

# EAST ASIA INSIGHTS

## TOWARD COMMUNITY BUILDING

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## How to Manage Geopolitical Instability in East Asia

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East Asia and the world are facing uncertain times. The balance of regional power is shifting as emerging market economies such as China are benefitting from globalization and are continuing to rise. At the same time, anti-globalization sentiment is surging, as demonstrated by the United Kingdom's Brexit referendum and by the election of Donald Trump as president of the United States on an anti-free trade platform. The depth of this anti-globalization sentiment, and even more so the surge of populism associated with it, is cause for concern. These developments serve to throw the international liberal economic and security order, which the United States has led since 1945, into considerable uncertainty.

So how can we make sense of all these changes? And how can we craft approaches to ensure regional stability and prosperity into the future?

### **The History of US-Japan-China Geostrategic Relations**

The fate of East Asia has been significantly affected by relations between the three big powers—the United States, China, and Japan. Big shifts in the history of US-Japan-China geostrategic relations have, for better or for worse, tended to come in roughly 40-year intervals.

More than 150 years ago, in 1853, Commodore Matthew Perry of the US Navy sailed a squadron of ships into Tokyo harbor. Japan at the time had a policy of isolation under the Tokugawa Shogun while China was being carved up by the European powers. Commodore Perry's gunboat diplomacy forced Japan to open up to trade with the rest of the world, and in doing so, provided the United States with a supply base from which to conduct trade with China. After 200 years of isolation, this was a major shock to Japan. And in response, Japan embarked on a wholesale national program of modernization through the Meiji Restoration.

Japan rose very quickly and it went to war with China in 1894. Considering the Qing dynasty's overwhelming strength in the region up until that time

and its tributary system, Japan's victory over China in that war signaled a remarkable turn of events after only 40 years of modernization.

About another 40 years later, Japan began its intrusions into Mainland China, beginning with the Mukden Incident in Manchuria in 1931 and the Marco Polo Bridge Incident in 1937. The two countries were soon at war again in the second Sino-Japanese War. Ultimately, Japan was defeated by the United States, China subsequently came under the control of the Chinese Communist Party, and the end of the Second World War turned into the Cold War.

After the next 40-year interval, the Sino-Soviet rivalry provided an opportunity for China to pursue a détente with the West. US President Richard Nixon visited China in 1972 and the two countries subsequently normalized their relations. Japan followed suit and the Treaty of Peace and Friendship between Japan and the People's Republic of China was signed in 1978. Japan had recovered quickly from its defeat in 1945 and overtook West Germany as the world's second largest economy in 1968. Unlike its earlier success though, Japan's postwar rise did not generate suspicions because its new constitution and the US-Japan Security Treaty helped ensure that its rise would be peaceful.

More recently, China has gained confidence. China's earlier priority on nation building has given way to a more assertive attitude. As a result, conflicts have emerged including in the South China Sea and over the Senkaku Islands in the East China Sea.

The United States has played an active role as an offshore balancer in the region, particularly under President Obama through his administration's concept of a "pivot to Asia." That concept included the Trans-Pacific Partnership (TPP) trade agreement as the crucial economic pillar, US entry into the East Asia Summit, increased military engagement in the region, and the idea of conducting Sino-US relations by "managing differences and expanding cooperation." Geopolitical stability in East Asia looked promising thanks to this evolution under President Obama and the active support from Japan.

### **The Trump Administration and "America First"**

But Donald Trump's win in the US presidential election surprised the region. Given Trump's

unpredictability, it is difficult to know precisely what the Trump administration will do. But judging from his campaign rhetoric, inauguration speech, and first weeks in office, it appears Trump is following through on his "America First" approach to foreign policy. Traditionally, the United States has been viewed as a global leader based on its overwhelming military capabilities, which served as an international public good in deterring aggression; its status as the world's largest economy and leader of the liberal economic system; its international agenda-setting capability; and its position as a role model for democratic governance. These elements of leadership appear missing in Trump's America. This is the most serious source of concern facing the liberal international political system.

But will this "America First" attitude spill over into Trump's East Asia policy? And how might it affect trilateral relations between China, the United States, and Japan?

### **Sino-US Relations under President Trump**

What will happen to Sino-US relations under President Trump? Thanks to China's economic opening and reform processes since the 1980s, which have accelerated since it joined the World Trade Organization in 2001, China has undergone rapid economic growth on an unprecedented scale, helping to lift millions out of poverty. In 2010, China's GDP overtook that of Japan, making it the second largest economy in the world.

