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Keynote

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OPPORTUNITIES AND CHALLENGES SEMINAR**

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Headlines and Reality

I am very pleased to have the opportunity to talk to you today about U.S. security interests in Northeast Asia.

This topic is both important and timely. Our nation's media and pundits, and even our policymakers, tend to get caught up in the crisis of the moment, which isn't always the most significant long-run development facing our nation. The urgent often crowds out the important.

In the 1960's, our nation was transfixed by Vietnam; in the first half of the 1970's by OPEC. Both of those were of great consequence. But it would be hard to argue in retrospect that these preoccupations were more important in the long run than other phenomena that received less attention at the time – the signs of disintegration of the Soviet Union and its Empire, the beginnings of the emergence of Islamic fundamentalism, or the rise of East Asia as an economic power.

The war in Iraq – our foreign policy preoccupation today – is vitally important. I don't want to be misunderstood on that point. Its outcome – for good or bad – will have a ripple effect well beyond Iraq's borders, throughout the Arab and Islamic world. It will alter – for better or worse – the environment in which terrorists who threaten our security are formed.

But Iraq is not the only place in the world that affects our security and well-being. Generations of Americans, and Administrations since the 1940's, have understood that we are a global power. Exclusive focus on one part of the world can mean that neglected places sneak up and bite us. No one was paying enough attention to Afghanistan until September 11, 2001.

If we are to remain a global power, we need to be able engage across a broad spectrum of interests. Yes, Iraq is important. But so is Pakistan. So is Venezuela. So is the European Union. So is Chechnya. We need to focus attention on what is happening in these places, for they can and will affect our lives.

Why Northeast Asia Matters

The proposition that the region I will talk about today – Northeast Asia – is important shouldn't need any elaborate defense. But with its disappearance from the daily headlines, I want to begin by reminding you why it is.

First, as my former boss used to say, it's the economy, stupid.

If we define Northeast Asia as including Greater China, meaning the PRC, Taiwan, and Hong Kong, plus Japan and South Korea, it contributes approximately 24% to the world's Gross Domestic Product. This is only slightly less than the U.S. contribution of 28%, and about the same as that of Europe's five largest economies.

Last year, U.S. trade with Northeast Asia accounted for 25% of all our global trade. China is our third largest trading partner, Japan our fourth.

China now is the largest recipient of foreign direct investment of any country in the world – \$53 billion last year, passing the total received by the United States.

China and Japan are the two largest foreign holders of U.S. Treasury bonds, between them possessing over \$1 trillion, thereby allowing us to finance cheaply – for now -- our growing budget deficit.

China's automobile market is growing at around 40% per year. Its energy consumption is growing over 15% per year. By 2010, it will be the world's third largest importer of oil. We already have seen the impact of China's explosive growth on world oil prices in the last 2-3 years. Project these figures out by a decade and ponder their meaning.

China's rise as a world economic player has been accompanied, not coincidentally, by its thorough integration into the world's and the East Asian *region's* economy. Of every dollar of goods China exports, 50 cents worth are produced by foreign companies invested in China. China's imports from the countries of the region have boomed in the last decade, producing a rising degree of mutual economic interest and good will for China that is eroding traditional distrust. First in Hong Kong, but in recent years in Korea, Thailand, Singapore, and even Japan, Taiwan, and India, there is a fascination with China both as a market and as a platform for growth. For all of the region's countries, the health of China's economy, second only to America's, is important to their own growth and economic well-being. If China's economy stagnates or goes into recession, their own populations will quickly feel the ripple effects.

Second, a few political realities.

Northeast Asia still presents several flash points that could lead to devastating conflict.

Let's start with the Korean Peninsula.

Iraq doesn't have nuclear weapons. Iran may soon, but it does not yet. North Korea, on the other hand, probably does. Whether it does or not, it has enough plutonium to manufacture 6-8 bombs. And it continues to reprocess its spent fuel to make nuclear weapons-grade plutonium. The United States today does not have an effective strategy to short-circuit or reverse this development

The 38th Parallel in the Korean Peninsula is the last frontier of the Cold War. North Korea remains a militarized Stalinist state whose people have only the foggiest notion of what goes on beyond their borders, and whose leaders have no demonstrated ability or willingness to accept international norms of behavior.

