for the deaths of the South Korean sailors should be included as part of any ultimate resolution of this matter. But how could discussions begin that might lead to such a result?

The *Cheonan* was sunk near Baengnyeong Island, an 18-square-mile (46 square kilometers) South Korean island situated less than 10 miles (16 kilometers) from the North Korean coast in the Yellow (West) Sea (and more than 100 miles, or 160 kilometers, from the South Korean mainland). It is one of five small South Korean islands that hug the North Korean coast west of Incheon. North Korea does not challenge South Korea’s sovereignty over these islets, but it does question the validity as a maritime boundary of the “Northern Limit Line,” which was drawn on August 30, 1953, by U.S. General Mark Clark, the United Nations commander at the end of the Korean War. General Clark drew this line to stop South Korean vessels and planes from navigating north of this line. The line was never discussed with North Korea, and North Korea has never accepted or acknowledged it and has repeatedly protested against it.

The Northern Limit Line divides South Korea's five coastal islets and the North Korean coast, and it has the effect of blocking North Korea's access to the fishing resources in this part of the Yellow (West) Sea, particularly the valuable blue crabs, which are plentiful between May 1 and July 15 each year. North Korea has always wanted to increase its share of the catch, because the crabs can be exported for hard cash to China and Japan. Chinese ships also come into this region to illegally harvest the blue crabs.

Military confrontations over the crabs occurred on June 15, 1999, when 30 North Korean sailors were killed, and on June 29, 2002, when a North Korean vessel sank a South Korean patrol boat, killing five South Koreans, and a North Korean vessel was set aflame. More recently, on November 10, 2009, naval vessels from the two Koreas exchanged fire, reportedly causing damage to a North Korean patrol ship, in an incident known as the Battle of Deacheong. Some have suggested that the sinking of the *Cheonon* might have been a reprisal for the confrontation last November.

The Northern Limit Line has served a useful purpose as a line of military control, but if the two Koreas are eventually seen as two independent countries (rather than as two halves of a temporarily divided country), then this line would probably not be viewed as a legitimate maritime boundary under the "equitable principles" that govern boundaries, because it denies North Korea access to adjacent sea areas. In blocking such access, this Line is contrary to the principle of "non-encroachment" and it is contrary to recent precedents because it gives the small islands equal capacity to generate maritime zones as the continental land mass of the North Korean coast. In case after case, tribunals have ruled that small islands should have limited capacity to affect a maritime boundary, especially when their effect is to change dramatically the result that would exist in their absence.

The most recent decision to reach that conclusion was issued last summer by the International Court of Justice regarding the maritime boundary between Ukraine and Romania in the Black Sea. Ukraine had argued that

its tiny Serpents' Island should be considered in drawing the boundary, but the Court disagreed. It recognized a territorial sea "enclave" around Serpents' Island but otherwise drew the boundary as if the islet did not exist at all. A similar result was reached in one of the first boundary cases—between France and the United Kingdom in the English Channel in the late 1970s—where the U.K. islands of Jersey and Guernsey (which are nestled next to the French coast) were given territorial sea enclaves, but were otherwise ignored in the delimitation. Almost all other decisions have reached similar results, with small islands having a limited or reduced impact on the maritime boundary, even if they have substantial populations living on them.

In September 1999, North Korea unilaterally announced that it had redrawn the maritime boundary in this part of the Yellow (West) Sea to divide the waters between the two Koreas equally, without regard to the five South Korean islands. President Roh sought to promote a joint fishery zone in this region during the final months of his administration.

The declaration issued on October 4, 2007, after Roh met with North Korean leader Kim Jong-Il in Pyongyang stated that: "The South and the North have agreed to create a 'special peace and cooperation zone in the West Sea' encompassing Haeju and vicinity in a bid to proactively push ahead with the creation of a *joint fishing zone and maritime peace zone*, establishment of a special economic zone, utilization of Haeju harbor, passage of civilian vessels via direct routes in Haeju and the joint use of the Han River estuary." (Emphasis added.)

Some observers have speculated that North Korea views this statement as having erased the Northern Limit Line, even though the "joint fishing zone and maritime peace zone" was never established. President Lee has rejected this approach, describing the Northern Limit Line as a "critical border that contributes to keeping peace on our land."

It is hard for any political leader to take action that is perceived as making

a territorial concession, especially one that may create additional security concerns. But perhaps a way could be found to address this dispute in a way that strengthens South Korean security, by allowing for increased North Korean fishing while reducing the military assets facing each other in this region.

South Korea has legitimate concerns that North Koreans might overfish the crabs, causing substantial harm to future harvests, so careful regulation would be required to limit the number of vessels going after the crabs. Other environmental issues also require joint management, including the spotted seals that are threatened by loss of habitat and human activities.

Because of these complexities, it is probably best to start with a closely monitored joint fishery zone, to promote confidence, with serious discussions regarding a formal maritime delimitation to start later after the two Koreas have had a period of successful cooperation. The five South Korean islets are entitled to a territorial sea, but because they are so close to North Korea, it might be appropriate to consider a territorial sea around them that would be less than twelve nautical miles, especially on the northern side of the islets. Some have suggested a “fingers” approach, whereby North Korea would govern the maritime space extending between the South Korean isles, out to a median point between the continental coasts of the two Koreas. The final boundary must be determined through negotiations, focusing on the unique geography of this region and the security concerns of each country. The present stand-off is not in anyone’s interests, and so some innovative outside-the-box thinking is called for.

**Challenging Political Conflicts.** The *Cheonan* incident reminds us of the continued instability in the Korean peninsula and the unresolved status of the division of that area. Both the Democratic People’s Republic of Korea (North Korea) and the Republic of Korea (South Korea) are now members of the United Nations and have diplomatic relations with many other countries, but a peace treaty between the two has never been negotiated and each supports eventual reunification (although with

markedly different visions of what such a reunification would look like). Until either reunification, or a real acceptance of having two separate countries on the peninsula, takes place, it will be impossible for real cooperation to take place.

The unresolved status of Taiwan also presents a huge obstacle to any real regional cooperation. Taiwan is a *de facto* independent state at the present time, with a strong economy and fishing activities all over the region and the Pacific, but China blocks it from active participation in virtually all regional and global organizations.

Perhaps even more challenging than either of these status issues is the long-festering enmity between the nations of Northeast Asia resulting from the aggressive and oppressive acts of Japan against its neighbors before and during World War II. Until Japan engages in a true reconciliation with its neighbors through a meaningful apology and a candid examination of the past, regional cooperation will remain elusive.

China continues to be an authoritarian dictatorship sharply limiting the freedoms of its people, and China's willingness to crush internal dissent by abusing those who challenge the government seems to be increasing. North Korea also remains an authoritarian dictatorship, denying its citizens even minimal human rights freedoms.

**Military Realities.** China is increasing its naval (and especially its submarine) fleet dramatically and this expansion will change the military balance in the next few years. China's increasingly vocal claims to control of its adjacent waters have put other countries on the defensive. North Korea remains erratic and unpredictable, and efforts to engage it in regional activities have been largely unsuccessful. The United States continues to have a substantial presence in the region, but it will not be able to provide a counterweight to China alone. Piracy threats to shipping also continue to present concerns.

## **The Relationship of the Present Situation to the “Ideal”**

The present reality in Northeast Asia is different in significant ways from the “Notional ‘Ideal’ Security State for Northeast Asia in 2025” identified by previous meetings of the Maureen and Mike Mansfield Foundation.

- Effective mechanisms do not exist to address common security concerns and other interests.
- Tensions on the Korean peninsula remain high. North Korea does not participate in regional organizations.
- China and North Korea do not have democratic governments and do not respect fundamental human rights.
- Cooperation among the nations of Northeast Asia continues to be difficult, exacerbated by deep historical wrongs that have not been reconciled as well as continuing differences over fundamental human rights and disputes over territory and maritime space.
- Nuclear weapons continue to threaten the peoples of this region, and expenditures on military weaponry are increasing.
- The countries of the region, particularly China, continue to resist making commitments to global climate change efforts, and other serious regional environmental problems have not been properly addressed.

## **Implications for Regional Integration and Cooperation**

The countries of Northeast Asia need to strengthen their regional cooperation with regard to their shared maritime space. The United Nations Environment Programme has helped to establish a regional seas programme in Northeast Asia—called the North-West Pacific Regional Seas Programme, or NOWPAP—but this organization remains essentially dysfunctional. One country in the region—the Democratic People’s Republic of Korea (North Korea)—has not been participating at all in this Programme. Another country—the Russian Federation—has failed to pay any of its

financial obligations to the organization. An Action Plan was adopted in 1994, but the Republic of Korea (South Korea) has not formally adopted it, apparently because of disagreement over the name that should be used for the body of water between Korea and Japan. Unlike most of the other regional seas programs, no binding convention has been drafted to reflect real commitments by the countries of Northeast Asia to make this program actually work. Financial allocations remain a major topic for concern. Some countries favor equal contributions by each country, but China has argued that contributions should be based on “the principle of common but differentiated responsibilities.”

The report of the October 2008 meeting of NOWPAP in Jeju states that “some member states have not paid their pledges for a long time,” and the NOWPAP coordinator called for increasing contributions by the member states to the Trust Fund. The participating countries disagreed also on priorities, with Japan arguing that the effort on Persistent Toxic Substance Hotspots was unnecessary compared to the problem of marine litter and that the financial contributions of Japan and Korea are “unrealistic and unfeasible.” The Russian delegate at this meeting, apparently in an effort to explain the failure of Russia to pay its pledged dues, stated that the 1994 Action Plan had been accepted by the Russian delegate “without any credentials confirming the right for such adoption.”

The absence of a binding convention to govern the NOWPAP region is a significant cause for concern. The other regions have treaties, and such a document would be important in Northeast Asia, for instance, to regulate ocean dumping, regulate pollution for land-based sources, require environmental impact assessments for significant ocean activities, promote the development of marine protected areas, and establish mechanisms for resolving disputes peacefully.

The reasons it has been difficult for the countries in Northeast Asia to work together to protect their shared ocean resources are not hard to identify. The geography of this region is somewhat daunting, with the vastness of

the Northwest Pacific east of Japan, and the other ocean areas broken into discrete smaller seas with distinct problems—the Yellow Sea, the East Sea, the East China Sea, and the Sea of Okhotsk. The region lacks traditions of political cooperation and significant historical animosities remain among the neighboring countries. China has an ancient tradition of regional domination and a continuing foreign policy that reflects a reluctance to participate in a regional regime on an equal footing with smaller powers. Russia tends to look toward Europe and pay less attention to its Far Eastern territories and coastal regions. North and South Korea are still formally at war, and North Korea has been reluctant to participate in NOWPAP at all. The issues listed at the beginning of this paper continue to divide the neighbors of Northeast Asia.

These problems are serious ones, but also serious is the need to make progress on protecting the marine resources of the region, which are under stress. Between 1973 and 1979, Russia dumped four nuclear ship reactors in the East Sea (off of North Korea), and they continued dumping nuclear waste in the years that followed, culminating in a dump of 900 tons of low level waste generated by nuclear submarines of the Russian navy directly into the East Sea in October 1993.

Oil spills have occurred in the region, most dramatically the spill caused by the break-up of the Russian tanker *Nakhodka* in January 1997 and the spill on the Korean coast in December 2007 caused by the *Hebei Spirit*. The *Nakhodka*, going from Shanghai to Petropavlovsk, Russia, broke up in stormy weather on January 2, 1997, in the East Sea (off the Oki Islands of Shimane Prefecture), with a cargo of about 19,000 tons of heavy oil, which caused heavy damage to Japan's coast. Thirty-one crew members were rescued from life boats, but the master drowned. After the *Hebei Spirit* collided with a Samsung crane barge in December 2007, 11,000 tons of oil leaked into the sea and onto the Korean coast. In June 2008, the International Oil Pollution Compensation Fund estimated the damage from this spill to reach up to 573.5 billion won because of the decrease in tourists and the damage to the fishing industry through destruction

of oyster beds, wildlife habitats, and scenic beaches.

The problem of overfishing in Northeast Asia is also increasingly serious. A report in the *Kyodo News* on October 20, 2009 stated that tuna caught in the East Sea now weigh less than half of what they used to, because advanced technology allows fishers to target schools of tuna, including young fish during their spawning season.

Changes to the marine environment caused by global warming also require immediate attention. Vast quantities of the giant Nomura's jellyfish have been swarming into the East Sea in recent years, killing other fish with their venom, lowering the quality and quantity of catches, increasing the risk of capsizing trawlers, and stinging fishers. In recent months, record numbers of spotted seals have appeared along the coast of Hokkaido. Although visitors flock to shoot pictures of the popular sea mammals, they create havoc with the marine environment, because a single spotted seal eats five kilograms of seafood a day, devastating the livelihoods of fishers in the area.

The marine debris problem remains an important challenge in Northeast Asia, as elsewhere, and bold action is needed to control the problem by requiring all fishing operations to use identifiable fishing gear—with an identifiable net mesh or coded wire tags (developed for biological research) put into netting at close intervals. A Regional Action Plan on Marine Litter was finally adopted in 2007. Regional Coordinating Units (RCUs) have been established in Toyama, Japan, and Busan, Korea. A Regional Oil Spill Contingency Plan was adopted in 2003. A Memorandum of Understanding on Regional Cooperation Regarding Preparedness and Response to Oil Spills in the Marine Environment of the North-West Pacific Region was signed in 2004–05. But these accomplishments leave unresolved many other important environmental challenges. The time is late for the marine regions of Northeast Asia, and the neighboring countries of this region must join together to protect their shared marine areas.

## **Short to Medium Term Policy Recommendations**

Some of the disputes among the countries of Northeast Asia involve deep historical divisions, and others involve serious conflicts over valuable resources. All present challenges and have eluded resolution. Asian countries have traditionally been somewhat reluctant to use tribunals or binding arbitration to solve their problems, and prefer direct negotiation, but Malaysia and Singapore as well as Malaysia and Indonesia have recently submitted sovereignty disputes over small islands to the International Court of Justice, and Malaysia and Singapore as well as Bangladesh and Myanmar have submitted disputes to the International Tribunal for the Law of the Sea.

Some of the disputes should, therefore, be submitted to tribunals for resolution, and for others it may be time to try a middle ground, namely nonbinding mediation or conciliation by independent experts to promote solutions. Some of these issues might best be bundled, so that settlements can be reached that would provide some benefits to each of the involved countries. The inability to resolve these disputes has prevented the peoples of East Asia from exploiting needed resources and working together to protect their shared seas for future generations.

Most importantly, the nationalistic hatred attributable to the abuses before and during World War II must be addressed and resolved. A common historical understanding must be reached, and it would be best to have common history textbooks to enable the young from the region to have a shared understanding of their regional history. Once progress is made in these areas, then viable regional organizations can be built, to protect common environmental resources, and also to promote respect for human rights around the region.

# Rebalancing, G-20 and Regional Economic Infrastructure in East Asia

Ku-Hyun Jung

## **Global Imbalance and the G-20**

**G**lobal imbalance was not the main cause of the current economic crisis. Rather, it was the background that precipitated the current crisis. The triggers were the subprime mortgage defaults and the collapse of Lehman Brothers, but the main cause was the excessively loose monetary policy of the U.S. Federal Reserve during 2001–2004. The Fed kept policy interest rates below 2% for three years, from December 2001 to November 2004, which made low-interest loans available to households and businesses and thus created bubbles. Overexpansion of the financial sector, partly because of excessive liquidity and also because of the globalization of finance and development of financial engineering (derivatives), was another background condition that led to the global economic crisis.

Global imbalance has been with the world economy for most of the last decade. The U.S. current account deficit averaged 4.8% of the nation's GDP during 2002–04 and 5.7% during 2005–07. China's current account surpluses have been above 4% of its GDP since 2005 and averaged 9.8% during 2006–08. Current account imbalances are a good indicator of both internal and external imbalances. We know that internal imbalances

are reflected in external imbalances, as expressed in current accounts (CA). Excessive expenditures of both the household and government sectors in the U.S. and excessive savings and investments in China are the underlying causes of the global imbalance. Nevertheless, they did not directly cause the large-scale defaults on home mortgages or the collapse of Lehman Brothers. It should also be pointed out that the Chinese yuan was revalued 19% nominally and 25% in real terms between June 2005 and June 2007. This relatively large devaluation did not help very much to reduce China's large CA surplus.

The global imbalance is a problem now because, without substantial rebalancing, sustainable global economic growth is not likely. The contraction of the U.S. economy has decreased consumption, and thus reduced CA deficits to a more sustainable level of 3% of GDP in 2009 and 2010. But there is no guarantee that this level of CA deficit will be maintained after the U.S. economy returns to normal growth. It is more likely that CA deficits will increase to the pre-crisis level of 5% to 6%. China's CA surpluses have also been reduced to the estimated level of 5% in 2010, which is still too high to be sustained.

To pull the global economy out from the great recession, increases in consumption and investments are required in advanced economies, such as the U.S. and EU. But increasing expenditures in the U.S. will exacerbate the imbalance and cannot be sustained, and many EU countries are suffering from excessive public-sector debt. Since we cannot have both rebalancing and resumption of growth simultaneously, we need measures to achieve a reasonable balance. In the current monetary system of flexible exchange

**Table 1: Current account balance of the U.S. and China**  
(as % of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>U.S.A.</b>	-3.9	-4.3	-4.7	-5.3	-5.9	-6.0	-5.1	-4.7	-2.7	-3.3
<b>China</b>	1.3	2.4	2.8	3.6	7.1	9.3	10.6	9.4	6.0	5.0

Source: Data from International Monetary Fund, International Financial Statistics database.

rates, CA imbalances have self-correction or self-adjustment mechanisms. If, for example, the South Korean economy has three consecutive years of CA imbalances exceeding 2% of her GDP, the exchange rate will move to correct the imbalance. This market discipline works for most countries that have a flexible exchange rate system.

There are two economies that are not properly disciplined by the foreign exchange market. They are the United States and China. The U.S. economy can avoid market discipline and can have a long period of CA deficits, thus aggravating the global imbalance. There are two reasons why the U.S. economy can defy the market discipline. One is because the U.S. can print money and sustain the imbalance. (Remember the old John Connelly remark: “The dollar is our currency, but your problem.”) And this is exactly what the Federal Reserve is doing currently in the name of quantitative easing. It announced it will buy Treasury bills worth \$0.6 trillion (on top of what it did in 2009) in 2010, thus further pumping money to the U.S. and global economies. And this new bubble created by the Fed will again destabilize the global financial market. Another reason is that CA surplus countries have relatively few options other than to go back to the U.S. with their surplus money. No other capital market can match the depth and creditworthiness of the U.S. capital market. If there is an alternative currency, such as Special Drawing Rights (SDR), then the U.S. economy will be subject to market discipline, but the prospect of an alternative currency replacing the U.S. dollar seems to be remote over the next decade.