The sheer size of the Chinese market means that its economic interdependence with the Asia-Pacific region has grown considerably. China is already the largest trading partner for many countries in the region, including many ASEAN countries, Japan, Australia, and India.

China's defense spending has also rapidly risen as its economy has grown. China has been the second largest defense spender in the world after the United States for about a decade. There is increasing concern around the region regarding China's moves in the South China Sea, which are often seen as a symbolic indicator for whether a rising China will be a constructive member of the regional order and international society, or whether it will be an expansionist power.

China has its own domestic policy challenges, including excess capacity from trade expansion, currency devaluation, severe environmental issues, and

inefficient state-owned enterprises. The rapid pace of China's economic growth has come at a cost. Now China is attempting to shift to a more sustainable path. The days of double-digit growth have given way to the "new normal." Accordingly, the target for economic growth has been an annual rate of 6.5 percent, with the aim of doubling the 2010 GDP by 2020.

China's success or failure in dealing with its domestic issues will have an impact on the region and the global economy. In the case of failure, China may adopt a more aggressive foreign policy posture as a diversionary tactic to distract its people from domestic governance shortcomings. Japan and the United States are the two most likely targets in such a scenario. Moreover, any potential Chinese economic downturn will surely hit China's neighbors and economic partners hard, given the increasing regional economic interdependence and the interconnected regional production chains.

While it is too early to judge the Trump administration's China policy, it appears the United States will take a more confrontational approach toward China in the economic arena. This is underscored by the appointment of China hardliners Peter Navarro as the director of the National Trade Council and the nomination of Robert Lighthizer as US Trade Representative.

In the 1980s, when Japan's trade surplus with the United States accounted for over 50 percent of the US trade deficit, Japan came under harsh US pressure. Facing discriminatory tariffs from the United States, Japan agreed to a major currency realignment under the Plaza Accord in 1985, undertook major market opening, and imposed export restraints in areas such as automobiles, steel, and machine tools. As the director in charge of economic relations with the United States in the Japanese Foreign Ministry in the 1980s, I remember many sleepless nights negotiating with the USTR. In fact, I helped negotiate 26 US-Japan agreements. At that time Japan had a real need to liberalize its market and also wished to avoid any negative spillover into the security relationship with the United States.

Today, China's trade surplus with the United States accounts for about 50 percent of the overall US trade deficit. But if the United States applies the same type of pressure on the Communist government in China as it did on Japan in the 1980s, it will probably lead to

Chinese countermeasures, which would likely result in a trade war. Such an outcome would be detrimental to the region. The economies of East Asia would suffer significantly from any trade war between the world's first and second largest economies.

A US-China "grand bargain" may not be impossible. For China, any damage to the prospects of its high economic growth would be unwelcome. And if a grand bargain restrains aggressive Chinese behavior in the South China Sea and East China Sea, it should be welcomed by the region. A grand bargain may also enable close cooperation on North Korea.

### **The Korean Peninsula**

The security situation on the Korean peninsula presents a serious source of potential instability for the region. The policy of strategic patience—waiting for North Korea to collapse or change its behavior—has failed. Strategic patience has only served to give North Korea more time to develop its nuclear weapons.

We have been trying to denuclearize North Korea since the early 1990s, ever since it moved to withdraw from the Nuclear Non-proliferation Treaty (NPT). We thought we had struck a deal with the 2005 joint statement from the Six-Party Talks that dealt with the question of North Korea's nuclear weapons. But it was not to be.

Now, under the leadership of Kim Jong-un, North Korea appears to have intensified its efforts on nuclear weapons technology. Three nuclear tests have been conducted since he became the country's leader in December 2011, and indications are that North Korea's nuclear weapons and missile development program is edging ever closer to producing a miniaturized nuclear warhead that can be mounted on a long-range missile capable of reaching the continental United States.

It may be easy to lose hope or to pray for the fall of the regime. But the Kim Jong-un regime is unlikely to fall quietly without causing serious harm to the region. We would therefore be wise to negotiate denuclearization with North Korea, as difficult as that may seem. But in order to have constructive negotiations, we must apply the right kind of pressure on North Korea. And to this end, we need the cooperation of China.

China's approach will likely be based on the broader regional context, including the state of relations with

the United States and Japan. Beijing may be hesitant to apply crippling pressure to the extent that it would seriously undermine the Kim Jong-un regime's political control and run the risk of causing North Korea to lash out or collapse. This is in part because North Korea's continued existence provides a buffer against the establishment of US military bases on China's border and prevents waves of North Korean refugees from flooding into China. But if North Korea becomes a full-fledged nuclear state, that will also pose a significant security concern for China and undermine its position as one of the five recognized nuclear powers.

