Asia & the Pacific

Asia-Pacific Forum
Naval War College, Newport, R.I.,
11–12 June 2000

Asia & the Pacific
U.S. Strategic Traditions and Regional Realities

Edited by
Paul D. Taylor

Naval War College Press
Newport, Rhode Island
2001

Naval War College Press
Code 32, Naval War College, 686 Cushing Road
Newport, R.I. 02841-1207

Library of Congress Cataloging-in-Publication Data

Asia & the Pacific: U.S. strategic traditions and regional realities/edited by Paul D. Taylor.
p. cm.
ISBN 1-884733-15-8
1. United States—Military policy—Congresses. 2. Pacific Area—Strategic aspects—Congresses. 3. Asia—Strategic aspects—Congresses. 4. United States—Relations—Pacific Area—Congresses. 5. United States—Relations—Asia—Congresses. 6. Pacific Area—Relations—United States—Congresses. 7. Asia—Relations—United States—Congresses.
I. Taylor, Paul D.
(Paul Daniel), 1939–

UA23 .A735 2001
327.7305—dc21

00-068699

Printed in the United States of America

The Asia-Pacific Studies Group

The Asia-Pacific Studies group acts as a catalyst, coordinator, and implementor of research to serve the requirements of the U.S. Navy, the U.S. Pacific Command, and other elements of the U.S. government responsible for formulating American policy, strategy, and plans related to Asia and the Pacific. It joins together those personnel of the Naval War College and the Navy Warfare Development Command who are engaged in work on Asia and the Pacific.

Disclaimer

The contents of this volume are the views of the authors. They are not necessarily endorsed by the U.S. Naval War College or any other organization or agency of the U.S. government.

CONTENTS

Foreword
Vice Admiral Arthur K. Cebrowski, U.S. Navy ix

Preface
Paul D. Taylor xi

Acknowledgements xv

The Strategic Traditions of the United States
in the Asia-Pacific Region
Stephen Peter Rosen 1

Strategic Trends in the Asia-Pacific Region
Paul Dibb 9

An Assessment of the "Objective" Political Conditions
That Pertain in the Asia-Pacific Region
Abram N. Shulsky 29

Understanding Changes in Asia's Economic Landscape
Leif Rosenberger 51

The Military Dimensions of Great-Power Rivalry
in the Asia-Pacific Region
John R. Landry 83

Roundtable: Net Assessment—Objective Conditions
versus the U.S. Strategic Tradition
Robert Sutter 97
Michael McDevitt 101
Jonathan Pollack 107

Appendix 115
Contributors, and the Editor 117

FOREWORD

CARL VON CLAUSEWITZ taught that anyone who plans strategy before he has achieved a clear definition of policy goals puts the cart before the horse. It is equally true that it makes no sense for a country to try to develop its forces or plan operations without taking account of the unique characteristics that define and shape its potential adversaries and available allies.

For these reasons, we at the Naval War College have placed special emphasis on understanding the Asia-Pacific region. The economic, political, and demographic dynamics of that area make clear its importance to achieving global U.S. objectives. At the same time, continued tensions related to the Korean Peninsula, issues between China and Taiwan and between India and Pakistan, as well as unrest within Indonesia underscore important threats to stability in the region. Its vast territory and expanses of ocean make the Asia-Pacific region fundamentally a maritime theater and the U.S. Navy a central player in any military operations to defend the interests of the United States.

The Asia-Pacific Forum, from which the papers that follow are taken, brought together a distinguished collection of scholars and policy practitioners to examine the political, economic, and military realities of the Asia-Pacific region in the context of the U.S. strategic tradition. They proved that familiar military thinking about some important questions might have become obsolete.

In his keynote address, for example, Prof. Stephen P. Rosen of Harvard recalled that military conventional wisdom about Asia had suggested that nuclear weapons do not matter, that offense dominates defense, that the allies will always be with us, and that even though Asia might be far off, we "know how to get there." In fact, however, Professor Rosen noted, the current reality is not quite like that. Tough questions arise if all of our potential enemies and some of our friends in the theater have nuclear weapons. Offense is desirable, but it is an option only if one can fight from sanctuary; the balance between offense and defense is shifting. Some of the basing patterns are also in question, and so we need to rethink assumptions that have underlain our forward presence.

Another important insight in this forum came from Maj. Gen. John R. Landry, U.S. Army (Ret.), the National Intelligence Officer for General Purpose Forces: he observed that in a sense the geographic configuration of Asia is one of island states. Even the Asian countries that are not surrounded by water are separated from their neighbors by difficult and treacherous terrain and by cultural, social, religious, and legal barriers. Typically, distances are vast, and looking at these "islands" from outside, one sees a domain favorable to navies. When one looks at Asia from within, though, it is clear that armies are favored. Armies conduct nation building and peacekeeping, and, importantly, they ensure the integrity of governments in power. At the same time, several governments, once satisfied that they have met their internal security requirements, have invested in the ability to project power beyond their borders, even at considerable economic sacrifice. Witness, for example, the cases of North Korea, China, India, and Pakistan.