China can also sidestep market discipline mainly because of two reasons. One is that they manage yuan exchange rates. Movement in the yuan is more or less determined by the policy goals of the People’s Republic of China (PRC), not by market forces. Tight control of long- and short-term capital movements and government control of foreign exchanges are additional determinants in the yuan’s direction. Thus, China can maintain a target exchange rate and have a long period of substantial CA surpluses. This will increase the domestic money supply and apply pressure on the

central bank to raise interest rates and reduce money supply. But the People's Bank of China has leverage over large state-owned banks in China and dictates their loan policy, thus directly controlling the money supply. Thus these two economies, the U.S. and China, who can avoid market discipline and can sustain a long period of large CA imbalances, are the main cause of the global imbalance.

China and the U.S. are not the whole story, however, since there are other countries involved as well, especially on the surplus side, such as Japan and Germany. But China and the U.S. are the major actors in the global imbalance and they could largely settle the issue between them. Given the nature of the problem, however, namely making structural changes in the economy, bilateral talks may not be an effective mechanism. The U.S. should reduce government deficits and increase household savings, and China should reduce investments and increase consumer spending. All of those changes are hard to implement, and even if implemented, they would need time to have an impact on the global imbalance. U.S. pressure on China to revalue the yuan is not going to work either. First, China will be extremely reluctant to yield to pressures from Washington. Secondly, revaluing the yuan alone may not substantially reduce the U.S. CA deficits, as has been shown by the experience of 2005 to 2007. Here is one reason why a multilateral mechanism is needed to resolve the global imbalance.

The G-20 is an appropriate venue for tackling global macro-economic issues as well as designing a new financial architecture. And it could become an essential venue for other global economic issues such as trade liberalization and climate change, because developed economies and emerging markets are two camps that have highly contrasting views on many such issues. The single most important economic trend of the last decade is the emergence of China and other major emerging economies. And this crisis has shown that BRICs (Brazil, Russia, India and China) and other emerging economies can have respectable economic growth with less dependence on the market of advanced economies. This new reality has to be reflected in global governance, and it is only natural that

any informal global dialogue scheme should include major emerging economies. Which forum, G-20 or G-13/G-14, is better is by now a muted question. There already have been five G-20 summit meetings between November of 2008 (Washington, D.C) and November of 2010 (Seoul), and the gatherings have been quite effective so far in managing the most serious economic crisis potentially in several decades. There is no question that the G-20 is a more representative forum than the G-7/G-8, at least on global economic and financial issues and perhaps also on other global issues such as climate change and trade liberalization.

The G-20 Seoul summit had a mixed performance. It failed to deliver a solution to the most pressing problem of global imbalance. Instead, the countries agreed to develop “indicative guidelines,” by which to coordinate the macroeconomic policies of major economies, before the next summit meeting scheduled in one year’s time in Paris. The “guidelines” are expected to include more variables in addition to those the U.S. government proposed earlier, namely current account targeting and market determination of exchange rates. The Seoul summit made some progress in some other areas, such as the governance change of the IMF, developing financial safety nets and strengthening capital requirements of major banks (Basel III). In addition, the Seoul Development Consensus contained some tangible programs to help out the least developed countries. But there was little progress made on such fronts as global trade negotiations, curbing climate change and fighting corruption. Again back to the global imbalance, the success of rebalancing will ultimately depend on how effectively the new system will discipline two outliers in the global economy.

## **G-20 and Its Implications for East Asia**

Global imbalance is by definition a global macroeconomic issue and does not have a direct impact on regional economic integration in East Asia. But if the global imbalance can be reduced, it will have a positive effect on the entire East Asian economy. Trade in East Asia has expanded based on third-country reprocessing, meaning parts and industrial raw

material are exported from Japan and South Korea (and Taiwan) to China and assembled there and re-exported to the U.S. and EU. Consequently, a complex network of production links many different economies in the region. For example, it is estimated that 63.7% of Taiwan's exports and 53.3% of Korea's exports to China are for processing/re-exporting.<sup>1</sup> The expansion of China's domestic consumption will reduce Asia's dependence on advanced markets. China, with a population of over 1.3 billion and increasing purchasing power of middle-class consumers, can resemble a continental economy just like the U.S. economy. Appreciation of the yuan and the relative growth of the domestic sector will be good for other regional economies as well.

Asia will account for a bigger share of the global economy in the coming years, at least until 2030, and will also have a bigger voice in global governance, as is shown currently by quota and voting rights readjustment in IMF governance. And after successfully chairing the G-20 Seoul summit, South Korea in the future will have more confidence in dealing with global issues and feel more comfortable in playing the balancing role in East Asia.

If rebalancing proceeds smoothly even in the recovery phase of global recession, the need for regional financial coordination will not be substantial. China will have a bigger voice in global financial matters and could be satisfied with its new role. However, if the global imbalance is sustained and pressure rises on China over its exchange rate and macro-economic policy, then China and the region will be forced to examine a better mechanism to cooperate in their macro economies and financial balance. In the current regime of open capital market and floating exchange rates, small and open economies such as South Korea and many other East Asian economies remain vulnerable to volatile short-term capital movements. And some East Asian economies struck by the 1997–98 financial crisis are still stigmatized; whenever there is financial crisis, these economies show a high degree of volatility in foreign exchange rates and stock prices. The current regional arrangement to deal with the short-term liquidity

crisis is the multilateralized Chiang Mai Initiative (CMI), which went into effect in May 2010. If global financial instability continues and small Asian economies are adversely affected, then this could encourage the region to develop a new financial architecture. There are a few alternatives. One is to have a regional institution act as a lender of last resort, in a sense further institutionalization of the CMI. Another possibility is to have more stability in exchange rates among Asian economies, something similar to the European monetary system before the introduction of the euro in 1999. Furthermore, China wants to make its currency a regional currency and would be interested in a new regional financial structure to promote its ambition as well as ways to stabilize the regional economies.

## **Regional Trade Infrastructure**

In the past decade, there has been a surge of bilateral and plurilateral free trade agreements (FTAs) in the region. By last count (as of January of 2009), there were ninety-four FTAs concluded, signed or implemented involving one or more of the ten ASEAN members and three Northeast Asian countries. In addition, there are sixty-nine FTAs under negotiation and fifty-nine such agreements proposed, involving ASEAN+3 countries.<sup>2</sup> There are three characteristics to this criss-crossing noodle bowl of FTAs. First, ASEAN is the center of FTA movements in East Asia. Almost all countries in the broader Asia-Pacific region have already signed FTA agreements with ASEAN or are in negotiations for a trade pact. Second, there is little progress on FTAs among the three Northeast Asian countries, China, South Korea and Japan. Third, there is no consensus yet as to which countries should be included in the possible future regional FTA. Various proposals are on the table; ASEAN+3, ASEAN+6, an APEC FTA or some other trans-Pacific trade arrangements.

In June of 2010, there was yet another pseudo-FTA agreed to between China and Taiwan, which is called the Economic Cooperation Framework Agreement, or ECFA. It is not yet ready to be registered at the WTO as a complete regional trade agreement. The current agreement, which went

into effect in September in the format of the Early Harvest Program of ECFA, includes asymmetric tariff reductions on a number of products and services from both sides. The reason why China and Taiwan agreed in haste on a preliminary version of a full-scale FTA is very interesting. China wants to believe that an FTA with Taiwan will make sure that Taiwan will not pursue an independent Taiwan and the two countries could move a step closer to China's goal of "one nation, two systems." Taiwan wants to believe that the ECFA is an understanding that China will not object to Taiwan signing FTA agreements with third countries. As soon as the ECFA was inked, Taiwan began negotiating an FTA with Singapore and is proposing FTAs with other countries, including South Korea.

For South Korea, the improving economic relations between China and Taiwan are a potential threat, because they signify potential preferential treatment of Taiwan and Taiwanese firms by the mainland. This perception of discrimination has increased Korea's interest in a Korea-China FTA (free trade agreement). China has been prodding Korea for a bilateral FTA for some time. In recent years, whenever political leaders of China visited Korea, they emphasized the need for an FTA between the two countries. Korea, however, has been somewhat cautious of China's overtures, because of sensitive areas such as primary products (agriculture and fisheries) and labor-intensive industries affecting the fragile SMEs (small and medium enterprises) in Korea. Still, the two countries have been studying the impact and feasibility of a bilateral FTA for the last few years, and it is possible that they can start formal negotiations within a few years.

Japan-Korea FTA negotiations were suspended at an early stage due to disagreements on agricultural products. But the Korea-China FTA negotiations, if started, will prompt Japan to renew its interest in an FTA with Korea. Thus, it is quite possible that South Korea can start formal FTA negotiations with its two large neighbors within the next few years. The Korea-EU FTA will become effective in June 2011, and the Korea-U.S. FTA that was reached in 2007 could finally go through the ratification process after the U.S. mid-term elections in early November of 2010.

The key to regional trade integration in East Asia is a Japan-China FTA, or a tri-party FTA among three Northeast Asian countries. If both Korea-Japan and Korea-China FTA negotiations proceed, there is no reason why there cannot be a tri-party FTA joining China, Japan and Korea, a CJK FTA. It could become a cornerstone to an ASEAN+CJK FTA, which will in turn be the foundation for a broader regional agreement of ASEAN+6 or even the pan-Pacific FTA. But recent developments around the Seoul G-20 Summit and the Yokohama summit meeting of APEC leaders added another dimension to the regional trade picture. The Trans-Pacific Partnership (TPP) agreement on trade liberalization has been a minor FTA involving four small countries in the Pacific. But the United States and four other countries decided to join the TPP and they agreed to complete a comprehensive FTA by November of 2011. And just before the Seoul G-20 Summit, Prime Minister Kan Naoto of Japan expressed a strong interest in the TPP. Kan announced that Japan will make up its mind about jointing the TPP negotiations by June of 2011.

It is still too early to speculate whether Japan will indeed join the TPP negotiations. The biggest hurdle will be the opening up of Japan's agricultural market, which will involve a rather fundamental shift of power in Japanese domestic politics. But if that happens, the whole picture of regional trade will change; the focus could shift from ASEAN to the TPP. And for Japan, which has experienced tough negotiations with China regarding the disputed islands in the South China Sea in October of 2010, the TPP could be an opportunity to cement closer economic relationships with the United States on top of a very close security relationship between the two countries.

Further complicating the regional trade architecture is the artillery attack on a South Korean island in the Yellow Sea by North Korea on November 23, 2010. And China's response to two consecutive provocations by North Korea (including the sinking of the naval ship Cheonan in March 2010) by North Korea raised serious doubts in the mind of South Koreans about the true intentions of China and their trade dependence on China. It is likely

that these recent military attacks on South Korea by the North will have serious repercussions on the future relationship between South Korea and China. Thus it is very difficult to speculate on the possibility of a regional FTA in the coming decade. In this sense, East Asia is at least sixty or more years behind Europe, if we remember that the customs union among the original six members of the EU was agreed upon in 1957. My pessimistic projection is that the ASEAN+CJK FTA or a broad-based regional FTA would not happen before 2017, sixty years after the Treaty of Rome.

Yet East Asian trade integration has advanced without a formal trade agreement in the last three decades. It was largely driven by private initiatives, both in trade and direct investment. As long as reasonable peace is maintained in the region, economic interdependence will increase in the future.

## **Security Implications of Regional Economic Integration**

Since this conference has a fifteen-year time frame, it is worthwhile to think about the economic realities of the year 2025 in East Asia. It is quite possible that China's GDP will reach the size of the United States by 2025. By 2020, the Japanese economy will be about one-third the size of China and will be much less influential than China in regional economic matters. Economically, Taiwan will be considered a part of China by then, given the fact that China accounts for 45% of Taiwan's total exports already. It is also possible that Korea's economic relations with China will be similar to the economic relationship between Canada and the United States.

However, there are two great uncertainties regarding the region in the next fifteen years; political and economic changes in China and the future direction of North Korea. Whether Korea or Taiwan will feel comfortable with such a high dependence on China on economic matters depends on the political regime in China. If China makes reasonable progress toward a more democratic political system and also a more market-oriented economic system with a much smaller state-owned sector and

less government intervention in the economy, liberal market economies of the region, namely, Taiwan, Korea and Japan, need not worry too much about their dependence on China. But if an alternative scenario of little change in China's political and economic system holds, liberal economies of the region will somehow want the United States to play a bigger role in the region both in economic and security matters.

Another uncertainty about "2025 East Asia" is the future of North Korea. There are two scenarios here. If either North Korea collapses and is integrated with South Korea or North Korea successfully undertakes an open-door and economic reform policy, the region will be on a more stable and progressive route. If the current situation persists in North Korea, meaning the impoverished regime surviving on nuclear and other military threats, the region's economic prosperity will have a great risk factor. Which scenario is more likely in North Korea in the next fifteen years again depends on China's political and economic systems. A more democratic China will no longer tolerate the absurd regime of North Korea and will pressure North Korea to move along the economic reform route.

In the end, the question is whether increasing economic interdependence in East Asia will spur more stable security relations. It is my contention that even if East Asia develops a regional FTA by 2025, it will be an unstable FTA if China does not change her political and economic system to become more compatible with the liberal market economies of the other countries in the region. In that sense, closer economic relations will be helpful to developing a regional security arrangement, but political and security realities will in the end dictate regional economic integration. And the extent of China's political and economic reform depends on her internal developments. The peace and prosperity of East Asia in the next fifteen years will largely depend on China's internal developments and on China-U.S. relations.

## Chapter Endnotes

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1. Seungshin Lee, “ECFA and Its Implications for the Korean Economy,” (paper presented at the 19<sup>th</sup> Seoul-Taipei Forum, Seoul, Korea, October 13–15, 2010) 3.
2. Siow Yue Chia, “Trade and Investment Policies and Regional Economic Integration in East Asia,” (Asian Development Bank Institute working paper, April 2010) 3.

# Asian Cooperation in a Global Context

Andrew Elek

There is considerable potential for synergy between global and regional cooperation. The G-20, which gives Northeast Asia a powerful voice in global decision-making for the first time, provides a new opportunity to project the region's shared interests into global deliberations.

The G-20's future is by no means assured. It will need to deal with problems far harder than the recovery from the 2008 crisis. Northeast Asia has much to gain by helping the new group take on new issues in ways that give it credibility and legitimacy. Therefore, exercising collective leadership in the G-20 and other global institutions is, for now, more urgent and important than cooperation within Northeast Asia itself.

There is room for intra-regional cooperation, including reducing the cost and risks of commerce among economies. But such cooperation should not disadvantage others. There are many ways to work together in ways that set precedents for similar cooperation on a wider stage.

## **Global and Regional Cooperation**

We live in a global century. The big security issues we face, like nuclear proliferation, need a global solution. Avoiding the risk of catastrophic climate change obviously depends on global cooperation, while the global financial crisis has served as a reminder of the interdependence of economies in all regions.

Governments of neighboring countries and close trading partners will often have shared interests in how these big issues are addressed in global forums. If a group of governments, for example Northeast Asian governments, come up with proposals, they can promote global consensus on them in wider forums. In this case, the options are:

- East Asian networks including ASEAN+3;
- The APEC forum and the East Asia Summit process, which is also becoming trans-Pacific;
- Multilateral bodies including the WTO and, now, the G-20.

Economic cooperation in Northeast Asia should certainly be outward-looking. China, Japan and the Republic of Korea are the second, third and eleventh largest economies in the world—they cannot expect their interests to be served adequately by cooperation on less than a global scale.

International commerce is becoming increasingly dominated by supply chains and production networks that are global, not just regional. In such a highly integrated world, it is no longer sensible to think in terms of drawing lines around sub-regions or down the middle of either the Atlantic or the Pacific.

In the 21st century, it is no longer useful to think about regional economic integration in simplistic FTA (free trade agreement) terms. These discriminatory trade deals are based on international business models of the 1950s; they cut across the global supply chains and production networks

that are coming to dominate international commerce. FTAs divert trade and investment from others, leading to resentment and a chain reaction of other defensive preferential trade agreements.

A smarter approach to economic integration is described below, based on the examples of open regionalism being set by ASEAN and APEC. These groups are integrating in practical ways that do not seek to divert economic activity away from others. On the contrary, their cooperative arrangements can be emulated by any other group of economies, leading towards deeper global economic integration.

### **Cooperation in Northeast Asia**

As explained in other papers in this volume, cooperation on security issues is not easy. There are serious bilateral territorial tensions and uncertainty about the future of North Korea. The Six-Party Talks on nuclear weapons are stalled and China is not willing to make cooperative contingency plans to avoid risky, uncoordinated action in the event of regime collapse in North Korea.

The November 2010 spat about navigation around disputed islands demonstrates how national pride can cut across economic links. Deep economic cooperation, which needs to be based on deep trust, will not be easy within Northeast Asia itself. Therefore, it may be useful to look for ways to press collective interests in the way Northeast Asia relates to others.

Ongoing prosperity will need a peaceful global security environment. Within that, it will be essential to sustain relations with the United States. Asian governments could think together how they can help the United States to adjust to the new reality where it no longer calls the shots. History tells us this adjustment will be hard, when the United States is unable to live within its means and has a Congress that will be extremely hard to educate. This is not a good time for East Asia to cooperate in ways that do not take account of United States interests, especially its economic interests.<sup>1</sup>

The G-20 offers an excellent opportunity to shape a global economic and security environment that can accommodate enormous changes in relative influence. Asia can show collective leadership in the new forum if they know how they want to use it. Recently, Dobson (2009) wondered whether China and India:

*.... wish to use the global institutions to serve their own objectives? To second-guess the established powers? Or do they have global views and value to add?*

If they choose the last of these options, all Asia Pacific governments will be happy to work with them to shape the G-20 agenda.

### **Towards a Global Agenda**

The long-term challenge for the G-20 is to help all economies, not just those at the table, to realize their potential. Boosting the productivity of the poorest is urgently needed to narrow the currently unacceptable wide gaps in living standards.

There will be no lasting security in Northeast Asia, or anywhere else, while billions of people still live in poverty. Accordingly, the ideals for this region should include an additional expectation that, leading up to 2025:

*The region plays a leading role in a global effort to help all economies realize their potential for sustainable improvements in living standards.*

At their Seoul meeting, G-20 leaders endorsed a very wide-ranging program to foster development. Unfortunately, trying to promote too many things at the same time is unlikely to make a tangible difference. Northeast Asian governments should encourage the G-20 to become more focused. The effort to narrow development gaps should concentrate on helping all economies to follow the examples set in East Asia and engage successfully with the international economy.