Accordingly, the United States, Japan, and South Korea must coordinate to reassure China that a full break with the regime in Pyongyang will not undermine its national interests. This requires joint contingency planning to prepare for worst-case scenarios on the peninsula, including discussions on the types of measures needed to locate and secure North Korean nuclear weapons and deal with refugee flows, and on what can be done regarding buffer zones with China. The aim of such coordination and diplomatic reassurances should be to shift China's strategic calculation to the point where it no longer sees a possible Kim Jong-un regime collapse as more damaging to its interests than a full-fledged nuclear North Korea. Through joint planning that leads China to apply much greater pressure on Pyongyang, we may be able to open the door to credible nuclear negotiations with North Korea.

### **Japan's Security and Economic Challenges**

Turning now to Japan, the Trump administration also brings the possibility of a realignment of US-Japan security relations. In his campaign rhetoric, Trump repeatedly emphasized that the US-Japan security relationship is "not a fair deal" because the United States is obliged to defend Japan while Japan is not obligated to defend US territory. Trump demanded that Japan should bear more responsibility for the costs associated with the stationing of the US military in Japan. And he suggested that it would "not be so bad" if Japan were to develop nuclear weapons in order to defend itself. His rhetoric has mistakenly scapegoated the US-Japan alliance, depicting it as a burden to the United States and implying that it is solely benefitting Japan. This overlooks the US forward deployment strategy, which has been a fundamental element of postwar

US security strategy. Assuming that the United States wishes to remain a global leader, forward deployment allows it to project power in the Asia Pacific and carries much lower costs as a security strategy than basing troops at home.

The Japan Self-Defense Forces (SDF) have incrementally expanded their roles and missions throughout the post-Cold War era. But this has always remained within the framework of the Japanese Constitution's Article 9 "peace clause," which fore-swears the use of force as a means of settling international disputes. Japan's defense reforms have been accelerated under Prime Minister Abe with the revision of the US-Japan Defense Cooperation Guidelines in April 2015 and the passage of security-related bills in September 2015 that allow for limited forms of collective self-defense. But the advent of the Trump administration opens the possibility that Japan may expand the SDF's capabilities beyond the current changes taking place under the Abe administration.

Yet Japan needs to focus not only on the SDF's capabilities, but also on the country's economic and social policy challenges. Japan has suffered two lost decades of economic growth after its asset-price bubble burst at the beginning of the 1990s. And opinion polls consistently show that the Japanese public's primary concern is to bolster the economy. Prime Minister Abe's economic program, Abenomics, has gone some way to addressing economic growth issues with its three arrows of fiscal stimulus, monetary easing, and structural reforms. Yet more is needed on structural reform to bolster long-term economic growth. This has become even more urgent now that Trump has already withdrawn the United States from the TPP.

Japan is still holding out hope that something can be made of the TPP. And to this end, the 11 remaining countries will need to move forward and show their commitment. But this alone may not be enough. Without the United States, the TPP does not appear to be viable. Vietnam and Malaysia, for example, had banked on access to the US market to offset the costs of domestic reforms associated with the TPP. So some mechanism that links the United States and the 11 remaining TPP members, and that meets the objectives that were tackled in the TPP negotiations, is still necessary.

Japan also has an aging and declining population. Having reached a peak of 128 million people in 2010,

Japan's population is predicted to fall below 100 million by 2050, with a serious loss of the working-age and tax-paying population. Yet Japan is an innovative nation. Many of the policy challenges that China is facing now, such as with state-owned enterprises, banks, and the environment, are challenges that Japan overcame. And how Japan deals with its aging population and demographic crunch will provide lessons for the many Asian nations that are on course to face similar demographic pressures in the future. This includes China, which on its current trajectory will become old before it becomes rich.

### **Multilayered Functional Cooperation**

It is evident from the situation I have outlined above that we face many great challenges as we seek to manage geopolitical instability in East Asia. For a time, the success of the European Union was seen as a model to which East Asia should aspire. There was talk of an East Asian Community. But given the different political systems and different stages of economic development in which Asian nations find themselves, a European model may not be an appropriate path forward. The troubles the European Union is currently facing—including the debt crisis afflicting Greece and the United Kingdom's Brexit vote—further indicate that a different model is needed.