What can we conclude from these insights? Clearly, weapons of mass destruction—WMD—matter a great deal, and nuclear deterrence is important. We should expect to see the ballistic missile submarine programs continue. Defense against weapons of mass destruction is dominated by intelligence and surveillance requirements; if we are going to perform well, we will have to develop our capabilities significantly in these areas. We will also have to pay more attention to meeting the defense needs of our Asian allies, especially against the WMD threats they may face. Beyond addressing questions of basing, we should be developing alternative ways of taking our forces forward, with greater speed and sustainability.

As we consider how to enhance our ability to project power in support of U.S. interests, we must also continue studying the evolving political, economic, and military dynamics of the Asia-Pacific region. The present volume makes an important contribution to that assessment, and I am pleased to commend it to anyone interested in understanding developments in the region or in the planning of strategy, operations, or forces.

ARTHUR K. CEBROWSKI
Vice Admiral, U.S. Navy
President, Naval War College

PREFACE

THIS VOLUME PRESENTS the papers delivered at the Asia-Pacific Forum held in Newport on June 11 and 12, 2000, under the auspices of the Asia-Pacific Studies Group of the U.S. Naval War College. Also included is a paper presented by Paul Dibb at the College's Current Strategy Forum, held later the same week, as well as remarks by three analysts who formed a roundtable at the conclusion of the Asia-Pacific Forum. A full schedule of the forum, with the names of chairpersons and discussants in panels as well as those who presented papers, is provided in an appendix.

The Asia-Pacific Forum set out to examine objective political, economic, and military realities in the region in light of the U.S. strategic tradition there. This approach was deemed useful for considering policy and strategy options for the future. While most of the participants were U.S. citizens, several representatives from other countries also attended. The present volume will be disseminated broadly, in print and on-line, and the Asia-Pacific Studies Group of the Naval War College welcomes reactions or comments from anyone who may wish to provide them.

In his keynote speech to the forum, Prof. Stephen Rosen of Harvard University examines the strategic traditions of each of the U.S. armed services in the Asia-Pacific region. He notes that their different experiences since Pearl Harbor have produced quite different attitudes toward operating in the region. Looking to the future, he sees developments that will call into question the assumption that nuclear weapons would not be relevant to warfighting. Assuring access for U.S. forces to ports and air bases in the region may become more difficult. At the same time, China may use information warfare or other means to make it harder for the United States to intervene militarily in crises near China.

Prof. Paul Dibb of the Australian National University asserts that Asia, with more nuclear powers than any other region, contains the most dangerous and unstable areas in the world today. He stresses the continuing importance of geography and geopolitics underlying tensions in the region. Tensions between China and Taiwan, between the two Koreas, and between India and Pakistan (both with nuclear

weapons) all pose serious dangers. While Russia is not likely to be a significant player in Asia for the foreseeable future, Japan's inability to provide leadership in Asia commensurate with its economic power is worrisome. Professor Dibb offers a blunt critique of the credibility and strategic consistency of the U.S. commitment to the Asia-Pacific region, where he sees American political power and military presence as key to maintaining a peaceful balance of power over the next five years. He suggests a ten-point formula for use by U.S. policy makers in examining threats, to ensure that they address these threats in light of emerging realities.

Dr. Abram N. Shulsky of the RAND Corporation observes that while U.S. military power plays an important role in maintaining stability in the Asia-Pacific region, the "ideological" aspect of U.S. power exerts a weaker pull there than in Europe. American-style capitalism is respected, authoritarianism is being replaced by democracy in South Korea and Taiwan, and Indonesia has embarked on a process of democratization, albeit one plagued by instability. In contrast with Europe, the Asia-Pacific region is characterized by economic dynamism, growing military strength, continuing or growing nationalism, weak national-security institutions, incomplete reconciliation of World War II enemies, and contested boundaries. Below the surface, various countries are building up their strength and may find themselves in conflicts with their neighbors. Shulsky analyzes political conditions country by country, asking whether the emergence of a potential great power, China—with another, India, perhaps ten to twenty years behind—can be managed peacefully.

Dr. Leif Rosenberger, economic advisor to the U.S. commander in chief in the Pacific, examines Asian economic realities in the context of the American strategic tradition. He identifies several causes of problems in the Thai economy that showed up in Indonesia and South Korea as well and triggered a broader Asian economic crisis. While China escaped much of the turmoil experienced by its neighbors, Dr. Rosenberger notes, China's adoption of free-market reforms has been too slow and incomplete to provide adequate economic security. Japan, too, has failed to carry economic reform far enough to assure deep and sustained growth. Action taken by Australia during the 1990s, however, immunized its economy against injury from the Asian financial crisis. A major challenge for the future remains in

North Korea, where an important question is whether and how a dirt-poor economy can become market oriented and adjust to globalization. Dr. Rosenberger elaborates an "indications and warning system" to save U.S. analysts and policy makers from being caught off guard by sudden financial turmoil in Asian states.