The key is ever-deeper engagement in global production networks. The rapid emergence of these multi-economy networks makes it possible for economies to attract investment and participate in supply chains even if they have no more to offer than cheap land and labor. Fung (2005) and Kuroiwa (2009) explain that developing economies no longer need to tread an “arduous path” through exporting commodities and the least sophisticated manufactured exports. They can leapfrog to adding some value to quite sophisticated products that have higher income elasticities of demand and do not face significant border barriers to trade.<sup>2</sup>

Individual governments bear most of the responsibility for implementing the reforms needed to join these networks, but the G-20 can help in at least two significant ways.

Most importantly, the G-20 will need to anticipate the new issues that will arise when currently poor economies become more productive. The emergence of new economic giants, China and India, hopefully followed by others including Brazil and Indonesia, will require enormous structural changes everywhere. These difficult adjustments cannot be expected to be made peacefully in anything smaller than the global economy.

Northeast Asia should help to ensure that others can follow in their footsteps. This region’s success depended on commitment to development and sound domestic economic management. But success also depended on an open non-discriminatory international economic regime underpinned by the WTO. As Hugh Patrick (2005) has put it, East Asia’s success was made possible by:

*... a global economic system in which, if they could produce efficiently and competitively, they could sell anywhere ...*

Such an international economic regime continues to be needed, more than ever. The WTO-based system is essential for confident engagement with other economies in line with evolving comparative advantage. This points to the need for another long-term ideal, namely:

*The region plays a leading role in preserving a rules-based international economic regime, based on the fundamental principle that products and factors of production should be compared on the basis of price and quality, not on the ownership or location of suppliers.*

At present, we are drifting away from this straightforward ideal, which is at the heart of the WTO. One of the biggest challenges facing the G-20 is to slow down, then reverse the current drift towards trading blocs.

In addition to sustaining the international economic regime, the G-20 can help all economies to engage global production networks to mobilize the financial resources needed for massive investment in economic infrastructure, especially transport and communications links. The investments needed greatly exceed what can be expected from grants or soft loans. The G-20 can encourage the policy development needed to attract funds from global capital markets, sharing the wealth of good and bad experience about financing infrastructure. Steering more of the world's savings towards such good investment can be part of the current effort to rebalance the global economy.<sup>3</sup>

As more people emerge from poverty, the already evident stresses on the environment will be sharply increased. There is an urgent need to find ways of sharing the burden of reducing greenhouse gas emissions and sharing the limited amount of water for agriculture.

### **Voluntary Cooperation on a Global Scale**

Participants in the G-20 do not expect to cede significant sovereignty to this new body. Therefore, it is a voluntary process. The effectiveness of the new forum will depend on understanding the limits, as well as the strengths, of voluntary cooperation.

In some cases, for example to implement agreed directions of structural adjustment, consensus-building can be sufficient to define opportunities for all-round benefits and to design cooperative arrangements to realize these gains.

Quite often, the constraint on implementing such arrangements is a lack of capacity, rather than political will. Economies can share information, experience, expertise and technology to help each other acquire the necessary human resources, infrastructure and institutional capacity.<sup>4</sup>

In other cases, such as sharing the burden of adjustment to lower greenhouse gas emissions, negotiations will be needed. But the G-20 should not try to resolve contentious issues just among themselves.

If such negotiations succeeded, then the rest of the world would resent any attempt to impose the outcome on them, damaging the prospects for legitimacy. If negotiations failed, then the value and credibility of the forum would be seriously damaged. Rather than attempting negotiations within a voluntary process, discussions by G-20 leaders and ministers can propose some guiding principles or parameters to facilitate negotiations in existing bodies where other governments have a voice.

## **Opportunities for Cooperation**

This section considers some issues that need international attention. In each case, there is scope for cooperation among groups of governments, including Northeast Asian governments.

### **Recovery and Rebalancing**

The most urgent global challenge for Northeast Asia is to sustain the policy coordination needed to sustain recovery from the global financial crisis. G-20 members will need to keep acting in a decisive and mutually consistent way.

In late 2008, G-20 leaders moved quickly to avert a potential worldwide depression. The new group was able to avoid detailed discussion, let alone negotiation, of what exactly governments should do in terms of fiscal or monetary policy. Instead, they focused on creating the confidence for concerted unilateral decisions.

Leaders assured each other that all were moving in the same direction and prepared to take at least some of the burden of adjustment, so that all would gain from coordinated steps to avoid a spiral of falling demand. A commitment to avoid the mistakes of the 1930s was sufficient to allow governments to decide on specific macro-economic policy decisions in the light of their own circumstances. These decisions raised the confidence of producers and consumers and proved adequate to generate a turnaround from recession to recovery.

The Seoul G-20 meeting in November was able to strengthen the consensus needed to sustain recovery. Leaders avoided attempts to negotiate particular macro-economic parameters for individual governments. Looking ahead, it should remain possible to avoid arguments about exchange rates. It will be more productive to discuss the role of flexible exchange rate regimes in the context of structural adjustment to achieve a sustainable international pattern of consumption, savings and investment.

The credibility of the G-20 process will depend on governments announcing the specific measures they intend to take to complement those of others and then implementing those decisions. Evidence that governments are coordinating their macro-economic and structural adjustment policies can sustain confidence that the world will not relapse into a second wave of recession.

Much depends on China. It is not only the world's second largest economy, but also the largest surplus economy. A sustained growth of global demand and employment will be possible if China can adjust, substantially, its combination of consumption, savings and investment. They intend to do so, committing themselves to the structural adjustment and other policies needed to reduce their current account surplus. Early reports of the next five-year plan indicate Chinese intent to contribute to steering the world economy.

Implementing the necessary reforms will be made easier if the Korean and Japanese governments assure China that they will also move in directions consistent with global rebalancing. In this way, Northeast Asian govern-

ments could take the lead in shaping the international macro-economic and structural adjustment policies for the G-20 as a whole.<sup>5</sup>

A valuable outcome of a coordinated approach by Asian governments could lead to a considerably higher proportion of the region's savings being invested in social and economic infrastructure within the region itself. There are commercially sound ways to rebalance the sources of demand without attempting to distort market signals by rules of origin.

Once the recovery of growth and employment is seen to be assured, the G-20 can turn to other matters of vital interest to the rest of the world.

### **Climate Change**

Following the disappointment at Copenhagen in late 2009, it is evident that the United Nations will not deliver an acceptable outcome without some smart leadership, so the G-20 has arrived just in time. The new group will need to build consensus on how to reduce greenhouse gas emissions in order to preserve an environment for future economic growth. The way leaders deal with this problem can make or break the new forum.

Leaders should look before they leap into negotiation over climate change or anything else. As well as risking the credibility and legitimacy of the forum, attempting to negotiate binding commitments with short-term political costs could splinter the G-20 into rival groups, possibly along outdated North-South lines. A more fruitful approach would be to build on the progress that has been made.

A few years ago, dealing with climate change was perceived as a “prisoners’ dilemma” international game, where each government had an incentive to do nothing. Copenhagen proved that until most governments move beyond that perception, there will be no agreement among all of them.

Fortunately, interactions among the most significant emitters of greenhouse gases, who are also part of the G-20, are making it possible to

move beyond stalemate. A critical mass of governments knows their own self-interest requires them to act urgently; some are already taking significant unilateral action. The international problem is now seen as a cost-sharing game which, while still difficult, is soluble.<sup>6</sup>

A potential next step would be for G-20 leaders to agree on principles and/or modalities to be followed up in already existing and accepted international organizations. These could include:

- Reaffirming the shared Copenhagen commitment to limit temperature rise to 2 degrees Celsius;
- Creating financial incentives for producers and consumers to adopt less carbon-intensive habits;
- Agreement on convergence towards equal emissions per head by an agreed date, such as 2050.<sup>7</sup>

These principles could be backed by further guidelines for how developed economies could share the cost of compensating others for past emissions, for example by financing research and application of new technology and measures to mitigate the extent of climate change, which can no longer be avoided. The G-20 could also commission policy development work to design economic incentives for governments to demonstrate their progress towards meeting commitments.<sup>8</sup>

China's future depends on resolving this international issue since its long-term water supply cannot be assured if glaciers continue to shrink. And, in the short-term, lack of agreement on limiting greenhouse gas emissions could spark off a trade war with the United States. It should be possible for China to work with other Asian governments to set the scene for multilateral negotiations to share the burden of adjustments in an equitable way.

### **Economic Cooperation**

The adjustment to emerging economic giants is only just beginning. China and India will still be poor countries long after they become the two largest

economies. And we hope their sustained escape from poverty will soon be followed by Indonesia and Vietnam and perhaps even Pakistan and Bangladesh. As already noted, the massive structural adjustments to the continued pressure of such new competition cannot be accommodated in anything less than a global economy.

Within this global context, there is scope for economic cooperation within Northeast Asia and in Asia as a whole. Yet again, the key to successful regional economic integration is to build on what is already happening.

Asian economies are becoming more closely integrated, day by day. The very diverse resource endowments of Asia Pacific economies create the potential for integration. This potential is being realized by market forces, facilitated by:

- The confidence that governments will abide by the WTO disciplines to limit protectionism;
- Spectacular improvements in information technology;
- Falling costs of transport; and
- The extensive opening to the outside world by APEC economies.

The market-driven nature of economic integration in the Asia Pacific (and in East Asia itself) is demonstrated by the high proportions of intra-regional trade. These shares are comparable to the proportion of intra-EU trade, without any need for inter-governmental treaties to divert trade or investment from other regions.

At the same time, East Asia is not a self-sufficient region. There is a very high density of population relative to the limited area of arable land. In addition, the huge need for raw materials from all over the world means that access to global markets will always be vital for East Asia.

Despite this evident global interdependence, regional economic integration in Northeast Asia and East Asia remains dominated by dreams of

trading blocs as the ultimate aim of integration. Such thinking ignores several dimensions of reality, including:

- The recent failure of an attempt to set up a Free Trade Area of the Americas;
- The inability of any recent FTAs to deal with the entrenched protection of the same sensitive products that are blocking WTO negotiations;
- The changed nature of impediments to international trade and investment; and
- The likely reaction of the rest of the world, especially the United States, to a potential, let alone an actual, Asian trading bloc that discriminated against them.

The evident resentment of competition from China in more and more sectors is already leading to tensions that are hard to contain. In the foreseeable future, rich countries will be looking for new excuses for protectionism.

This is a very bad time to be considering a Northeast Asian, or an Asia-wide economic treaty that would discriminate against the economies who are losing their economic and strategic dominance.

Fortunately, there is a far better way to facilitate the ongoing market-driven economic integration within Asia, which does not cut across Asia's vital interest in simultaneous economic integration with the rest of the world. As explained below, concerted unilateral structural adjustment and cooperative arrangements can reduce the cost and risks of trade and investment among groups of economies, while setting positive examples that others can either join or emulate.

### **Economic Integration in the 21st Century**

The nature of international commerce has changed remarkably since the GATT/WTO system was designed. In the middle of the 20th century, international economic transactions were dominated by trade in com-

modities and manufactured products that were usually made in a single factory. The most important impediments were high border barriers, such as tariffs or quotas.

In 2010, thanks to successive rounds of GATT negotiations and extensive unilateral liberalization, a very large (and rapidly growing) share of most products face no, or negligible, traditional border barriers.

Business has been quick to take advantage of this much more open trading environment accompanied by spectacular changes in information technology and a dramatic decline in communications costs. International investment to seize new opportunities has transformed the pattern of production and exchange. The new model of international commerce is an intertwined flow of goods and services complemented by international movement of information, capital and people. Trade in services and the volume of international investment are both growing faster than trade in goods, while trade in components is expanding relative to trade in finished products.<sup>9</sup>

Traditional border barriers to trade in a few sensitive products remain costly, but affect only a rapidly shrinking part of international commerce. Today, it is more efficient to concentrate on problems of communications and logistics, combined with the lack of efficiency, lack of transparency and often arbitrary implementation of economic policies in different economies.<sup>10</sup>

The time has come to complement a world of low formal obstacles to trade with an environment of:

- Transparency, best practice, and consistency of regulations, including:
  - Competition policy;
  - Regulations on government procurement;
  - Mutual recognition of standards and qualifications;
- Efficient communications, including e-commerce;
- Best practice logistics.

Working towards such an environment does not need tit-for-tat negotiations. East Asian governments who are committed to development are quite willing to move in these directions. The constraint on progress is not political will, but inadequate human resources or the institutional capacity to do so.

For example, the progressive adoption of the APEC Business Travel Card by all APEC governments was made possible by sharing compatible software to handle the electronic exchange of information about business travelers. This practical arrangement did not need to be negotiated—nor would that have been relevant. Easier movement of business people cannot be achieved by negotiating statements of good intentions. Real progress needs patient work to set up compatible information technology to allow movement of people consistent with security requirements.

Elek (2010b) sets out other opportunities for voluntary cooperation, based on experience in the Asia Pacific. For example, ASEAN is concentrating on improved “connectivity” in terms of transport and communications in moving towards its commitment to create an economic community. APEC governments also intend to improve trade logistics and the ease of doing business in the region (APEC, 2009a, 2009b).

Cooperation to help economies take part in such practical cooperation is largely a matter of sharing information, experience, expertise and technology, including advice on efficient ways to mobilize the necessary investments in capacity-building.

These are opportunities that can be seized by any group of economies. Northeast Asian or other Asia Pacific governments can cooperate on these issues within the APEC process.

### **The WTO After the Doha Round**

As explained earlier, the most effective way to narrow development gaps is to sustain an international economic regime that can make it possible for

economies to follow the example of engagement in international markets set by East Asian economies.

The prospects for successful engagement continue to depend on a rules-based trading system underpinned by the WTO. Under the fundamental GATT/WTO principle of non-discrimination, established economies cannot impose selective import barriers to prevent competition from new sources. This discipline was essential for East Asia's success and continues to be needed.

Preserving a global economy needs attention to the current drift towards preferential trade agreements (PTAs), wrongly called free trade areas. The proliferation of these discriminatory trade deals is being driven, in part, by the difficulty of concluding the Doha Round.

The WTO remains preoccupied with the residual protection of a small number of sensitive products. The Doha Round does not address many of the new issues raised by the growing dominance of international investment, trade in services and multi-economy production networks. Due to these shortcomings, business people are not paying much attention to WTO negotiations (Mattoo and Subramanian, 2009a). Governments are turning to preferential trade agreements because they can talk about new issues, while avoiding any really hard decisions on the old ones.

By choosing their partners carefully and setting up ingenious, complex rules of origin they are avoiding serious new competition to sensitive products. That means PTAs are relatively easy to negotiate; it also means that individual PTAs have only a negligible effect on the pattern of trade. However, their cumulative effects are very dangerous.<sup>11</sup>

The world is drifting towards a trading system where assured access to markets depends on the ability to negotiate preferential trade deals. If the world becomes dominated by discriminatory arrangements, governments can protect rent-seeking producers from new competition by discriminating

against selected economies. China will be able to look after itself, so the burden of selective protectionism will fall on smaller economies who do not have the negotiating power to defend their interest outside the WTO.<sup>12</sup>

The proliferation of discriminatory trade deals is leading towards:

- Either thousands of bilateral or sub-regional arrangements; or
- A world divided into competing trading blocs.

Avoiding these unacceptable outcomes needs a strategy to restore an international economic order where products compete on the basis of price and quality, not the location of various stages of production. This requires restoring respect for the WTO.

The first step has to be the end of the Doha Round, which has dragged on for far too long. The time has come to give trade ministers permission to conclude the Round to lock in the gains already available. Then attention can turn to bringing the WTO up to date with the evolving pattern of international commerce.

Unlike earlier rounds, the Doha Round of WTO negotiations is not likely to be followed by another. There are too many issues and too many players to expect a worthwhile outcome in a reasonable time. In particular, bringing the WTO up to date must not be held hostage to producer interests in a few sectors of rapidly shrinking importance.

The 2008 financial crisis reignited fears of protectionism. The temptation to resort to protectionism has been largely resisted, so far. However, the arbitrary measures to restrict imports that were taken indicate that there is extensive scope for potential trade restrictions that are quite compatible with existing, formal WTO disciplines. Limiting such uncertainties in the trading environment is now far more strategic than worrying about the bound rates of residual border barriers.<sup>13</sup>

Other opportunities to modernize the WTO include:

- Negotiations on trade in services could lead to an agreement that consolidates the gains which are being made in PTAs;
- A plurilateral agreement on international investment;
- The information technology agreement and the ongoing work towards free trade in environmental products could lead to an agreement to immunise all new products from rent-seeking protectionists;<sup>14</sup>
- Seeking consensus on limiting new protectionism as part of the negotiations to limit greenhouse gases in the atmosphere.

It is not realistic to expect all members of the WTO to reach a single undertaking on how all of these potential issues are addressed. As discussed by Harbinson (2009) and others, it may be time to move away from comprehensive rounds and several alternative options have been canvassed.

In due course, a new approach to negotiations can be agreed among WTO governments. Then, as in the case of climate change, members of the G-20 can facilitate future WTO negotiations by proposing some guiding principles and/or parameters.

## **Institutional Architecture**

The examples provided earlier indicate how cooperation among any group can set good examples for others or to help find ways to address problems that require global solutions.

### **Reforming Global Institutions**

A group with global interests, such as Northeast Asia, can help bring existing mechanisms up to date with new realities or in some cases to help create new multilateral institutions.

The need to revise the way in which disciplines on international commerce

are negotiated in the WTO was discussed earlier. The G-20 is already reforming the governance of major international financial institutions, starting with the IMF. The very first G-20 meeting agreed on the need to move on this issue after more than a decade of delay. Two years later, at Seoul, the European Union finally agreed to give up two seats on the board of the IMF.

The strong resistance to change by nations with declining relative economic weight shows the need for Northeast Asia to sustain consistent pressure; not only to make sure that global institutions catch up with current conditions, but to make sure such problems do not re-emerge.

There is no real prospect of success in multilateral negotiations on climate change unless an influential group such as the G-20 helps create the conditions for a principled sharing of the burden of adjustment to an equitable and sustainable outcome. Even with such collective leadership, it may be impossible to make progress acceptable to the most recalcitrant of nearly two hundred governments. It may be necessary to set up a new negotiating forum, based on new criteria for participation; perhaps with decision-making by some super-majority of responsible economies that account for the bulk of greenhouse gas emissions.