The nuclear threat from the North could lead its neighbors – South Korea, Japan, even Taiwan – to reconsider prior decisions to forswear nuclear weapons. That in turn would elicit a strong reaction from China and an escalating, menacing arms race.

Or even worse, the North could follow the pattern of its sales of narcotics and missiles to the highest bidder and put its nuclear bombs on the market to terrorist organizations who we know already seek wmd. North Korea could become a kind of *nuclear weapons Wal-Mart*.

Then there is Taiwan.

China has made clear it will not tolerate movement by Taiwan toward independence. At the same time, empowered by the development of democracy on the island in the last decade, Taiwan's voters have chosen a pro-independence President who at times has seemed insensitive to the risks in cross-Strait relations.

As a consequence, tensions have ratcheted up in the Strait. There is real concern over the risk of conflict in the next several years. Neither side may want it, but events and miscalculations can overcome wishes. Everyone is watching closely to see who wins the Taiwan Legislative elections in December; whether in the wake of the elections President Chen reaffirms his commitment not to alter the status quo and reaches out to the Mainland with a serious offer; and whether Beijing is prepared to relax the current pressures.

Next, there are great power rivalries.

The Japan-China relationship, while not a potential flash-point like Korea or Taiwan, remains a troubling long-term source of instability. While economic

integration of the two has accelerated, with more and more Japanese corporations moving assembly plants to the Mainland, the political relationship, and more importantly the relationship between the Chinese and Japanese peoples, sometimes seems frozen in an earlier era. Chinese psychological wounds from the atrocities and indignities of World War II have not healed, as comparable wounds in Europe have. The reasons are complex, having to do with Japanese failure to recognize the magnitude of what they did and with the victimization mentality of Chinese nationalism. Now may be the first time in history when there is simultaneously a strong China and a strong Japan. If the region is to be big enough for both to coexist, they are going to have to achieve a more serious reconciliation than they have to date.

There have been some small but visible signs of such reconciliation, which the United States should welcome in principle but which have raised anxieties among some independent U.S. Asia-watchers. China, Japan, and South Korea have begun to hold a series of annual heads of government meetings on the margins of the annual ASEAN summit meeting, the so-called “Plus Three” meetings. Some American strategists have remarked uneasily on the convergence of these meetings, the central role that China is playing in the Six-Party talks on North Korea’s nuclear program, and the increasing interdependence of China’s economy with the countries of the region and its mounting prestige. At the same time, they see a United States whose overwhelming focus is elsewhere, and, in East Asia, seems to be fixed on fighting terrorism, a goal that the region’s states share but do not see as an exclusive preoccupation.

Personally, I do not see a zero-sum game between Chinese and American interests in the region nor am I apprehensive about closer cooperation within the region – as long as the U.S. doesn’t disengage. I believe that Japan and Korea will want the U.S. to continue to play a strong role for political, security, and economic reasons. Regardless of what I hope is a short-term decline in U.S. popularity and prestige, we are still understood to be a critical stabilizing force, a great power without territorial ambitions, and the key market, the source of capital and technology for both. China’s calculus is not identical, but these same positive attributes shape their view of America as well. Nonetheless, these developments should cause us to devote more of our attention; a policy of “benign neglect” will not preserve our critical interests there.

Clinton and Bush Policy in Northeast Asia

In comparing the policies of the Clinton and Bush Administrations toward the region, it is important to remember that the United States has enduring interests there, which means that the continuity in policy is more substantial than the differences – much as we tend to focus on the differences, particularly in election years.

Both Administrations have sought to strengthen our alliance with Japan. A milestone in the Clinton Administration’s efforts to do so was the agreement on new guidelines for cooperation reached in 1996, which among other things extended the waters in which Japanese forces deployed. During the Bush Administration, the U.S. and Japan built on this agreement with Japanese deployment of naval forces into the

Arabian Sea during the U.S. war in Afghanistan. Similarly, support by the Koizumi Government for the U.S. action in Iraq reflects the Japanese belief that its security and economic interests, especially in the Middle East, are closely tied to America's.