So instead of starting with the presumption of a long road toward an East Asian Community, it may be better to pursue what I call multilayered functional cooperation. This means starting with functions. Find those countries that have a common interest in enhancing functional cooperation on a particular issue. Different areas may require different coalitions of cooperation for effective outcomes—for instance trade arrangements, financial cooperation for infrastructure investment, regional confidence-building measures, and cooperation on environmental and energy issues.

First, on trade arrangements, there are a number of mega-regional trade initiatives currently under discussion, such as the TPP, the Regional Comprehensive Economic Partnership agreement (RCEP), and the China-Japan-Korea (CJK) trilateral free trade negotiations. While the Trump administration has withdrawn the United States from the TPP, the remaining 11 members should work to ratify the agreement and see what is possible amongst

themselves. This should be done in such a way as to leave the door open for the United States and other countries, such as China and Indonesia, to join the TPP in the future. The RCEP and a CJK FTA could help to fill some of the gaps left by the TPP. But looking at the bigger picture, we should be aiming to realize a Free Trade Area of the Asia Pacific (FTAAP). The TPP, RCEP, CJK, and any other trade initiatives should all be utilized as stepping-stones toward the establishment of an FTAAP.

Second, on financial cooperation and infrastructure investment, we have seen the emergence of the Asian Infrastructure Investment Bank (AIIB) led by China. This is a positive development for the region given the huge demand for infrastructure investment. It is disappointing that Japan and the United States have not engaged with the AIIB and both countries should do more to proactively engage in the creation of infrastructure in the region. One way this can be achieved is through the establishment of a mechanism to coordinate cooperation between the AIIB and other institutions such as the Asian Development Bank and the International Monetary Fund. Such coordination is critical to ensure that investment in infrastructure provides the best possible development gains for the region as a whole.

Third, greater confidence building among the five powers in Northeast Asia—that is the United States, China, Russia, Japan, and South Korea—is sorely needed in order to de-escalate tensions, defuse nationalism, and build relations rooted in win-win cooperation. Confidence building should initially focus on the low-hanging fruit of nontraditional security issues, which are of common concern to all. This should include the joint establishment of concrete mechanisms for reporting on, preventing, and responding to natural disasters, major industrial accidents, acts of terrorism, and cyber attacks. It should also include a commitment to nuclear nonproliferation. This is underscored by the fact that a number of major global events, including three Olympic Games (PyeongChang 2018, Tokyo 2020, and Beijing 2022), will take place in Northeast Asia in the near future. Security and counterterrorism cooperation will thus be crucial to ensure the highest level of safety possible while the eyes of the world are on the region. While these steps may be hard to envision based on what we have seen from the Trump administration so far,

operational-level cooperation that is already underway in the region can gradually be expanded to realize easy wins.

Fourth, there is a pressing need to tackle environmental and energy issues. Over the coming decades, the demand for energy will continue to grow exponentially, particularly in Asia's emerging economies with expanding middle classes, such as China, India, and ASEAN nations. Regional cooperation—including joint efforts in areas such as energy exploration, the development of new extraction technologies, and the strengthening of nuclear safety measures—is needed to ensure that the energy demands of all nations are met. At the same time, the unabated use of fossil fuels will cause environmental damage detrimental to sustainable economic growth and poverty reduction, not to mention the planet. As such, intensive cooperation among nations for jointly funded and developed green energy technologies is sorely needed. The East Asia Summit and other regional forums should take up these issues in a more serious manner.

The Trump administration includes a number of climate change deniers while Trump himself has referred to climate change as a “hoax.” Friends and allies of the United States will need to emphasize the importance of environmental and energy cooperation in their dealings with the Trump administration.



Managing geopolitical instability in East Asia amidst the shifting balance of power, and as the world seems to be taking a turn toward anti-globalization populism, will not be an easy task. The history of US-Japan-China relations over the past two centuries shows how quickly conflict and war can erupt.

There are understandably great concerns around the region regarding the uncertainties that the Trump administration brings. America's friends and allies will need to cooperate, coordinate, and strive to make their views clearly heard on the importance of regional cooperation. The interconnected nature of global and regional challenges means that win-win cooperation is necessary more than ever. But given the nature of the globalized world we live in and the technological possibilities available to us, the potential for win-win cooperation is also greater than ever. Through multi-layered functional cooperation, we can manage geopolitical instability in East Asia and safeguard shared regional peace and prosperity into the future.

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## ***East Asia Insights***

*East Asia Insights* is an occasional newsletter focusing on East Asia community building from the Japanese perspective.

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