There is enormous scope for concerted unilateral decision-making on structural adjustment and for practical cooperative arrangements to reduce the cost and risks of international commerce. ASEAN is setting the pace in this regard in the Asia Pacific; Northeast Asia could work with, and in parallel to, ASEAN's efforts to make international trade and investment cheaper, easier and faster.

If Northeast Asia or others can come up with good ideas, the G-20 may ultimately be able to turn its attention to the reform of the UN Security Council. Without a more representative and potent body, the biggest security challenges will remain unattended and may yet destroy the peaceful environment needed for sustained prosperity and the narrowing of obscenely wide differences in living standards.

If Northeast Asia can help shape a new Security Council, then they should also be able to devise principles for the size and membership of the G-20 itself. If the new forum is able to help all economies realize their potential, then it will need to adjust its own composition to significant further changes in relative economic influence and responsibility.<sup>15</sup>

With three members of the G-20, Northeast Asia should be able to be effective in the new forum as well as in other international bodies. They can choose to feed in ideas and proposals through APEC, ASEAN+3, or through the East Asia Summit (EAS) process.

APEC itself can find ways to pursue shared trans-Pacific global interests; it contains all the Asian participants in the G-20, along with three from North America. Together the ten Asia-Pacific members of the G-20 could project shared regional interests into global forums, including the WTO as well as the G-20. At the same time, such a group would be a useful means of engaging India in trans-Pacific deliberations.<sup>16</sup>

### **Regional Experiments**

There is no space in this paper to anticipate how the various experiments in East Asian and trans-Pacific cooperation will evolve. It should be possible to avoid overlap and for institutions to specialize in line with their comparative advantage.

For example, the APEC process could focus on promoting closer economic integration by means of concerted unilateral structural adjustments by Asia Pacific governments and cooperative arrangements among them to reduce costs or risks of international commerce. APEC governments can also cooperate on policies to help shape the nature and agenda of the WTO beyond the Doha Round. At the same time, the EAS could concentrate on preserving a security environment essential for sustained prosperity and the macro-economic policy coordination that will continue to be needed well beyond recovery from the 2008 crisis.

In each case, these essentially voluntary processes will need to learn to use the strengths, as well as accept the limits, of voluntary cooperation.

Some will prove more effective than others. Any group that sharpens divisions among regions will be seen to be divisive as well as out of touch with an already global physical, economic and security environment. Those that can create new ideas for resolving global problems will prove the most effective in terms of influencing global decision-making. If their ideas are seen to take account of the interest of others as well as their own, they can expect them to be adopted in time, after careful consensus-building.

The future of alternative approaches to economic integration will be determined in the same way. As emphasized earlier, it is unwise to see sub-regional or regional trading blocs as the “holy grail” of economic integration.

Right now, most economists and most trade ministers seem obsessed with setting up new preferential trade agreements. Each of these damages the interests of some others, who then create even more discriminatory trade deals.

Although such arrangements are currently very popular, I am confident that trade deals that interfere with market signals and realities will prove irrelevant, unsatisfactory, or both. The largest members of trading blocs can enjoy their dominance for a while, but will need to look outwards in order to manage their more important global interests.

To defend a more ideal environment for international commerce, we need to shorten the time taken to reverse the current drift towards discriminatory and potentially politicized trade. Seminars like this one, which bring trade specialists into contact with those who understand security issues, can help to change perceptions.

Security experts need to be aware that trade negotiators are proliferating preferential trade agreements that swim against the tide of market forces

and exacerbate already dangerous international tensions, including tensions across the Pacific.

Some problems of over-reliance on preferential trade agreements as a significant part of international engagement are already emerging. For example, the Korea-United States FTA (KORUS) was negotiated in 2007, but successive United States administrations did not have the political courage to submit it for ratification by the United States Congress for several years.

A failure to ratify it would reflect badly on United States commitment to Korea, but its fate is hostage to the narrow interests of beef and automobile lobbies. If an agreement is finally ratified, the rules of origin of the agreement would cut across the highly successful supply chains that run through Korea to China then the United States.

If Japan joined a potential Trans-Pacific Partnership, that would also tend to divert economic activity from China, which is now its most important trading partner. That problem could be avoided if China also joined the Trans-Pacific Partnership. But the United States could not accommodate its inclusion, since that would render meaningless the complex rules of origin of the North American Free Trade Agreement which were tailor-made to prevent competition from low-cost economies of East Asia. The United States Congress is not likely to allow that to happen.

At the same time, as East Asia economies are weighing the costs, benefits and risks of discriminating against each other in favor of the United States, they are also considering an East Asian trade deal that would discriminate against the United States. But 2010 is a particularly bad time to be contemplating either Northeast Asian, or wider Asian, trade deals that raise the prospect of discriminating against the wounded and angry United States economy.

Security experts should warn national leaders to avoid such needless problems and needless dilemmas about which trading partners they

should damage next by new discrimination. There is still time to reverse the current drift towards trading blocs and alert them to more constructive opportunities for economic integration in line with the actual nature of international commerce in the 21st century.

The time has come to revisit the experience of the 1930s and the 1940s. An unfortunate period of unprincipled and inefficient trade policies, dominated by the powerful and resented by others, was replaced by a far more sensible system based on the fundamental international economic insight that products and factors of production should be compared on the basis of price and quality, not on the ownership or location of suppliers.<sup>17</sup>

As discussed earlier, there are many practical ways to cooperate that are consistent with this concept and do not seek to divert economic activity away from others. There will always be scope for any groups of economies, including Northeast Asian economies, to set examples of practical cooperation that others are welcome to join as soon as they perceive how they can benefit from them.

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## Chapter Endnotes

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1. Wanandi (2005) sets out the challenges of dealing with rising powers and is quite pessimistic about the capacity of the United States Congress or defense establishment to accept its implications. See also White (2010).
2. This contrasts with the problems faced by new entrants to global markets in the mid-1900s. Demand for commodities, ranging from cash crops and minerals, and for simple labor-intensive manufactures like textiles and clothing tend to decline as a share of income. Labor-intensive manufactures and agricultural commodities are the few remaining products facing significant traditional, transparent border barriers to trade.
3. The APEC process is demonstrating how to tap into international capital markets to enhance capacity in developing economies (APEC, 2009b, 2010)
4. A recent example of consensus, followed by sharing information and experience, is the G-20 agreement to reduce fossil fuels (G-20, 2010).
5. Volz (2010) discusses the opportunity for Northeast Asian cooperation for rebalancing and recovery from the global crisis.
6. Jotzo (2010) explains that the unilateral commitments of major developing as well as developed economies add up to a significant contribution to limiting greenhouse gas emissions.
7. These guidelines draw on Garnaut (2008).
8. Such an approach has been discussed by Elek (2010a); see also Noland (2010).
9. See Feketekuty (1992) for an early review of the changing nature of international economic transactions.
10. Evidence of the large potential gains from improved trade logistics and cutting transaction costs is set out in Elek (2010b).
11. Bhagwati (2008) sets out a comprehensive critique by the world's most respected expert on international trade. The importance of the GATT/WTO fundamental principle of non-discrimination is explained in Winters (2004).

12. In a recent example, the G. W. Bush administration's restrictions on steel imports exempted members of NAFTA. This can become a dangerous precedent for selective protectionism against the weakest economies of the world.
13. Mattoo and Subramanian (2009b) have called for a crisis round of WTO negotiations to address this set of issues.
14. Opportunities for such an initiative are set out in Elek (2008).
15. Some principles for future participation in the G-20 are set out in Husain (2010).
16. Drysdale (2010) sets out the importance of effective interaction between Asian and global forums together with some recommendations for improving synergy.
17. As explained in WTO (2005), the fundamental principle of non-discrimination at the heart of the GATT, then the WTO "... reflected widespread disillusionment with the growth of protectionism and especially bilateral [trade] arrangements during the inter-war period. The Great Depression was widely seen, at least partly, a consequence of the closing of markets..." Cordell Hull, the United States secretary of state, and John Maynard Keynes were the champions of the new post-war non-discriminatory trading system.



# Northeast Asia Without the United States: Towards Pax Sinica?

James T. H. Tang

**D**ivided by competing ideological beliefs and political and economic systems, with no shared sense of identity and destiny, and in the absence of effective cooperative mechanisms, it is remarkable that Northeast Asia has maintained stability since the end of the cold war. To what extent will the rise of China challenge the stability and prosperity of the region or bring about long-lasting peace?

As China's immediate neighborhood, Northeast Asia is of key strategic importance to the People's Republic. One of the most critical challenges for Beijing is the Korean peninsula. A regime change in North Korea, for example, may create political and social turmoil and alter the delicate strategic balance crucial for China's efforts in maintaining an environment that is conducive for regional stability and economic development. However, a highly militarized North Korea that refuses to embrace Chinese-style opening-up and economic reforms has also proved to be troubling, for such a regime will remain isolated and subject to mercurial changes of political moods and unpredictable transition crises. As long as reunification between North and South Korea remains unresolved, the security environment in China's immediate neighborhood will continue to be volatile.

A second challenge is the rivalry from Japan. Although China has overtaken Japan as the world's second largest economy and the two countries have developed strong and interdependent economic ties, relations between the two are still problematic. The two countries are not only divided by historical rivalry and China's memory of the Japanese invasion during the Pacific War, but also intense strategic competition for a leadership role in East Asia and unresolved territorial disputes over the Diaoyu/Senkaku Islands and gas fields in the East China Sea.

A third challenge that has been described as a core interest for China is Taiwan. Reunification with Taiwan has long been a national objective for the country and is sometimes considered to be the only issue that Beijing would be prepared to use force to resolve, even risking war with the U.S. Despite growing economic linkages between mainland China and Taiwan, political relations between the two sides remained tense, especially during the time when the Democratic Progressive Party under Chen Shiubian was in power. The return of the KMT (Kuomintang) to power with the election of Ma Ying-jeou as President in 2008 helped ease political tensions across the Taiwan Straits, but Taiwan continues to be a hot spot in Northeast Asia. China reacted angrily to the Obama administration's approval of arms sales to Taiwan in January 2009 by suspending security dialogues with the U.S. China still considers the American commitment to the defense of Taiwan through the U.S.-Taiwan Relations Act as a major obstacle for its reunification efforts.

For a long time, China's strategic objective in East Asia has been the prevention of American dominance in the region first through a non-confrontation stance against the United States, but at the same time countering American influences through strategic partnerships with other major players such as Russia and Japan. Second, Beijing also attempted to reassure regional states that instead of threatening regional stability China's rise will help maintain stability and bring prosperity to the region. This paper explores the scenario of Chinese domination in the region and examines questions such as the implications for Northeast

Asia. China seeks to exercise a more dominating leadership role. Would Beijing's growing influence and power generate new tensions and conflicts or would a China-dominated cooperative regional order and a gradual retreat of American dominance in the region help the creation of Pax Sinica rather than Bella Sinica?

The paper explores five possible paths for Chinese dominance including:

1. Chinese military and economic domination following a Chinese military victory
2. China-U.S. bipolar peace with Chinese domination in mainland East Asia and U.S. dominance in maritime East Asia
3. Chinese leadership in a harmonious world
4. Chinese-dominated cooperative regional order with American acquiescence
5. The return of the middle kingdom-dominated regional order under the traditional Chinese system of *Tianxia*

## **The Five Paths of Chinese Predominance**

### **1. Military Victory**

China's continuing economic success and military buildup, predicts John J. Mearsheimer, will likely lead to war with the U.S. He bluntly suggested that "China cannot rise peacefully, and if it continues its dramatic economic growth over the next few decades, the United States and China are likely to engage in an intense security competition with considerable potential for war. Most of China's neighbors, including India, Japan, Singapore, South Korea, Russia, and Vietnam, will likely join with the United States to contain China's power."<sup>1</sup>

From the power transition perspective, the only path of Chinese dominance in Northeast Asia is therefore a Chinese victory after a limited military conflict with the U.S. It could be over a Sino-Japanese conflict in Diaoyu

Island or a major conflict on the Korean peninsula or over the declaration of independence of Taiwan. A regional order of peace and stability that is maintained by a combination of Chinese economic power and military might would force the two Koreas and Japan to accept Chinese supremacy and the reunification of Taiwan with mainland China.

While China has on different occasions expressed support for an American military presence in the region, U.S. military power has prevented Beijing from realizing its objective of national reunification with Taiwan and the dream of the ardent nationalists among the country's political-intellectual-military elite to be the world's number one. In a bestselling book, *The China Dream (Zhongguo Meng)*, People's Liberation Army Colonel Liu Mingfu, who teaches at the National Defense University, suggested American determination to maintain its superiority and to keep China down will force Beijing to contend for global dominance if its economic rise is to continue. He maintained that "China's big goal in the 21st century is to become world number one, the top power," and warned his fellow citizens that "if China in the 21st century cannot become world number one, cannot become the top power, then inevitably it will become a straggler that is cast aside." Developing an argument similar to that of John Mearsheimer's pessimistic view on the likely outcome of power transition, Liu argues that the United States will "fight a third battle to retain its title" by seeking to contain China's rise in a "marathon contest" for global leadership that will be the "duel of the century." Liu suggests that "if China's goal for military strength is not to overtake the United States and Russia, and then China is locking itself into being a third-rate military power."<sup>2</sup>

While some in China may share such a dream, direct military confrontation with the U.S. is not likely and a Chinese military victory even in a limited regional confrontation is doubtful. Once Liu's book attracted international media attention, senior military officers quickly attempted to downplay the significance of Liu's book and his association with the military. Two Chinese major generals, for example, publicly dismissed the idea that China should aspire to be the world's number one military

power. “It is a matter of a grand dream and the reality,” said Luo Yuan, Major General of the People’s Liberation Army, and Admiral Yin Zhuo maintained that China should continue to pursue the strategy of keeping a low profile in foreign affairs.<sup>3</sup>

In fact, the military capability gap between China and the United States has remained wide and China’s edge over other countries in the region, especially Japan, is not overwhelming. Moreover, Russian interests would be undermined by Chinese hegemony in Northeast Asia. A Chinese military victory may trigger new military competition and regional instability and almost certainly only a temporary retreat of the U.S. as a great power rival from the region rather than ushering in a Pax Sinica and regional stability. In short, the struggle for hegemony through military force is probably going to be a protracted process and the region will become highly unstable at least for some time to come if China seeks regional hegemony through military means. The long-term stability of such a Chinese-dominated Northeast Asia is difficult to envisage unless the U.S. ceased to be a global power and completely retreated. If the U.S. accepts Chinese domination in Northeast Asia, China’s ascendancy through military might may also compel closer cooperation between Korea and Japan and the formation of new strategic alliances with Australia, Southeast Asian countries, India or even Russia.

## **2. Deepening of U.S.-China Peace in Northeast Asia**

Post-cold war peace in East Asia has been maintained, according to Robert Ross, because of the strategic balance between Pax Sinica over mainland East Asia and Pax Americana over maritime East Asia. He attempts to explain what he describes as a paradox in East Asia—the region has remained peaceful after the Cold War even though it is where “the U.S. is the least powerful” as it has to confront China, its most formidable rival and potential great power challenger. The paradox, as Ross puts it, is that “where America has been most powerful, there has been regional instability and war. Where there has been great power rivalry and traditional balance of power politics, there has been peace and prosperity.”

Ross explains the paradox through the power differential between great powers and local powers—the U.S. has to project its military power onto the Eurasian mainland because distance and geostrategic obstacles have limited its dominance and prevented it from exercising full dominance over small powers to compel compliance and establish order. But in East Asia, a bipolar peace has been established, with Pax Americana over maritime East Asia and Pax Sinicia over mainland East Asia. In the words of Ross, a “combination of overwhelming and even omnipotent military supremacy allows each power to impose a peaceful order in its own sphere and together to establish a peaceful regionwide order.”<sup>4</sup>

If China managed to reach an understanding with the United States on their respective spheres of influence and strengthen its influence in maritime East Asia, especially over South Korea, would such a bipolar order shape political and economic developments and bring long-term peace to Northeast Asia? While the argument that a balance of Pax Americana and Pax Sinica has maintained stability in East Asia may be persuasive, and peace indeed prevails in the region, the continuation of China’s rise both economically and militarily may upset the balance of bipolar peace. In the longer run, the two mainland and maritime orders may compete, especially over Northeast Asia where the two orders interface with each other. In fact, tensions arising from the Sino-Japanese rivalry and confrontation between North and South Korea as well as the return to power of the Democratic Progressive Party (DPP) in Taiwan and resurfacing of the territorial disputes between China and Southeast countries in the South China Sea would all challenge the stability of U.S.-China bipolar peace. Given China’s security interests in the maritime East, Beijing may be tempted to seek greater influence and upset the bipolar peace.

### **3. Harmonious World (*hexie shijie*)**

China assumes dominance in the region as the result of regional states’ preference for Beijing’s leadership over Washington. This is because of China’s overwhelming economic power and its brand of non-aggressive dominance through a regional order based on the idea of a “harmonious

world” put forward by the Hu Jintao leadership.

The Chinese leadership has officially adopted the notion of “harmonious society” (*hexie shehui*), and its external mirror image of “harmonious world” (*hexie shijie*) since 2006.<sup>5</sup> While the harmonious society is a response to uneven economic and social stability at home, where the Chinese leadership attempted to promote more even development and maintain political stability, the foreign policy parallel was a response to external concerns about the implications of China’s growing importance in the world and also reflects the Chinese leadership’s own concerns about U.S. global domination. This response emphasizes peaceful development and promotes the idea that different civilizations should coexist in harmony and prosperity globally. In a speech at the UN in 2005, Hu Jintao highlighted the importance of multilateralism, cooperation, inclusiveness, common security and prosperity in the building of a “harmonious world.” The idea of a harmonious world, however, seemed more an attempt to reassure the international community that China’s rise will be peaceful and a win-win for the world with countries allowed to adopt different models of political and economic development rather than a coherent vision for Chinese global leadership at a time when Chinese international interests have become more diverse and under closer scrutiny by the international community. In fact, how a harmonious world could be realized is not very clear. In his 2005 speech Hu suggested that “to build a harmonious world, countries around the globe should follow the spirit of inclusiveness” and “diversity of civilizations is a basic feature of humanity and an important driving force behind human progress.”<sup>6</sup>

Although some have argued that the harmonious world notion could be a vehicle for a more assertive Chinese foreign policy, Chinese leadership in a harmonious world as articulated by Hu Jintao is passive rather than active and is unlikely to address the strategic competition as well as specific security concerns in Northeast Asia.<sup>7</sup> Without a clear vision, it is difficult for China to assume a leadership role through the harmonious world approach to regional stability. The many security challenges probably won’t

be resolved in the immediate future and China would have to continue to address its security challenges on an ad hoc basis and constantly manage the strategic shifts and changing balances in the region.