During the 2000 Presidential campaign, advisors of candidate Bush and some Japanese observers criticized the Clinton Administration for supposed neglect of Japan in favor of China and promised once in office to rectify this "imbalance." As best I can tell, the perception of this supposed neglect, or "Japan-passing," was based on one event – President Clinton's 1998 visit to China during which he did not visit Japan. In fact, President Clinton visited Japan four times and met often with six Japanese Prime Ministers during his two terms. He visited China once. The 1998 China trip was a unique circumstance, an attempt to rebuild a relationship that had been very fragile since 1989 with no visits by U.S. Presidents. I believe that the perception of "Japan-passing" was a mirage based largely on partisan politics, but it may also have reflected insecurity in Japan about the rise of China and uncertainty about how to react to it.

Both Administrations have built constructive relationships with China. Under President Clinton, we rebuilt a relationship that had been dealt a body blow by the Tiananmen assault, putting in place a new foundation of cooperation across a wide range of areas: economic, non-proliferation and a security dialogue on Korea and South Asia.

Candidate Bush at first criticized Clinton Administration policy, saying he would substitute "strategic competition" for "strategic partnership," -- the stated aspiration of our policy. Since September 11, President Bush has abandoned the notion of "strategic competition," never again mentioning the phrase and conducting relations with China in general on a cooperative rather than confrontational basis.

But there have been some differences in emphasis between the Clinton and Bush Administrations in China policy.

Secretary Rumsfeld has been skeptical of the value of military-to-military ties, and while President Bush has reinstated them after their suspension during the EP-3 "spy plane" episode, they remain quite constricted.

Policy toward Taiwan has seen some differences as well.

President Clinton pursued a policy toward Taiwan based on the Three Joint Communiqués and the Taiwan Relations Act, one substantially similar to that pursued by five previous Presidents. He authorized sale of defensive weapons to Taiwan, and ordered deployment to the region of two carrier groups during the 1996 tensions across the Strait. He opened high-level discreet channels of communication to Taiwan's leaders. At the same time, he warned Taiwan of the danger of provoking Beijing, making clear we would not support movement toward independence.

Within the Bush Administration there are those who support a closer U.S.-Taiwan relationship and removal of some of the constraints on the relationship built up

over the past 30 years. They favor sales of more robust arms systems to Taiwan, more extensive and visible cooperation with the Taiwan military, and a more explicit defense guarantee to Taiwan. On the other side, there are “pragmatists” within the Administration who are concerned about Taiwan’s seeming drift toward independence and the risk it will draw the U.S. into conflict. More often than not, the pragmatists have won the day. President Bush sided with them most dramatically when, with PRC Premier Wen Jiabao sitting by his side in the Oval Office, he warned “Taiwan’s leader” against changing the status quo. But those in this Administration who would tilt toward Taiwan linger in the shadows; they have not gone away.

The biggest difference between the policies of the Clinton and Bush Administrations in the region has been on Korea. The Clinton Administration negotiated the 1994 Agreed Framework, which froze North Korea’s plutonium program under international supervision in exchange for provision of fuel oil and light-water reactors, the latter to be provided by Japan and South Korea. We also moved toward reduction of tension diplomatically, with a visit by Secretary Albright to Pyongyang in late 2000.

The Bush Administration entered office deeply skeptical both of the Agreed Framework and the “Sunshine Policy” toward the North of then-President Kim Dae-jung. President Bush publicly voiced that skepticism during President Kim’s 2001 visit to Washington, which embarrassed Kim and created friction in the Washington-Seoul relationship.

Subsequently, the North Koreans told U.S. negotiators that they had a program to highly enrich uranium, contrary to their commitments to the U.S., South Korea, the IAEA and their obligations under the Nuclear Nonproliferation Treaty (NPT). The ensuing escalation of tensions saw the effective shelving of the Agreed Framework, North Korea’s withdrawal from the NPT, the expulsion of inspectors from the North, and the North’s resumption of reprocessing of plutonium into weapons-grade material.

Under President Bush, Washington has refused to enter into direct talks with the North, choosing instead six-Party multilateral talks in Beijing.

It has been useful to bring the Chinese, Russians, Japanese, and South Koreans to the table. They all have a huge stake in a non-nuclear Korea, and the Administration has hoped that their participation could increase pressure on the North. But the results thus far have been disappointing. Pressure from the other parties often is directed not at the North, but at Washington for inflexibility. And while we have been arguing about the shape of the table, North Korea has continued to reprocess plutonium, with the result that estimates are that they now have enough plutonium for 6-8 bombs, instead of the 1-2 they might have had before.