#### **4. Chinese Dominance through Regional Institutions**

In a *Foreign Affairs* article, “The Rise of China and the Future of the West,” John G. Ikenberry rejects Mearsheimer’s prediction that the conflict between China and the U.S. would trigger “a wrenching hegemonic transition” because “China faces an international order that is fundamentally different from those that past rising states confronted.” For Ikenberry, China has to face not only the U.S. but a “Western-centered system that is open, integrated, and rule-based, with wide and deep political foundations.” The challenge from such a perspective is how to integrate China with the existing liberal world order both institutionally and in terms of the rules and norms of the existing system. This path requires American acknowledgement that China would replace U.S. leadership in maintaining Northeast Asian security as the leading power in the region,

China has embraced multilateralism in East Asia since the mid-1990s when it began participating in the Asean Regional Forum and it became more actively engaged with regional institutions by the mid-2000s. China’s continuing interest in multilateral approaches can be demonstrated by participation in various regional processes such as Asean Plus Three and more recently by Chinese participation in the Asean Defense Ministers’ Meeting Plus Eight (ADMM + 8), a regional security architecture with ASEAN members and the United States, China, India, Japan, Korea, Australia, New Zealand, and Russia (the same countries that would be included in the expanded East Asian Summit and ASEAN+8). While the first meeting did not attempt to address “hot issues” such the Diaoyu/Senkaku dispute or the South China Sea, participants agreed to address a range of non-traditional security problems.

In Northeast Asia China has played a key role in the Six-Party Talks, which have been described as the foundation for a permanent regional security

mechanism. The ad hoc nature of multilateral approaches to security problems in Northeast Asia, however, has so far remained unchanged. Scott Snyder has identified three obstacles for the institutionalization of security cooperation in the region. First, the North Korean focus of the Six-Party Talks has limited the capacity and utility of the talks to address wider regional security challenges; second, beyond North Korea no other issues would mobilize effective regional dialogue and cooperation; and third, the other parties to the talks are reluctant to convene a five-party mechanism for fear of North Korea's reaction. Snyder concludes that while the ingredients for broader security cooperation exist, the likelihood for a new institution is low given the absence of a "convergence of a common purpose, interests, and norms for operation."<sup>8</sup> Although Chinese dominance through regional institutions may turn the "power transition" into a process of cooperative adjustment in Northeast Asia, the extent to which China would embrace liberal values remains doubtful and the absence of appropriate regional institutionalized architectures would continue to make integration of Chinese leadership in a liberal regional order difficult.

### **5. Chinese Dominance through the *Tianxia* System**

A clearer path for exercising leadership through cultural and historic supremacy is the return of China's historic domination in Northeast Asia as the Middle Kingdom under the traditional framework of the *Tianxia* system. Martin Jacques argues in his *When China Rules the World* that "China is only latterly, and still only partially, a nation state: for the most part, it is something very different, a civilization state." He suggests that the civilization dimension is the source of China's special and unique character that pre-dates its attempts to become a nation state and includes: "the overriding importance of unity, the power and role of the state, its centripetal quality, the notion of Greater China, and the Middle Kingdom mentality, the idea of race, the family and familial discourse."<sup>9</sup>

What would Pax Sinica look like if China seeks to shape the regional order in its own image? David Kang, for example, has argued that the

China-centered East Asian system between 1300 and 1900 was a stable system where major states such as Japan, Korea, and Vietnam survived centuries of interactions with China. The country's cultural and moral domination of the region in the format of its tributary system may well be conducive to the stability of the region.<sup>10</sup>

In Zhao Tingyang's *The Tianxia System: The Philosophy for the World Institution*, he argues that if China is to be a world power, as one of his critics, William Callahan explained, the country must "create new world concepts and new world structures" that exploit its own "resources of traditional thought."<sup>11</sup> The concept of *Tianxia* as Zgao interprets it is a global unity including all territory under heaven, acceptance by the whole humankind, with a set of world-wide institutions. An important principle of the *tianxia* system is its inclusiveness of all. Under the *tianxia* system "nobody can be excluded or pushed aside, and nothing is considered 'foreign' or 'pagan'" and the world would be reconstituted "along the lines of the family, thereby transforming the world into a home for all peoples."<sup>12</sup> According to this vision, as Callahan noted, China is "naturally peaceful, orderly and generous, and that the Chinese world order of *Tianxia*, contrary to western hegemony, which has led to violence, chaos and oppression around the world, would enable a global hierarchy where order is valued over freedom, ethics over law, and elite governance over democracy and human rights."<sup>13</sup> This Chinese version of utopia does not allow for competing views. China probably would only be able to assume dominance through the notion of *Tianxia* by a combination of military, economic, and cultural power and by winning the argument that a stable order with prosperity in the region must be maintained by a set of generally accepted ethical principles. As Callahan argued, "the *Tianxia System's* main problem is that it doesn't explain how to get from an unstable and often violent present to the harmonious future."<sup>14</sup>

Moreover, Pax Sinica through historic and cultural approaches may be of limited appeal to other countries, as western democratic values have become widely accepted even in South Korea and Japan. The imposition

of a Chinese worldview may generate tensions and ultimately domestic political resistance in these societies.

In presenting a case for a regional order with China at the core and the U.S. at the periphery, this paper suggests that Northeast Asia without a strong American presence is unlikely to be a fully Sino-centric hegemonic system despite China's rise. The different paths outlined for Chinese leadership in Northeast Asia are problematic in different ways and will not resolve the security challenges for Northeast Asia.

A powerful China is not likely to eliminate great power competition, and strategic balancing and therefore rebalancing may occur with the emergence of new alliance relationships challenging Chinese dominance. China will also confront difficulties in exercising power without articulating a more concrete vision for regional cooperation and its leadership role. Pax Sinica would require Chinese forward thinking about leadership responsibilities in one of the world's most dynamic regions with a highly complex and interconnected economic network as well as a diverse and pluralistic political landscape. China's growing dominance and influence, however, need not be a fearful prospect if the Chinese leadership accepts greater responsibilities and exercises its power with constraints through mutually agreed mechanisms and accepted norms. The responsibilities of other players in the region is to make sure that China would be such a responsible leader instead of waiting for other powers such as the United States to counter China's rise.

## Chapter Endnotes

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# Alternate Trajectories of the Roles and Influence of China and the United States in Northeast Asia and the Implications for Future Power Configurations

Thomas Fingar

Uncertainties about the future evolution of Chinese and American capabilities, intentions, and interactions have fueled unease, hedging behaviors, and interest in transforming the security architecture of Northeast Asia (NEA). No country in the region is willing simply to hope for the best and watch from the sidelines as developments unfold within and between the region's—and the world's—most powerful and fastest rising powers. Whether China and the United States maintain basically cooperative or fundamentally antagonistic relations obviously has very different implications for the region and for the prospects and policies of others in—and beyond—NEA. Many anticipate that U.S.-China relations will contain elements of both cooperation and contention for many years, but no one can predict with confidence precisely where the balance will lie and whether it will move toward greater cooperation or greater hostility between now and 2025.

It is relatively easy to posit a range of possible scenarios incorporating different trajectories for China, the United States, and their relationship with one another and with other countries in Northeast Asia and many people have argued some variant of the following:

- China gets stronger, the U.S. declines, and China gradually displaces the U.S. from its preeminent role in NEA.
- China stumbles, the U.S. once again confounds predictions of imminent decline, and power relationships in NEA remain much as they are today.
- China continues to gain strength and influence, the U.S. remains preeminent, and all states in the region adapt to an uneasy *modus vivendi*.
- China and the U.S. become increasingly interdependent and cooperative.
- China and the U.S. become increasingly competitive and antagonistic.

These are not the only possibilities, but they probably do define the parameters of the possible. What they do not do is indicate what would cause events to move along one or another trajectory, what might deflect developments from that trajectory, and how perceptions of the way developments are evolving might cause publics, political leaders, and private sector actors to behave in ways that will deliberately or unintentionally change the trajectories. To do that would be a much bigger and more difficult challenge than I can meet in this paper. What I will do is attempt to step back from bottom-line predictions to discuss some of the factors and interactions likely to drive and shape what happens in the region between now and 2025. My goal is to be illustrative, not exhaustive, and to locate my examples in the context of extant conditions in the region.

## **Northeast Asia Today: Growing Prosperity, Interdependence, and Uncertainty**

Northeast Asia is a region of superlatives. It is home to the most people, the largest and most dynamic economies, the largest military forces and military budgets, and has the highest percentage of global trade and foreign exchange reserves. It consumes more energy, produces more greenhouse gases, and has more old people—in both absolute numbers and as a percentage of the total population—than does any other region. It also has the fewest and least developed region-wide institutions to manage the growing number and complexity of challenges facing individual countries

and the region as a whole. The pace and magnitude of what is happening, and the increasingly obvious inadequacies of existing institutions, have fueled suspicions, uncertainties, and unease. Northeast Asia is not the least stable region in the world, but it is the one in which perceived and actual instability would have the greatest consequences for the global system.

Ironically, or at least counterintuitively, economic growth, greater prosperity, growing interdependence, and increasing transparency and political accountability appear to both require and endanger stability and security. Countries in the region, with the notable exception of the Democratic People's Republic of Korea (DPRK), have benefited greatly from decades of peace and increasingly open markets made possible by the U.S.-led global order. But many of the institutions most integral to the international system are beginning to lose efficacy and appear increasingly ill-suited to the world they have helped to create. The need to reform, re-engineer, or replace institutions that have served us well in the past is a global problem, but the implications are arguably greater and more urgent for Northeast Asia than for other regions because countries and companies located there are more dependent on the global system for resources, markets, and coping mechanisms than are inhabitants of other regions. Indeed, the ability to rely on—and, for many in the region much of the time, to free ride on—the global system is probably one of the reasons NEA has such relatively underdeveloped regional institutions. As a result, at a time when new challenges in the region make it increasingly necessary to take advantage of existing institutions and mechanisms in order to address and alleviate regional problems, global and regional institutions are becoming less capable and less reliable.

Although the number, scope, and magnitude of changes in Northeast Asia are greater than in other regions, there is no obvious reason why those occurring now are inherently more disruptive or destabilizing than Japan's recovery and rise, South Korea and Taiwan's transition to democracy and emergence as major economic powers, China's break with the Soviet Union and normalization of relations with the U.S. and its

Asian allies, the demise of the Soviet Union, and many other fundamental departures from the *status quo ante*. Indeed, it is striking, and in some respects puzzling, that previous successes and adjustments, and ever increasing degrees of interdependence, have not produced high levels of confidence in the ability of states in the region to meet and surmount the latest wave of challenges. Publics and political leaders should have more confidence and less anxiety about the future of the region than seems to be the case. To explore why, it will be useful to examine what has and has not yet changed.

Noteworthy changes, in addition to those summarized above, include the steady and cumulatively substantial decline in regional dependence on the United States for protection and prosperity. The U.S. still plays very important roles in the region, but there is no longer a military or ideological threat comparable to the alliance of the Soviet Union, China, and the DPRK. The region, with the notable exception of China, is much less dependent on markets in and technology and investment from the United States than it was through most of the late twentieth century. The U.S. may still be an indispensable player, but it is clearly less indispensable than it was and than many in Washington still believe to be the case. Among the many consequences of this change are that many in the region are less disposed to defer to Washington on matters that affect them and less confident that the U.S. will continue to provide extended deterrence or remain an effective force for stability. The concomitant of being less dependent on the United States is that the U.S. is less dependent on its traditional partners in the region and is therefore suspected of being less willing to incur risks and costs on their behalf.

A second notable change is that most countries—again, the DPRK is the exception—have become more attentive and responsive to public opinion. Indeed, it is not inaccurate to say that they have all become more “democratic.” Even China’s communist government has become more attentive to and constrained by its increasingly large and well-informed middle class and the hundreds of millions of “netizens” who use the

internet to monitor developments, complain about official incompetence and malfeasance, and press for attention to their concerns. Across the region, public opinion both drives and constrains government decisions. This phenomenon makes it harder for political leaders to solve—or even to address—some of the challenges that threaten to disrupt progress and stability in NEA. To be clear, I think that greater democracy and official accountability are positive developments, but they are also constraints that must be factored into the search for solutions in ways that were not necessary in the past.

The list of significant and consequential changes could easily be extended (e.g., to include Japan's long period of economic stagnation and seeming loss of confidence, and dramatic improvement in relations between China and Taiwan), but I want to shift the focus to factors and features that have not changed. One is the continued paucity and character of regional institutions. Others may well challenge the assertion, but for the purposes of this paper, I will argue that the existing "architecture" of the region consists of the "market," the U.S. alliances with Japan and the ROK, a small handful of regional groupings with minimal accomplishments and no history of tackling hard issues, and webs of bilateral relationships linking public and private sector actors. All of these are useful and important, but they do not constitute an integrated or empowered mechanism to address problems, alleviate tensions, or assure stability.

Northeast Asian challenges and concerns are also shaped by a number of other "legacy problems," the most important of which are the division of the Korean nation at the 38<sup>th</sup> parallel and Taiwan's *de facto* independence from the People's Republic of China. The DPRK remains an isolated and impoverished country with a communist system. China also retains its communist political system but it is far more engaged and enmeshed in the region and global institutions and far less repressive than the regime in Pyongyang. The fact that neither is a democracy shapes perceptions of their regimes, their actions, and their intentions in ways that fuel concerns about the future. Conversely, recognition that their regimes are viewed

with suspicion by the democracies in the region feeds suspicions—convictions—in Beijing and Pyongyang that the U.S. and its partners will attempt to constrain their independence and influence. Other legacy problems include territorial disputes and carefully cultivated memories of victimization at the hands of other regional actors.

The final element requiring enumeration in this baseline section of the paper is, of course, China's "rise" and increasing power and influence in the region and beyond. One could argue that China is simply the latest of the states in the region to become more prosperous, more powerful, and more influential because it decided—and was enabled—to take advantage of the U.S.-led liberal international order that evolved after World War II. Like, Japan, the ROK, and Taiwan before it, China has taken advantage of opportunities offered by the open markets and open universities of the United States and other members of what used to be known as the "free world." Its decision to break with the Soviet Union, U.S. willingness to assist China's modernization, and Deng Xiaoping's determination to make the changes necessary to speed development and self-strengthening by joining the world economy enabled China to get a head start compared to the nations of the former Warsaw Pact and the Non-Aligned Movement that were excluded or chose not to join the U.S.-led "camp" until after the Cold War. China is just the latest in a continuing evolutionary pattern, but it is not "just another country." Its size, history, political system, and uncertain aspirations make its rise potentially more problematic for the region than did the rise of those who went before. It is made even more problematic by the uncertainties resulting from the other factors and developments noted above. That said, China's rise and impact on the region are not inherently good or bad, and its effect on the region and the region's effect on China are neither inevitable nor immutable.

## **China, the United States, and the Future of Northeast Asia**

Although it is certainly the case that the future of NEA will be shaped by the decisions and interactions of all nations in the region—and by developments in the broader international system—concerns about future stability, prosperity, and harmony in Northeast Asia derive primarily from uncertainties, fears, and predictions about what China and the United States will attempt to do in the years ahead. Much of what has been said about U.S. and Chinese aspirations and capabilities is so simplistic that it would be laughable if it were not treated seriously by so many people in and outside the region. Examples of simplistic projections pretending to be serious analysis include extrapolations of Chinese growth rates that assume economic growth can—and will—continue indefinitely at the same high rates achieved during the past thirty years, fail to control for population size when imputing meaning to total GDP and other statistics, and posit little to no change in the nature of the political system despite massive and fundamental changes in every other sector and endeavor. Similarly simplistic projections of U.S. capabilities interpret minimal decreases in the magnitude of U.S. economic pre-eminence as evidence of inevitable and irreversible decline, posit zero-sum competition between the U.S. and China for markets, political influence, and strategic partnerships, and foresee inevitable and increasingly rapid realignment with states in NEA moving from the U.S. side of the ledger to the Chinese side in order to protect their economic stake in the China market and escape uncertainties about the reliability and viability of dependence on the United States.

Such projections may be simplistic and unrealistic, but they do point to a number of factors that will shape the decisions and actions of China, the United States, and all other states in the region. These interactions will be driven and shaped by combinations of domestic and external factors, competing and complementary objectives, and, above all, by the choices of political leaders operating within constraints imposed by domestic politics, national capabilities, and the international system. Rather than

attempt to present fleshed out scenarios describing alternative ways in which events might play out over the next several years or decades, the pages that follow will discuss a number of factors that together will determine the trajectories of China, the United States, and others in the region. I have chosen this approach because it illuminates the uncertainties and malleability of factors that will shape national decisions and international responses.

**Changes in Relative and Absolute Power.** Power is often used as a shorthand reference for capabilities and influence. Sometimes it is disaggregated to reflect the fact that power has multiple forms (e.g., military power, economic power, political influence, and cultural or soft power) and that the different forms are not necessarily present or relevant to the same degree. For some purposes or issues, aggregate power is the most appropriate measure; for others, one or another of its constituent elements is of preeminent importance. China's "rise" has been marked by notable and substantial increases in economic power and, more recently, increases in military power. Beijing's political influence has also increased significantly, albeit less than its economic and military power, but the same is not true of its cultural or soft power. Although the various types of power have increased at different rates, there is a tendency to use the most visible or dramatic increase—economic power—as a proxy or indicator for total power and/or to assume that power in other areas is or soon will be as great as it is—or is perceived to be—in the economic sphere. This exaggerates China's strength, influence, and potential.

China's economic performance is by far the most important determinant of its ability to maintain stability at home and increase its influence in the region and on the world stage. Sustained high levels of growth—creation of new jobs, steady increases in living standards, revenues for infrastructure and social needs—is the most important source of regime legitimacy and the highest priority of China's political leaders. Foreign policies, military activities, and domestic policies have aimed and will continue to strive to preserve and enhance conditions conducive to sustained economic growth.

In other words, economic power is both a resource that can be used to increase China's influence and leverage in the region (e.g., by capitalizing on the extent to which neighboring countries now depend on the China market), and a significant shaper of and constraint on the way it attempts to utilize its economic leverage because Beijing must avoid actions that endanger sustained growth. This dualistic situation is unlikely to change significantly in the years ahead.

Thanks to its economic achievements, most recently its early recovery from the global financial crisis, China is perceived to be on an upward trajectory and inferred to have ideas, institutions, and a political system that outperform those of other nations. In contrast, the United States, which is growing more slowly and is taking longer to recover from the financial crisis, is widely perceived to be a waning power—despite its continued and increasing military preeminence, still high levels of political influence, and strong appeal of American ideas and soft power. In politics, perceptions matter, sometimes more than facts. To cite just one example, it is widely asserted, and presumably believed, that the U.S. has been substantially disadvantaged economically by China's rise. Facts suggest otherwise. In 1979, when China began its policies of reform and opening, the U.S. had 5% of world population and accounted for 27% of the global economy. Thirty years later, despite the end of the Cold War, the rise of China, India, Brazil, Indonesia, Turkey, and others, and the integration of Central European states into the global economy, the United States, which now has only 4% of world population, still accounts for 25% of the world economy. This is not exactly a precipitous plunge. Over that same period, U.S. military power has grown dramatically and dozens of countries have become more democratic and reliant on global markets and the U.S.-led international system. In other words, there is a considerable gap between perceptions and reality. The magnitude of U.S. predominance has decreased in the economic, and, because of Iraq and other policy missteps, the political arena as well, but this is due more to what Fareed Zakaria calls the "rise of the rest" than to the absolute decline of the United States. The U.S. is not in decline but

this “fact” may prove less decisive than perceptions and expectations in NEA and elsewhere.

The discussion above greatly simplifies a number of complex and interconnected dynamics but it is, I hope, adequate to frame one set of possibilities that will shape the future trajectories of China and the United States and the future of Northeast Asia. They can be summarized as follows:

- China’s economic growth will continue to determine what it is able to do with respect to other dimensions of power and how Chinese and others perceive its power. It might continue to grow at double-digit rates, but that will be increasingly unlikely. Gradual flattening of the growth curve is far more likely, and that will constrain possibilities and temper perceptions. Significant decreases in growth are also possible. China has been exceptionally fortunate thus far with respect to both internal and external conditions for growth and the choices made by political and economic leaders. Fortune could change, whether because political leaders guess wrong on key economic questions, other countries began to respond more negatively to the implications of China’s rise or specific actions undertaken by its military or economic actors, or there is another crisis in the international system. Stated another way, one determinant of China’s future trajectory will be the slope of the line describing Chinese power and the primary determinant of the slope will be the success of its economic and foreign policies.
- The power determinant of the U.S. trajectory will also be a function of the interplay of reality and perception. The U.S. will recover from the global financial crisis; how rapidly it does so will influence domestic politics and priorities. The faster the recovery, the more likely that past policies and attitudes with respect to free trade, maintenance of global stability and the international system, military expenditures and commitments, etc. will remain more or less the same as they have been. Slower or more problematic recovery increases the potential for quasi- or neo-isolationist policies, protectionism, unwillingness to bear the costs of global system maintenance, etc. If the U.S. really were to go into decline, it would

transform expectations and reduce American influence around the globe.

- One can posit a number of combinations (e.g., both the U.S. and China get stronger, both suffer economic setbacks and reduced influence, China gets stronger and the U.S. is perceived to become weaker in absolute terms and/or vis-à-vis China) and assign probabilities to each of them. For purposes of this exercise, I will simply assert that both will remain major powers and that China will not displace the U.S. as the most powerful or influential nation for decades beyond 2025. A corollary is that no significant regional or global issues can be resolved without cooperation between the United States and the PRC.

**Rivals or Partners?** Regardless of which scenario integrating the power trajectories of China and the United States prevails, the degree to which they interact as partners and/or rivals will be one of if not the most important determinants of what happens in Northeast Asia. Adherents of the realist school of international relations tend toward or espouse a highly deterministic view of the relationship between rising and status quo or hegemonic powers. According to this theory, it is inevitable that a rising power will challenge the extant dominant power, and that the currently dominant power will act to preserve its hegemony by doing what it can to thwart, constrain, or undermine its rival. This “king of the hill” view of international relations is captured by a Chinese aphorism asserting, “Two tigers cannot occupy the same mountaintop.” There is considerable historical evidence to support the theory and it is understandable that people in China, the U.S., and elsewhere, see high potential for rivalry, hostility, and measures intended to preserve or erode competitive advantage and its privileges.

Realist theorists are not the only ones who see high potential for rivalry between the United States and China. Although American officials representing eight administrations (beginning with the Nixon administration) have proclaimed support for a China that is strong, prosperous, stable, and secure, many Chinese are skeptical that such avowals represent the

true intentions of the United States. Convinced that the U.S. will do whatever it considers necessary to preserve its hegemony, these Chinese (and citizens of many other nations) judge that it is only a matter of time until the U.S. reveals its “true intent” and ratchets up its efforts to constrain and contain China’s rise and/or to undermine its system of government. Such sentiments feed strategic mistrust and foster hedging behaviors that fuel similar suspicions in the United States.

Strategic suspicion of the United States and continuing dependence on the U.S. and the U.S.-led international order for the conditions and opportunities essential to sustain China’s rise create real dilemmas for policymakers in Beijing. In order to sustain rapid growth and increase their own power and influence, they must avoid seriously antagonizing the United States or appearing to challenge the existing international order. The strategy that has facilitated the enormous accomplishments of the past thirty years entails heavy dependence on the U.S., but dependence perpetuates vulnerability to retaliatory or disruptive actions. Since they see China’s power increasing relative to that of the United States, albeit less rapidly and consequentially than do many Chinese citizens, they expect the U.S. to attempt to constrain China before the power differential becomes too small. This causes them to expect and prepare for the U.S. to abandon its reassuring rhetoric and supportive behavior sooner rather than later. But preparing for this eventuality has the potential to accelerate the process with adverse consequences for growth, stability, and legitimacy.

Chinese suspect eventual hostility from the United States. Americans do not know what to expect from China. As a practical matter, there is little difference between presumed hostile intent and uncertainty about ultimate objectives because they both lead to hedging behaviors—preparing for the worst even while hoping for the best. It is prudent to do so and, in both countries, politically necessary to hedge by collecting intelligence, developing weapons and tactics that target the other’s vulnerabilities, thinking about and planning for possible clashes in NEA, and lining up political support for different contingencies, etc. Hedging behavior reinforces suspicions and impedes cooperation.

Notwithstanding mutual suspicion and historical examples, there may be an alternative to increasingly hostile rivalry. During the Cold War, the revival of Western Europe, recovery and rise of Japan, South Korea, and Taiwan, and greater prosperity in other states in the “free world” camp were not, or not very often, regarded as harbingers of inevitable rivalry with the United States. What benefited any member of the “camp” was seen to benefit the free world as a whole and, therefore, to be in the interest of the United States. The demise of the Soviet Union has made the very idea of a “free world” seem strangely archaic, but there may be lessons in the experience that can be applied to the contemporary and continuing rise of China and other states that now take advantage of the U.S.-led order. Stated another way, it is not obvious that win-win outcomes achieved within the free world alliance cannot be replicated on a global scale. The U.S. is the logical candidate to lead, but its preeminence need not preclude multilateral approaches to shared problems, power sharing as well as burden sharing, and distributed responsibility for maintenance of the global order. The preceding sentence may sound Pollyannaish but something like it was achieved and sustained during the decades of the Cold War.

The United States and China have an additional incentive to cooperate and avoid antagonistic behavior in Northeast Asia, namely, the strong desire of others in the region to escape having to make either/or choices about alignment. Other states want to maintain good relations with both and to avoid jeopardizing the dependent dimensions of their relationships with both China and the U.S. Thus, for example, Japan and the ROK do not want to put their economic dependence on China at risk by having to side with the U.S. against China. They also want to avoid jeopardizing the security benefits they derive from U.S. extended deterrence by having to tilt toward China in order to protect their economic stakes. Moreover, in a region where balance of power thinking is endemic, all prefer the benefits they think they derive from their relationships with both of the major players. This is strikingly different than the situation during the Cold War when all willingly practiced what Mao described as “leaning to one side.” No one wants to draw a line through the region with adversaries

grouped on either side. Preferences of and pressure from others in the region will reinforce already strong desires in Washington and Beijing to avoid confrontation.

Preceding paragraphs have, once again, greatly oversimplified the dimensions and dynamics of what might be called the cooperation-confrontation factors shaping the trajectories of U.S. and Chinese roles and influence in the region. Unlike the previous section, which focused on the different attributes of power available to each of these major players and the way their power is perceived by others in the region, this section has focused on the character of their bilateral relationship. Both attributes are interconnected, but can be examined independently. The range of possibilities can be summarized as follows:

- China and the United States make choices on numerous possibilities that range from cooperation to confrontation. In the case of the United States, policymakers can decide to support and assist China's efforts to grow and modernize its economy and other concomitants of national power, or they can oppose and attempt to thwart those efforts. There is a range of possibilities along this spectrum and policies on specific issues need not fall on exactly the same point on the continuum. The summary "point" is likely to move left or right in response to developments in China and in American politics; what is critical is whether the U.S. is perceived to be generally helpful or unhelpful to China's rise and whether movements along the range appear to be headed in a generally positive or negative direction. China makes decisions on a similar spectrum ranging from supportive to unsupportive of U.S. objectives in and beyond NEA. Some of these choices are hard. For example, Beijing is uncomfortable with and often opposed to U.S. efforts to bolster its alliance relationships with Japan and the ROK. But it does not want either Japan or South Korea to lose confidence in the U.S. security umbrella and pursue an independent nuclear deterrent.
- A related but analytically distinct spectrum of choices involves the management of risk and uncertainty. Neither side fully trusts the other

and neither desires to make the other an enemy. As a result, each must pursue policies that attempt to preserve good working relationships, build trust, and avoid frightening or alienating others in the region while at the same time hedging against the possibility of future hostility. Hedging is politically necessary, but undermines trust.

**Wildcards, Third-Party Actions, and Extra-Regional Developments.**

The discussion thus far has treated China and the United States as rational actors with substantial ability to shape their own destinies, relations with one another, and their roles in the region. Most of the time and in most respects, that model is likely to prevail. However, a number of legacy problems and possible actions by other players have the potential to complicate, skew, or derail the strategies and policies of both Washington and Beijing. I consider the likelihood that any of the developments outlined below will actually happen to be low, but they warrant mention because the potential implications for the trajectories of China and the U.S. are substantial. Most of the examples are well known and require no elaboration.

- North Korea implodes or acts in ways that trigger active responses from the ROK, Japan, China, the United States, or some combination of states. Regime collapse, sale or transfer of nuclear weapons, authorized or unauthorized attack on a neighbor with missiles, or other easily imaginable actions have the potential to upend the game board and undermine myriad existing and conceivable arrangements among countries in NEA.
- Relations between the mainland and Taiwan are better and more extensive than ever, but it is not difficult to imagine developments that would trigger a political or even military crisis involving several countries in the region.
- Territorial disputes, conflicting resource claims, and other issues involving sovereignty that incite public passions, nationalism, and pressure on governments to take actions that most leaders would consider imprudent.

- Developments outside of NEA, such as a conflict in the Middle East that seriously disrupted oil production and deliveries to NEA, particularly if one or more NEA states are seen to have precipitated or aggravated the situation (e.g., by selling destabilizing arms or assisting nuclear programs).

Others might take issue with any or all of these examples, but the point I wish to make here is that both the region and the major powers in the region are vulnerable to developments over which they may have little control and which will be difficult to manage because of domestic politics, competing interests, and inadequate institutional mechanisms for managing such eventualities.

## **Implications for Proposed “Ideal” Security Situation in NEA in 2025**

Perhaps the easiest, most obvious, and least helpful observation I can make with regard to the regional implications of the alternative trajectories sketched out above is that the character and content of regional groupings and what they are designed to accomplish will be determined primarily by the individual trajectories of the United States and China and, even more fundamentally, by whether their relationship is collaborative or antagonistic. This is not to imply that the actions and objectives of other regional players will have little impact on the architecture and agendas of regional institutions. Rather, it is to argue the overarching importance of U.S.-China relations and to underscore the near certainty that the policies of other regional players will be strongly influenced by their perceptions of and reactions to the central U.S.-China dynamic. Viewed from the perspective of 2010, I feel confident that all the regional players—with the possible exception of the DPRK—prefer a U.S.-China relationship that is basically harmonious, preserves conditions that have fostered peace and prosperity, and entails checks and balances on the ability of either major power to act in ways injurious to the interests of individual states or the region as a whole.

If the United States and China were able to overcome their mutual strategic suspicions and avoid serious internal instability (in the case of China) and quasi-isolationist impulses (in the U.S.), prospects for most of the nine elements in the notional “ideal” security situation would be quite good. This is a big and crucially important if, but it is not unrealistic to think that it can be achieved. One reason for optimism is that no other state in the region—or the international system—opposes or seeks to prevent harmonious and stable relations between the U.S. and China. Many do not like the idea of a “G-2” superpower condominium, but that is far less likely to come about (among other reasons because neither Washington nor Beijing wants it to) than are various multipolar/multilateral arrangements at both the global and regional levels. In NEA, the most likely arrangement, under this scenario, would include all of the regional states.

Perpetuation of the current situation in which the U.S. and China cooperate on many issues while remaining suspicious of one another and hedging against uncertainty would facilitate progress toward some of the nine objectives (e.g., open and rule-based trade and efforts to address long-term and non-traditional security issues), but impede others (e.g., effective mechanisms to address security interests). Perhaps the biggest obstacle under this trajectory or scenario is that existing alliance relationships would remain in place and probably be bolstered, in some way, and their implicit or suspected purpose would be as a hedge against China.

If U.S.-China relations become fundamentally antagonistic, an unlikely but possible development that would have a big impact on the region, it would be very difficult to achieve many of the goals posited by the ideal model. Serious instability in China or a significant swing toward isolationism by the United States would complicate any effort to pursue the goals in the model and provide strong inducements—or make it necessary—to defer tackling issues that would be difficult to resolve under even the best of circumstances.

Most of the objectives specified in the ideal model can and probably would be pursued under all but the most negative and disruptive of the trajectories and scenarios outlined above. Some (e.g., energy security, climate change, environmental degradation, nonproliferation, pandemics, terrorism, and others) can be, at least in theory, segregated from other, more contentious items on the list. But the ability to forge a new and lasting security architecture for the region will be severely, if not fatally, constrained unless there is substantial movement away from current hedging arrangements and toward some type of collective security architecture that does not entail actual or implicit divisions of the region. Such an arrangement could not be an anti-China alliance or a democracies versus non-democracies alignment. It would have to preserve something akin to extended deterrence in order to prevent further proliferation of nuclear weapons in NEA, and it would have to have transparency (e.g., acceptance of intelligence collection) and other confidence building measures. Substantial progress on this goal will be very difficult under any circumstances and impossible without a very positive U.S.-China relationship.

## **Policy Recommendations**

Rather than formulate proposals that focus narrowly on alternative trajectories for the U.S. and China, I will limit my recommendations to three high-level suggestions that apply, *mutatis mutandis*, to all states in the region.

1. *Recognize that transforming the security architecture of Northeast Asia is a complex task that cannot be accomplished quickly and eschew quick-fix solutions in favor of deep and comprehensive dialogue intended to clarify concerns and objectives.* Rather than attempting to graft this discussion on to any existing meetings or regional grouping, mechanisms should be developed for initially open-ended discussions about what the future architecture of the region should be and what it would take to reach agreed objectives. The discussion should include all regional players (U.S., China, Russia, Japan, ROK, DPRK, Mongolia) with official representation at mid- to senior-levels. Whether there should

also be participation by non-official experts should be decided later. This forum should not be envisioned as the place to address issues that would otherwise be addressed through other modalities.

2. *Pursue the objectives on the “model” security architecture list in as many ways as seem appropriate.* The objectives are desirable and should be pursued and achieved as possible, i.e., without waiting for agreement on a future regional architecture and without linking individual goals more tightly than is inevitable. Among other benefits, these efforts could clarify issues and identify possible solutions germane to the broader end state discussion envisioned in recommendation 1.
3. *The national governments of regional states should develop public education programs to deepen public understanding of issues, objectives, and facts about the region.* Each country would have to do this in ways appropriate to its own political and social system. Such programs are necessary because of the importance of public opinion as a driver of and constraint on government policy decisions and the deplorably high level of misinformation now circulating in the public domain and in political discourse about the region.



# Northeast Asian Regional Policy Coordination in an Era of Fundamental Change in North Korea

Alexander Vorontsov

This year 2010 happened to be too tumultuous even for the traditionally restless Korean peninsula. The year started with North-South relations sharply aggravated by the Cheonan frigate March tragedy, which was followed by an exchange between Seoul and Pyongyang that moved the situation to the brink of a possible hot war. The year finished with a further escalation of the North-South confrontation when the verbal war unfortunately transferred into a hot military incident—the artillery duel around Yeonpyeong Island on November 23. This tragic development put to a very serious test not only current regional security, but also designs and considerations related to the “ideal” security state for Northeast Asia in 2025.

Simultaneously, crucially important events took place inside of North Korea. The long-awaited process of promoting state leader Kim Jong-il’s successor at last started. The fact of course generated a lot of guesses, questions and hopes regarding possible changes in the DPRK domestic policy area as well as its international behavior. Naturally all the above-mentioned circumstances attracted increased attention to the peninsula and North Korea particularly. Let’s start our review with an analysis of recent events in the Democratic People’s Republic of Korea (DPRK).

## **The Beginning of Fundamental Changes in North Korea?**

The meeting of North Korea's ruling party (the Workers' Party of Korea—WPK) on September 28, the first one since the party's congress of 1980, is the most important event in the country's domestic policy. Gatherings of the ruling party are rather exceptional events that are not held on a regular basis. They are held only when the most crucial issues must be considered. The previous conference was held forty-four years ago—1966. Then the party set the course for parallel implementation of military and civil construction and as a result the national economy became military oriented.

The recent conference was focused not on ideological and political issues, but on internal party affairs, namely the election of the new party's internal affairs leadership—the ruling bodies of WPK, members of the Central Committee, political bureau and its presidium.

The importance of legitimizing the party's leadership was predetermined by the fact that since the death of the founder of North Korea Kim Il-sung in 1994, no more congresses and plenums of the Central Committee had been held. The party officials were lobbied by a narrow circle of people. It was quite predictable that Kim Jong-il, who attended the conference but did not speak at it, was reelected (or according to the North Korean terminology, “nominated”) as the WPK's Secretary General. However, despite the widely-held expectations of Western analysts, his younger son Kim Jong-un has not been officially named or even mentioned as the future North Korean leader and successor of his aged father, whose health continues to deteriorate.