Challenges facing the Next President

Regardless of who wins the U.S. Presidential election in November, there are realities the United States will have to face in Northeast Asia. Our policies in the

coming years should be based on the intersection of U.S. national interests and values with those realities, not on ideological preconceptions.

The biggest challenges have to do with the potential flash points I mentioned earlier: North Korea and Taiwan.

The next President will need to do better than the U.S. has done during the last four years to halt, reverse, and eliminate North Korea's nuclear weapons program.

A short-term collapse of the North Korean regime seems unlikely in the eyes of most observers. Sanctions, unless they have the full support of China and South Korea, will not have much effect on a regime that already has little at stake in its international relations and that is used to demanding belt-tightening of its people. That leaves as the best option a negotiated solution that provides the North with the security guarantees it seeks and with international assistance and recognition in return for complete, verifiable and irreversible disarmament. I believe the next President will need to engage in direct talks with the North to achieve this goal.

Maintaining peace in the Taiwan Strait will require greater attention than it has in the past. China's strength – political, economic, and military – is growing with each year. The disproportion between its stature and Taiwan's grows correspondingly. The PRC has shown no readiness to talk to the Chen Government absent a commitment by Taipei to the "one China" principle, which Taiwan's governing party has been unprepared to offer. The Chinese military reportedly has been studying various scenarios to apply decisive force. Even if it does not use force, which I would still rate as a low likelihood, Beijing may put increasing pressure on Taipei.

The next President will need to send clear, credible signals to Beijing of the consequences of use of force and U.S. determination to assure that differences between Beijing and Taipei are resolved exclusively through peaceful means. At the same time, he also will have to make unmistakably clear to Taipei that it must not inadvertently or otherwise take steps that make a military clash more likely.

Managing our relationship with China will present a critical challenge for the next President. As extensive and important as our ties with China have become, they still lack the stability that a relationship between two powers should have. In the early 1990's in the wake of Tiananmen, human rights concerns were the principal prism through which Americans viewed China. In the middle and late 1990's, after the Taiwan Strait tensions American concerns shifted to the so-called "China threat," manifested later in accusations of nuclear espionage. Two accidents – the U.S. bombing of the Chinese Embassy in Belgrade and the collision of the EP-3 with a Chinese fighter – elicited emotional reactions in China and for a time shook the relationship, demonstrating the fragility of mutual trust.

In the last few years, it is the economic challenge posed by China that has overshadowed these security and political issues. With a bilateral trade deficit mushrooming to \$124 billion last year, our largest in the world by a wide margin, and

with China moving up the value chain and becoming competitive in ever more sectors, the loss of jobs has become a Presidential campaign issue. The next President should keep the U.S. market open and not succumb to the temptations of protectionist responses. But to sustain the necessary political support in the U.S. for an open market, he will need to do more to get China to open its market, which inevitably will entail greater trade frictions between our two countries, with collateral impact on China's neighbors.

Maintaining U.S. prestige and influence in Northeast Asia will be another key test for the next President. Polls show that U.S. prestige has fallen to historic lows in much of the world, and Northeast Asia is no exception. The decline in respect for the U.S. in South Korea, especially among young people, is particularly troubling. It may be astonishing to Americans that South Koreans view the United States as a greater threat to peace than North Korea, but it is perception we ignore at our peril. When our reputation among foreign populations sinks to the dismal levels it has of late, it becomes difficult for leaders of those countries to make tough decisions to align themselves with the United States and to do the things we seek.

The steps we need to take as a nation to restore respect internationally go well beyond the scope of this region; they go to the very nature and style of our leadership. But there are some things specific to Northeast Asia we do need to do. The decision by the Bush Administration to withdraw 12,000 troops from South Korea at a time of tension in the Peninsula has caused anxiety. We will need to build a sense of confidence among our South Korean allies that we take their security views and their needs seriously. Otherwise, we will be unable to maintain solidarity vis-à-vis the North on the nuclear issue and Korea could drift away from its 50 year alliance with the United States.

Finally, we will need to demonstrate a willingness to listen to what is on the minds of Asians, instead of simply telling them what we want and expecting them to fall in line. Nationalism is as much a part of the make-up of the peoples of China, South Korea, and Japan as it is of America's. Whether the issue relates to politics, economics, or security, the next President will not achieve our goals in the region if the conversation is a monologue, not a dialogue.

You have listened to my monologue long enough; now, let's have some dialogue. Thank you very much.

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