It should be noted that, in his time, Kim Jong-il was formally appointed as the inheritor of his father at a previous party congress. He was also appointed a member of the presidium of the political bureau, together with four more high-ranking officials. In comparison with Kim Jong-il, the promotion of Kim Jong-un is not so impressive. He was not even included

in the political bureau and secretariat of the Central Committee. He became only one of more than one hundred members of the Central Committee.

Western observers see two reasons for this. Some of them believe that being influenced by his close associates, Kim Jong-il is still hesitating and has not decided yet who will take over for him. Besides this, it is still not clear whether it would be better to have a new charismatic leader or to give preference to the collective leadership in the center and in the regions. The second thing is understandable considering that Kim Jong-un is too young—only twenty-seven or twenty-eight. He is little known in the country, has not established himself in any field so far, and has not gained the authority that would enable him to be regarded as the successor of his father.

Other analysts see things differently—they claim that Kim Jong-il has little choice. His two elder sons do not have strong personalities and leadership qualities, while his close associates are mainly politicians older than seventy. In the context of the North Korean regime they were good advisors to him, but they are not good at carrying the burden of responsibility or in independent decision-making.

Speaking about Kim Jong-il's mindset, we should remember that he comes from a family of revolutionaries. Legend has it that his great-grandfather sank an American commercial ship that intruded Korean waters in the 19<sup>th</sup> century. The call of blood is strong in Kim Jong-il and he tends to fully trust only the members of his family. Only members of his family can take over the ruling of the country when the time comes.

The author of this paper sees the situation as follows: the entry of Kim junior to politics has begun, but his incubation period can be prolonged for an uncertain period of time. During this period Kim Jong-un should become familiar with all state affairs and prove he is competent enough to be his father's successor. Shortly before the conference, Kim Jong-un received one of the highest military ranks—Army general (as did the sister

of Kim Jong-il). At the conference he was elected deputy chairman of the central military commission of the WPK's Central Committee. This body acts independently from the ruling party's institutions and is in charge of forming and coordinating the military policy of Pyongyang. It should be noted that the chairman of this commission is Kim Jong-il and his deputy is the head of General Staff, Ri Yong Ho.

Analyzing these appointments, we can conclude that the entry of Kim Jong-un into politics should be seen as a multi-stage process, the length of which will be defined by an objective factor (the health of his father) and by subjective factors (his readiness to take over leadership functions). Right now we can say that, in general, the profile of the future successor has been defined and it is likely that he will be busy not with the administrative work of the WPK, but with the affairs of the defense sector. Further evidence of this is the strengthening of the positions of family members who are now acting as "guardians" of the young leader. The husband of Kim Jong-il's sister is his deputy in the State Defense Committee and may teach Kim Jong-un how to rule the country in general while Kim Jong-il's sister may teach him how the government bodies are functioning and the General Staff Chief will help him in the military sector.

If we deviate a little from family and domestic political affairs it is worth mentioning that the conference ignored all urgent political and economic issues that concern difficult situations in the country. Even in general the WPK members did not discuss ways of overcoming the poor social economic state in the country. The line-up of the leadership has not become younger either. In fact, all key positions are still occupied by Kim Jong-il's associates, aged seventy and older.

Meanwhile the social-economic situation in the country is getting more troublesome. Every day the lack of funds, fuel resources for electricity, and essential goods is getting more and more desperate. The situation in the food sector has worsened to some extent, especially after the summer-autumn floods, which destroyed most of the agricultural plantations. As

a result, this year the grain harvest is expected to amount to only 3.7–3.8 million tons in comparison with 4.25 million tons last year. With a very small amount of food imports, most of the population will have to count only on scarce rations. However, the above-mentioned difficulties are not extraordinary for North Korea and did not reach the level to affect domestic stability.

In the international arena, North Korea remains isolated, restricted by the UN sanctions imposed after the country conducted nuclear and missile tests. The situation is getting more complicated with growing pressure on North Korea from South Korea and its allies, which continue to spread assumptions that Pyongyang was to blame for sinking the South Korean corvette Cheonan in the Yellow Sea in March. Though UN experts have not proved North Korea's involvement in the tragic accident, several countries (the ROK, the U.S. and Japan) still disagree with the UN's verdict and continue to impose different unilateral sanctions on Pyongyang as a kind of punishment. At the same time these countries are conducting military training in the Japanese and Yellow Seas, saying that it is necessary for the deterrence of North Korea. It is obvious that some neighbors of North Korea, tired of waiting for the collapse of the North Korean regime (a term widely used in the West), are trying to speed up this process artificially using the difficulties and restrictions that exist or that are being imposed on Pyongyang.

It is remarkable that on August 15, when the confrontation between North and South Korea had reached its high point, South Korean President Lee Myung-bak came up with a program to unify the two Koreas. Though it was not mentioned directly, in the core of this plan was the idea that Seoul has been cherishing for a long time—the South taking over the North. In other words, the situation in North Korea remains complicated. In such circumstances the most recent steps taken by the country's leadership are aimed to guarantee the survival of the country, which is facing growing domestic and external challenges. This pushes the Korean leaders not to conduct long-awaited reforms, but rather to maximize centraliza-

tion of power and further concentrate it in the hands of a small circle of people devoted to Kim Jong-il and the family even at the expense of new material losses.

## **The Beginning and Quick Failure of Pyongyang’s “Peace Offensive”**

Observers noted that after starting the process of younger son Kim Jong-un’s promotion in a more or less legitimate way according to North Korean norms, Kim Jong-il undertook a number of measures aimed at restoring dialogue with the international community—first of all with Washington and Seoul—and showing his readiness to even open the country slightly under proper circumstances.

Experts have begun using the term “Pyongyang’s peace offensive” to describe recent initiatives by North Korea’s leadership. These include: an agreement to return to the Six-Party Talks; an unprecedentedly broad invitation to a large group of Western media outlets (CNN among others) to attend the 65<sup>th</sup> anniversary celebration of the founding of the Korean Workers’ Party (October 15, 2010), an historic first; and a series of proposals aimed at getting Seoul to restart dialogue in various areas (separated family members were able to meet). Thus, a situation in which the North offered appropriate ideas and the South was “carefully” studying them but was slow to respond had formed before the artillery duel.

On the eve of the Yeonpyeong Island artillery barrage, North Korea tried to invite the U.S. to the dialogue in their own manner. On November 12 they showed American (no one else) representatives a uranium enrichment plant at their Yongbyon nuclear facility that supposedly has as many as 2000 centrifuges.<sup>1</sup> The number is not large enough to initiate production of the “ingredients” for a uranium nuclear bomb. Pyongyang announced that it had begun building a light water reactor in the same region, which the centrifuge facility actually is intended to supply with low-enriched uranium. Of course the event was a shock

for the international community and a significant new concern in the framework of a nonproliferation regime. However, from Pyongyang's perspective this step was regarded as a means to involve Washington in new contacts. But the Yeonpyeong Island incident probably totally undermined the recent "Pyongyang peace offensive" attempt.

## **Northeast Asian Regional Policy Coordination Attempts**

Before deliberating Northeast Asian regional policy coordination, I would like to draw attention to the fact that the aftermath of the recent Yeonpyeong Island incident poses a serious challenge to the conception of an ideal security state for Northeast Asia in 2025. With regard to reactions to the tragic incident, we witnessed two contrary approaches towards resolving the crisis adopted by regional states. Beijing and Moscow are calling for the urgent use of diplomacy—everyone involved should meet, figure out what is going on and agree on how to get past the crisis in a way acceptable to all. That was the purpose of yesterday's (November 29, 2010) proposal by Beijing for an emergency meeting (in early December) by representatives of the countries participating in the Six-Party Talks.<sup>2</sup> But there has been no response to that natural and sound idea either from Seoul, where President Lee Myung-bak says that now is not the time for talks with North Korea,<sup>3</sup> Washington or Tokyo.<sup>4</sup> They prefer to use other means—primarily military means—and are continuing to conduct military maneuvers.<sup>5</sup>

This practice gave ground to some observers to suppose that Washington is also exploiting the Korean crisis to put pressure on China and, perhaps, indirectly on Russia as well. So continuation of the policy of intensifying and expanding the scale of military exercises in the region may convince neighboring countries that not everything is intended for North Korea, that its neighbors are targets as well. In that case, South Korea's neighbors will have to seriously study the new challenge and take the appropriate steps. Thus, the current developments may trigger a new round in the regional arms race, in addition to everything else.<sup>6</sup>

A regional crisis that results in such opposite assessments and reactions from different sides creates obvious obstacles on the way to reaching the goals of an ideal security state for Northeast Asia in 2025. At the same time, this challenge confirmed again the Northeast Asia region's vulnerability due to the absence of a multilateral security related structure.

Obviously, Northeast Asia's need for a format to discuss regional security issues is urgent. Located at the intersection of geopolitical interests for major global powers—Russia, China, the U.S., and Japan—the region occupies a unique position in the global system of political and economic relations. The two Koreas as well as Mongolia also play important roles in shaping the balance of forces in the area. Relations within “the big four” centered around the geographically small area and above all the Korean peninsula are both affected by the global political landscape and affect the latter to a considerable degree.

The formerly rigid and well-defined contours of the international balance in Northeast Asia started to slide in the early 1990s as the dynamics of international relations in the region grew unceasingly vigorous. The gradual revival of Russia's interest in regional affairs had a serious impact on the situation. When Russia and China formed what might be described as a partnership and—at the early phase of George Bush's presidency—tensions between Russia and the U.S. were somewhat relieved, Russia managed to stage an impressive comeback as a member of the club of nations involved in resolving the Korean problem, diversified its ties with the regional players, and conquered a certain amount of space for diplomatic maneuvers. As of now Russia's gains are substantial, but they only open opportunities for a truly assertive diplomacy that are yet to be seized.

One should keep in mind that Northeast Asia ranks second among U.S. global political priorities. Currently the U.S. is making serious political investments in narrow-format groups functioning under auspices such as the Sydney “troika” (U.S.-Australia-Japan)<sup>7</sup> and the Trilateral Coordination and Oversight Group (U.S.-Japan-Korea).<sup>8</sup> Overall U.S. hegemony in

Northeast Asia as well as in the Asia Pacific on the whole has reached unprecedented proportions in the past decade and is likely to go unchallenged in the foreseeable future. Therefore, Washington will always pursue a conservative policy regarding the peace process in the region—it will be working to prevent the emergence of any multi-polar formations not led—at least informally—by the U.S. and to repel any attempts by other countries to take over its current role.

Countries adapt to ongoing change in international politics and strive to occupy advantageous niches in an increasingly complex system of international relations against a background of intensifying disagreements over old conflicts and the emergence of new ones. Under the circumstances, a task of great importance is to set at least some general rules of conduct for the regional players and to establish forums for building trust, preventing new conflicts, and defusing old ones.

The Korean peninsula crisis—the conflict between Washington and Pyongyang over the so-called nuclear program of the latter—necessitated practical steps in the above directions. To resolve the standoff Six-Party Talks opened in Beijing in August, 2003 under the auspices of China.

Speaking of potential approaches to organizing the dialogue on East Asia's security, attention should be paid to the resolutions of the February 2007 round of the Six-Party Talks, which called for forming five work groups with their own separate agendas: three multilateral groups to address the denuclearization of the Korean peninsula, cooperation in energy and the economy in general, and the peace and security mechanism for Northeast Asia; and two groups to undertake normalizing DPRK-U.S. and DPRK-Japan bilateral relations.

While the scope of the issues awaiting other work groups is clear, those to be tackled by the peace and security group, whose work is to be coordinated by Russia, are of extremely extensive and unprecedented character, and loosely defined as a result. The objectives and directions of the work to

be done have not been formulated so far. It is hard to say for sure who floated the idea, but there are serious reasons to believe that the purpose was to indicate to Pyongyang that its proper conduct would be rewarded in the future by establishing a regional organization that would be able to guarantee North Korea's security. Naturally, the country's nuclear arsenal would have to be disabled completely to make this possible.

The work group convened in March 2007 in Beijing and in August 2007 in Moscow. The participants presented their views and agreed to chart guidelines for peace and security in Northeast Asia that would potentially serve as a kind of "code of conduct" for the relations between the region's countries.

From Russia's point of view, creating a multilateral mechanism—whatever contours it might eventually acquire—is a task for a fairly remote future. Tackling it would become realistic only upon the complete denuclearization of Korea and in the course of a gradual improvement of the climate of the Six-Party Talks.

The following guidelines for the work group were formulated on the basis described above. First, progress should be achieved on a step-by-step basis, by moving on from relatively manageable issues to the more complicated. Secondly, denuclearization of the Korean peninsula should have priority over the formation of the peace and security mechanism. Thirdly, efforts should be made to create a climate that will help make progress on all the main tracks, refining the guidelines being a part of the process.

During the December 2008 meeting of the heads of the Six-Party Talks, the delegation of the Russian side distributed a revised version of the guidelines based on the suggestions and recommendations of the partners. The output of the third meeting of the peace and security work group—in Moscow in February 2009—was modest. The press release, written in a lapidary style, said the parties had reached understanding concerning a larger part of the draft guidelines and had confirmed the importance of

multilateral approaches to the issues of peace and security in Northeast Asia. The head of the Russian delegation, G. Logvinov, stressed that there were issues that required additional work and hence there would be room for further joint efforts.

The diffuse diplomatic language shows that the talks have produced no appreciable results. On the one hand, polemic clashes were successfully avoided and neither of the parties questioned the feasibility of the work group's further functioning. On the other hand, an agreement on the guidelines to govern relations between the sides of the Six-Party Talks has not yet materialized. Nevertheless, the very fact of successful interaction within the framework of the Six-Party Talks for five years and the tangible progress made despite the difficulties encountered instills hope that the work group has the potential to evolve into a permanent platform sustaining regional dialogue.<sup>9</sup> However in April 2009 the Six-Party Talks themselves were interrupted and the hiatus has lasted until the present time.

No matter how difficult and protracted the process of forming the peace and security mechanism for Northeast Asia may seem, it continues to ignite intense debate both politically and academically, with opinions diverging widely. Europeans typically hold that—considering the universal character of Europe's principles—a feasible option for Northeast Asia is to borrow the ideas of the Organization for Security and Cooperation in Europe (OSCE).<sup>10</sup> Upon accomplishment of specific Six-Party Talks objectives such as denuclearization, normalization of DPRK bilateral relations with the U.S. and Japan, and the setting up of a full-scale Korean peninsula peace system, the purposes of the mechanism as seen by Europe fall into three main categories. The first is military-political, encompassing the prevention of military conflicts and measures aimed at trust-building. The second is economic, and includes large-scale energy, infrastructure, and environment projects. The third category is humanitarian, and pertains to the sphere of human rights and democracy. Europeans want the regional security dialogue in Northeast Asia to be maximally open, particularly to European partners who are eager to contribute their knowledge at the

current phase of the establishment of the mechanism and to get directly involved in its subsequent functioning.

The reasoning behind this point of view is flawed, as it ignores the differences between the environment of the epoch when the OCSE was established and the current situation in Northeast Asia. The factors that made the creation of the OCSE in 1975 possible were the prevalence of the ideas of *détente* and peaceful coexistence, the general consensus that post-war borders had to be untouchable, and the balance between NATO and the Eastern Bloc. No doubt, certain aspects of the OCSE experience are applicable in the case of the Korean peninsula, but overall attempts to implant old schemes into current reality would do more harm than good.

It should be noted that the regional players are deeply skeptical about the applicability of Western Europe's schemes. Among other things, they point quite reasonably to contrasts between Europe and East Asia. The starkest contrast is that in Europe the integration process crowned with the creation of the EU was driven by the alliance of Europe's two economic powerhouses—France and Germany—who managed to leave behind the burdening legacy of World War II and other past hostilities. What is seen in East Asia is exactly the opposite: Japan and China, its two major economies, failed to achieve complete reconciliation, and historically rooted grievances periodically mar their relations. Their struggle over regional leadership is clearly intensifying. Both countries are experiencing a tide of nationalism—that of a rising giant in the case of China and that of a nation feeling hurt by losing the economic competition to its neighbor in the case of Japan.

The *de facto* incomplete character of the past wars—the “hot” and the “cold” ones—is another circumstance making Europe and East Asia markedly different. Formally the two Koreas are still in the state of war, though frozen by a truce. The DPRK still has neither generally recognized borders nor even diplomatic relations with a number of countries (with Japan and the U.S.). Japan spars over territories with all of its neighbors

(Russia, the ROK and the PRC). Naturally, this set of conditions makes the outlook for regional cooperation a bit bleak.

Both Russia (the USSR) and other, mostly Anglo-Saxon, countries suggested a multilateral security system for the Asia Pacific in the 1980s. The idea could not translate into practice both due to its highly abstract character and to its being marketed in the typically European political manner: first came the formulation of the grand initiative, then a summit with a signing of a respectable document and a political spin-off, and only after all of this attention was turned to filling the initiative with practical content. The East Asian political thinking is based on the opposite algorithm—it ascends from details to generalizations, and the creation and institutionalization of new organizations is preceded by shifts in mentality and the emergence of conditions making new steps possible. Looking at the situation from this perspective one realizes that the multilateral process in Northeast Asia has already commenced—in the form of the Six-Party Talks. At the moment there is no point in inventing anything in addition to what already exists. If necessary, the current format can be upgraded, and—as progress towards consensus among the negotiating sides is made—the range of issues on the table can broaden, formations can be institutionalized, and new countries can move into the orbit of the process.

At the same time, there are no reasons to be overly optimistic about what the future holds. At the current phase the Northeast Asian countries face a problem of shaping a system of regional security while having different, and in some cases opposite, visions of the challenges confronting it. From the perspective of the U.S., Japan, and South Korea, the peril is posed by the “destructive behavior” and aggressive intentions of the DPRK, which they suspect of planning to unite the Korean peninsula by force and of being able to attack Japan with its ballistic missiles. The U.S. regards North Korea as a country with a dictatorial regime, a source of nuclear proliferation, and a danger to its neighbors. The list of Washington’s allegations against Pyongyang also includes dealing missiles and missile technologies, counterfeit money, and drugs.

Pyongyang has its own concerns. It is convinced that Washington seeks to overthrow the current regime in the DPRK either by a direct military attack or by isolating the country, barring it from the international financial system, and subverting its political system. Deeply mistrustful of the outside world, Pyongyang believes that having a nuclear arsenal is its only hope.

In the past the task of convincing North Korea to abandon its nuclear ambitions helped to unite countries in the region that were otherwise not inclined to act in concert. Suppose that under some circumstances and at some moment in the future the objective is accomplished. Then the question will arise about the subsequent strategy—should the talks that began in Beijing end or should they be re-oriented towards new, potentially even more challenging, tasks?

Seeing no clarity concerning the future of the Six-Party mechanism while recognizing that it is necessary to preserve it, some of the Six-Party countries are coming increasingly close to the conclusion that the Beijing dialogue should remain a forum mainly dealing with the Korean peninsula or, frankly speaking, with North Korea. This approach is premised on the idea that a nuclear-free North Korea will still be a source of tensions and instability in the region and that permanent oversight of its “unpredictable and dangerous regime” will be necessary, the Six-Party Talks being the permanent instrument for exercising this oversight. In its extreme version, the concept implies that upon the denuclearization of the DPRK the agenda should include imposing on Pyongyang the policy of “openness and reforms,” disarmament, democratization, and gradual transformation into “a normal civilized state.” Using this logic the agenda of the Six-Party or—in a more distant future—peace and security mechanisms can include the reduction of North Korea’s conventional forces to a “reasonable” minimum, its dropping any missile technology aspirations, the destruction of the stockpiles of chemical and bacteriological warfare Pyongyang allegedly has, and finally the above political steps. The proponents of the plan do ignore a range of significant issues.

Will North Korea agree to such a roadmap? What countries would be advancing the agenda once—quite predictably—the DPRK withdraws from the talks? How will Pyongyang react if the plan for “joining the civilized community” is imposed on it by force?

In fact, even more questions are left unanswered. For example, if the agenda of the mechanism is dominated by the North Korean theme, at what moment and in what format will the decision on replacing the 1953 truce with lasting peace be made? Will it be—quite logically, considering its importance to the security and stability of Northeast Asia—submitted to the peace and security mechanism or will “the job” be finalized by the signatories of the truce agreement—the U.S. (in the name of the UN), China, the DPRK, and, possibly, South Korea?<sup>11</sup>

Overall, the prospects for a regional security forum are far from good. The players grouped together in the framework of the planned multilateral forum are too powerful and too different, and for some the temptation to subdue the formation that is not yet born will be irresistible. Besides, a regional institution is no panacea as a lot of decisions will be made outside it. The past two to three years have seen a hurried institutionalization of narrow-format interaction mechanisms, for example, those involving just the U.S., Japan, and South Korea or coupled to the East Asia “trialogue” comprising Japan-PRC-ROK.<sup>12</sup>

The U.S. uses the region’s military-political alliances as catalysts for broader formations, as in the case of the Trilateral Strategic Dialogue (the official name of the Sydney group), while also introducing multi-level military-political coordination within them. The goal thus pursued is a new security architecture in the entire Asia Pacific. So, Australia proposed an initiative aimed at creating the Asia Pacific Community, which will limit the roles of the currently existing sub-regional institutions to achieving local and subordinate aims like those related to North Korea. As a result, the as yet to be created peace and security mechanism for Northeast Asia has a chance to be absorbed by more powerful and broadly integrated forma-

tions patronized by the U.S. However, regional politics have a tendency to refute even perfectly realistic expectations, and so far there are no reasons to discount the Beijing process. Eventually it can breed trends that will lead to a new model of relations between countries in Northeast Asia.

Therefore, so-called network diplomacy in the regional format may be considered one way toward an ideal security state for Northeast Asia in 2025. Network diplomacy advocated by Russia also is aimed at the development of cooperative ties among the existing sub-regional organizations: the above mentioned “troika,” Shanghai’s Cooperation Organization, etc. I also hope that this type of network diplomacy will help to elaborate some kind of “modus vivendi”—the behavior code in the region. The “behavior code” should become an element of the conception for an ideal security state for Northeast Asia in 2025, which would allow regional countries to prevent sharp differences in their approaches toward local problems, such as occurred with regard to the Yeonpyeong Island incident of November 23, 2010.

## Chapter Endnotes

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# Northeast Asian Regional Policy Coordination in an Era of Fundamental Change in North Korea

Ming Liu

Since North Korea unleashed its second nuclear crisis in October 2002, China, the U.S. and other regional powers have maintained a formal and close policy coordination, which mainly revolved around the Six-Party Talks from August 2003 to the end of 2008. Though the Six-Party Talks have been suspended for almost two years, this kind of coordination has continued. Therefore it is worthwhile studying.

## **Review of the State of Play**

In terms of policy coordination, there are some valuable and successful experiences deriving from the Six-Party Talks, specifically from China-U.S. coordination. Of course, it was also manifest that some problems and deficiencies existed, which prevented all five parties (or rather, China and the U.S.) from always forming a unified policy line to force the Democratic People's Republic of Korea (DPRK) to strictly abide by all the agreements. It was these intrinsic problems that led to the failure to implement several agreements reached by the Six-Party Talks. The enlightening aspects are as follows:

- Beijing and Washington and other parties generally have a common goal and position. For most of the past years, Chinese leaders were not inclined to tolerate North Korea owning nuclear weapons because Beijing worried that it could hardly control a nuclearized and intractable regime and that other Northeast Asian countries might follow Pyongyang's suit. Given this concern, Beijing was determined to fully side with Washington on the denuclearization issue, even though they had different views about the approach as well as different attitudes toward the stability of the regime.
- The U.S. wanted China to play a leading role to solve the nuclear issue and China was willing to take up this mission. Therefore their common goal, overlapping interests and interdependent roles bound them together in and out of the Six-Party Talks.
- During the 2003–2008 period, the U.S. strategic focus was in Iraq and Afghanistan, thus it had to avoid creating a crisis with China, which paved the way for maintaining relatively good policy coordination with China.
- The top leaders of China and the U.S. held frequent communications, which helped to cultivate trust between the two countries and accelerate the process of working-level policy consultations. Based on incomplete statistics, President George W. Bush and Chinese President Hu Jintao held more than thirty phone calls between 2002–2009. The topics ranged from North Korea nuclear issues to Taiwan and the financial crisis, with a focus on the nuclear and Taiwan issues. This kind of reciprocal consideration for each country's concerns stabilized bilateral relations.
- Not only China, but also the U.S., South Korea, Japan, North Korea and Russia actively dispatched their chief negotiators to conduct shuttle diplomacy among their capitals. Through close consultations and respective position debriefings, the five parties formed a general policy outline and strategy to present in the talks. Most importantly, China and the U.S. achieved better mutual understanding on some specific issues at some critical stages. On certain significant occasions, China, based upon its special culture and unique understanding of North Korea's

complicated thinking, did give Americans some constructive advice for getting over deadlocks on some phrases in the joint statements and avoiding a breakdown of the talks (such as mentioning the light water reactors provision at the proper time).

- It is also important to point out that the U.S., Japan and South Korea held Trilateral Coordination and Oversight Group (TCOG) meetings before every talk. This coordination, in fact, weakened North Korea's traditional tactics to drive a wedge among three allied countries.
- However, these TCOGs failed at some points. In November 2005, during the fifth round of Six-Party Talks, the DPRK-U.S., DPRK-Japan, South Korea-U.S., South Korea-Japan, and U.S.-Japan all frequently held bilateral consultations, but the TCOGs stopped their policy coordination because South Korea's position was much closer to China and Russia than to the U.S. and Japan.
- The Six-Party Talks were the first time that regional countries regularly joined together to address a common concern, and it tested multilateral policy coordination on complicated problems arising from the negotiations. Through these talks, we can develop a kind of regional cooperation on ideas, habits, characteristics, rules for interaction, models, and principles, and promote trust, understanding of each other's basic interests, and bottom-line policy. If the talks indeed achieve good results, it would certainly evolve into a Northeast Asian security mechanism.

## **The Policy Coordination and Its “Ideal”/ Implications for Regional Integration and Cooperation**

Either in the midst of the process of addressing the North Korea nuclear issue or in the contingency situation on the Korean peninsula, policy coordination among respective countries is very important. Since different countries have different strategic interests and goals on the peninsula, at least there are divergent approaches to resolving the North Korea nuclear

issue, different attitudes towards the DPRK's regime survival and its capricious provocations and diverse assessments of priority issues in the power transition period in North Korea.

In order to maintain genuinely trustful cooperation among China, the U.S., Japan and South Korea on the North Korea nuclear issue and military conflict on the Korean peninsula, we need to address a number of issues in order of priority. First, the feud and territorial disputes between China and Japan and between Japan and Korea should be well managed through dialogues and negotiations. If we can prevent this sovereignty issue from escalating into a crisis and spreading into nationalistic campaigns between these countries, or from elevating into a containment strategy, then these three countries plus the U.S. can develop a close and effective cooperation mechanism for facing the challenge of a major provocation from, or fundamental change in, North Korea.

In the past six years—except for a short period of bickering about the Japanese Prime Ministers' repeated visits to Yasukuni Shrine, Japan and South Korea's mutual refutations concerning the sovereign state of Dokdo (Tokdo), and China and Korea quarrelling over the historic interpretation of Goryeo (Koguryo)—China-Japan and Japan-Korea and China-Korea have maintained relatively good relationships. In this environment, they could conduct meaningful policy consultations about the Six-Party Talks.

Secondly, if Pyongyang reaches a nuclear deal with the five parties, we must have a series of policy coordination talks on rewards for North Korea and take up related costs for the DPRK's complete nuclear dismantlement. If Pyongyang asks for U.S. security assurance, the U.S. and China could jointly offer a security guarantee in the peace accord. If Washington just wants to give some negative assurance to Pyongyang, Beijing and Russia should give some ambiguously positive security assurance to the DPRK, but not provide a nuclear umbrella. At this stage, denuclearization is the utmost goal; the other unresolved bilateral issues have to be shelved for

later negotiation and all committed assistance for the DPRK should be squarely distributed among the five parties without discount or delay from any party.

With regard to dismantlement, there are many important steps, including: removal of spent nuclear fuel from North Korea, destructing all nuclear bombs and warheads, and conducting verification and inspection.<sup>1</sup> In all these steps, the five countries would play joint or complimentary roles. The policy coordination will not only solve the problems of specific arrangements, like ascertaining which country will take in the spent nuclear fuel, or who will pay the bill for the storage, but also can envision some measures to encourage the DPRK to develop sincere cooperation with other parties, avoiding the friction that occurs when international inspection teams roam here and there, which North Korea perceives as an insult or a risk that military secrets will be exposed.

If the policy coordination is done well, the dismantlement process will be carried out smoothly. Even if the process encounters certain difficulties, the five countries still could hold various bilateral coordination meetings again, creating constructive ideas to remove obstacles for complete denuclearization. At the same time, North Korea also could continue dialogue with China, the U.S., and Russia, exploiting a win-win arrangement, to protect its legal national interests.

When North Korea becomes a normal country and develops a normal relationship with the other five countries in this region, the main political hurdle will be removed for regional cooperation, and tangible cooperation across the DPRK border, which was impossible in the past two decades, will be realized. A relatively harmonious environment will emerge. If all five parties plus the DPRK are determined to make economic cooperation (like the Tumen River cooperation project or Siberian-Korean pipeline construction) a priority, the five parties should give more encouragement to North Korea while forming an atmosphere of mutual confidence for deep cooperation.

Thirdly, if North Korea starts to change<sup>2</sup> in the next five to ten years—whether it is a policy shift under its third generation leader, Kim Jong-eun, or collective military leaders or under the management of the South Korean government—the five countries (China, the U.S., Japan, South Korea and Russia) need to discuss the drawing up of the development plan, deciding the division of work and complementary roles in economic rehabilitation, and setting up several mechanisms ranging from peace maintenance and denuclearized agreement implementation oversight to humanitarian issues (like North Korean refugee settlement, investigation into South Korea POWs, Japanese abductions, etc ).

As a matter of fact, many Chinese scholars and officials don't see any chance that the North Korea heir, Kim Jong-eun, would choose a reform option since the military would tightly control the regime and it is in their best interest to preserve their autocratic rule by continuing to implement the current “military first” policy and shutting the door to the outside. Kim Jong-eun is too young to resist those generals' conservative views. However, given its ailing economy and spreading anger among the grassroots, the new leaders would be sitting on something like a volcano. Therefore this anachronistic regime could not be sustainable over the long run. Beijing certainly would seize the chance of a weak leader to replicate the Chinese reform experience and try its best to consolidate Kim Jong-eun's power base (in exchange for massive assistance) by resisting the senior generals' intervention. It also will be in Chinese interests to educate this new leader to embrace the Chinese “new security concept” and cast away its bellicose behavior.

Fourthly, in the case of a contingency situation, China and the U.S. should continue consultations about any kind of intervention and explore common interests and strategic trust, trying to avoid any unilateral action on the peninsula. Otherwise, China, the U.S. and South Korea would likely adopt some measure of miscalculation and overreaction. Given this consideration, the key principles will be respecting the traditional interests of both China and the U.S. and their respective bottom-line spheres of

influence, admitting South Korea's role and interests, and asking for UN authorization (if Beijing and Washington think it is necessary). These principles could serve as a sound base for building trust and promoting smooth and substantive cooperation.

The sinking of the South Korea navy ship Cheonan on March 26, 2010, really tore the unity among China, the U.S. and South Korea on the North Korea nuclear issue, which disintegrated further when China differed with South Korea and the U.S. on how to react to North Korea's artillery attack on South Korea's Yeonpyeong Island on November 23, 2010.

This discord between China on the one side and the U.S. and South Korea on the other side reflected the fragility of the three countries' strategic trust and their stiff policy principles and self-centered attitude towards the investigation of the sinking of Cheonan. Beijing cares too much about North Korea's "face" and the stability of the power transition and dares not categorically express its dissatisfaction with the DPRK when the latter has done wrong. It would give a bad impression externally when China has unwisely and rashly pursued a policy of developing much closer relations with the North since last year the latter hadn't made any substantive progress on denuclearization.

For Washington, President Obama has paid less attention to the North Korea issue and has made more strategic maneuvers to deal with the expansion of China's influence in East Asia, which certainly led to a negative effect on China's role in restraining North Korean provocations. American diversion of strategic focus would push China to show sympathy to North Korea. The U.S. and South Korea need to give China more leeway to engage the DPRK and join hands with Beijing to control the escalating spiral of crisis. It is not in the region's best interests to drive the DPRK into a corner as many countries try to isolate and infuriate this reclusive country. Excessive U.S.-ROK and U.S.-Japan military drills inevitably will make North Korea nervous and stimulate it to overreact.

Fifthly, when North Korea collapses, China will have to jump on the bandwagon and let the newly-emerging domestic force decide its destiny. What China should do is to cooperate with the U.S., South Korea and other international organizations to manage the social chaos in the DPRK and guide a widely accepted political arrangement for North Korea.<sup>3</sup> It is almost unthinkable that China would control any foothold in North Korea; the accusation that China has territorial ambitions in the north is just South Korean media and some strategists' imagination.

As the two Koreas move towards a unification process, China, Korea and the U.S. should develop some kind of policy consultation, which would set a legal foundation for negotiation. The issues that policy consultation would cover include border security and integrity of territory, organizing a fair and free nation-wide election, and offering just and legal treatment towards North Korean ordinary people.

Sixthly, in the wake of fundamental change in North Korea, one of the lingering issues is the American and South Korean alliance and American troops stationed in South Korea, which also extends to two collateral questions---how to position future North Korean political orientation and what kind of model and concept will dominate this sub-regional security order. If the alliance system expands into the whole peninsula and plays a leading role in maintaining security in Northeast Asia, while the China-Japan-South Korean cooperation mechanism fails to play an influential role in promoting all levels of functional cooperation, an inharmonious and distrustful relationship would form in the region. Even if the trilateral cooperation mechanism indeed functions in some way, it will become awkward when one of the members of this cooperation is just the assumed target set by the military alliance.

## Short to Medium Term Policy Recommendations

- First, outline all the potentially unstable and conflicting issues in the region, ascertain the priority of all these issues in terms of security consequences, and distinguish those issues into two categories: those that are easily altered or managed and those that are difficult to resolve.
- Second, in dealing with the North Korea nuclear issue, we need two-pronged preparations: maintaining deterrence and sanctions; and opening the door for talks regarding denuclearization and management of tension. All five parties must be fully prepared for a nuclearized North Korea over an unexpectedly long time. Under this scenario, we must choose to partly engage with North Korea or to continue to isolate it, but should shift our focus to nonproliferation.
- Thirdly, Six-Party Talks should be convened regularly. If North Korea refuses to participate in such a mechanism, five-party talks should replace the Six-Party Talks.
- Fourth, unless North Korea experiences a big humanitarian crisis, the international community should let North Korea address its own economic and political problems.
- Fifth, if the North Korea problem dies away over the next ten to fifteen years, how will the three allied countries deal with China? Will they keep China as a problem, a balancing target or regard it as a strategic partner for regional cooperation, governance and a dynamic for economic growth? Northeast Asian countries must form a vision of the future order, otherwise we will continue to have an endless power game in a circle even if we don't have a North Korea problem. We need to conduct a deep discussion on a new security concept in order to form a newly-constructed regional order.

## Chapter Endnotes

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1. “A Framework for Peace and Security in Korea and Northeast Asia,” Report of the Atlantic Council of the U.S. Working Group on North Korea (April 2007):15.
2. The definition of a fundamental change might be current regime change or big foreign and domestic policy change without a political system change based upon a “great bargaining.”
3. From current Wikileaks website disclosures on November 29, 2010, China’s then-vice Foreign Minister He Ya-fei made clear to an American diplomat in Beijing last year that China had no intention of propping up North Korea if the situation turned into a kind of chaos.



The Maureen and Mike Mansfield Foundation honors Mike Mansfield (1903–2001), a remarkable public servant, statesman and diplomat who played a pivotal role in many key domestic and international issues of the 20th century as U.S. congressman from Montana, Senate majority leader, and finally as U.S. ambassador to Japan. The Maureen and Mike Mansfield Foundation was created in 1983 to advance Maureen and Mike Mansfield's life-long efforts to promote understanding and cooperation among the nations and peoples of Asia and the United States. The Foundation sponsors exchanges, dialogues and publications that create networks among U.S. and Asian leaders, explore important policy issues, and increase awareness of Asia in the U.S. The Mansfield Foundation's geographic focus is Northeast Asia and India as it relates to that region. The Foundation receives support from individuals, corporations and philanthropic organizations. It also provides support to The Maureen and Mike Mansfield Center at The University of Montana.

**The Maureen and Mike Mansfield Foundation**

1401 New York Avenue, NW Suite 740

Washington, D.C. 20005–2102

Phone: 202.347.1994

Fax: 202.347.3941

E-mail: [info@mansfieldfdn.org](mailto:info@mansfieldfdn.org)

[www.mansfieldfdn.org](http://www.mansfieldfdn.org)



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