Maj. Gen. John R. Landry, U.S. Army (Ret.), National Intelligence Officer for General Purpose Forces, sees an Asia dominated by five great powers in or on the periphery of the Asia-Pacific basin. A growing military rivalry among them is driven by several unresolved intraregional disputes, the suspicion of some states that neighbors are manipulating discontent among dissatisfied ethnic groups, and strategic disagreement regarding regional leadership. He analyzes the concern of Chinese leaders over how China's fate rests heavily in Taiwan's hands; how China's economic development has left it increasingly vulnerable to external influences; how the coastal location of its most advanced economic enterprises makes them subject to military attack; and how China's energy requirements are growing rapidly. General Landry examines the effect of these concerns on China's military development and the response to it of other countries in the region.

The Asia-Pacific Forum concluded with a roundtable discussion led by three experts: Dr. Robert Sutter, National Intelligence Officer for East Asia; Rear Adm. Michael McDevitt, U.S. Navy (Ret.), of the CNA Corporation; and Dr. Jonathan Pollack of the RAND Corporation (subsequently the Naval War College). While their task focused primarily on reflecting on the earlier presentations rather than delivering formal papers, they have graciously edited transcripts of their remarks for inclusion here.

Dr. Sutter undertakes to address the question of whether trends in the region would work for or against U.S. interests. He summarizes those interests as a favorable strategic balance, stability, the curbing of conflict, open markets and economic access, and the promotion of democratic values and international norms. Trends in the East Asian region are driven by uncertainty over the regional security environment, globalization and information exchange, the desire of maturing countries in the area to be respected, and unsettled internal situations in some countries—such as Indonesia, China, and North Korea. After assessing in some detail the impact of these trends on U.S. interests, however, Dr. Sutter concludes that a flare-up of major

consequence is not likely. Instead, the United States will face in the region in the years ahead a plethora of incremental changes that will demand the attention of policy makers if the United States is to be effective in interacting with East Asia and South Asia.

Admiral McDevitt suggests that the primary motivation for U.S. involvement in East Asia, which has grown into a strategic tradition, has been access to the markets of Asia, especially China. That involvement has taken place within the context of a weak or land-bound China; the current rise of China contrasts with the situation that has prevailed since the United States first became interested in Asia. The "tyranny of distance" in the Asia-Pacific region makes any meaningful American military presence in the region dependent on foreign bases. Admiral McDevitt argues that the U.S. treatment of Chinese mainland territory as off-limits to military attack since 1950 has become a strategic tradition. He concludes with the observation that while another U.S. strategic tradition in Northeast Asia is to establish air superiority over a theater of operation and then apply air-delivered weapons in massive quantity, any contingencies beyond the current tactical aircraft range of Okinawa cannot be supported by suitable basing facilities.

Dr. Pollack predicts a shift in the relative distribution of power between Asia and the United States and asks what kinds of strategies and policies will be needed in these different circumstances. A net shift in capabilities over time will require the United States to adapt its relations with allies in the region. Changes in the threat environment, such as in North Korea, may necessitate adjustments in strategy for which U.S. policy makers are not prepared. Internal changes in Japan could be equally consequential. U.S. relations with three large, highly autonomous states—Russia, India, and China—will be critical. Dr. Pollack assesses the implications of China's wariness of American power and intentions, and of the efforts of Chinese analysts to grapple with profound changes in their security calculus. He believes that a visible presence of the United States sends an important message to Korea, Japan, Australia, and other U.S. allies in the region.

PAUL D. TAYLOR

ACKNOWLEDGMENTS

AN ANTHOLOGY is not unlike a concert, in that the contributors make music through the papers they present. In the Asia-Pacific Forum, which is reported here, "grace notes" by panel chairmen and discussants also enhanced the meeting. We hope that readers will be as grateful for their performances as were the people who attended the forum in Newport and the members of the Asia-Pacific Studies Group who organized it.

Several members of the faculty and the staff of the Naval War College deserve special thanks for their efforts to prepare both the forum and the present volume. Professors Andrew "Dex" Wilson and Thomas Mahnken contributed by identifying and contacting several people who ultimately made presentations. Prof. Bronson Percival and Col. John Taska, USMC, prepared written materials for participants in the forum. Dr. Lawrence Modisett, who organized the subsequent Current Strategy Forum (on the subject of "The Future of U.S. Naval Forces in the Pacific Region"), helped immeasurably to identify synergies and avoid conflicts between the two events. Cdr. Carl Carlson, USN, spearheaded administrative arrangements, and Ms. Lynda Miller worked tirelessly to provide flawless support for the meeting.

Messrs. Charles Breen, Dennis Crowley, and Ambrose "Ben" Douglas made extensive arrangements for capturing the results of the forum, and Ms. Anita Gill helped with transcription. Mr. Pelham G. Boyer, managing editor of the Naval War College Press, very ably managed the production of the present volume.

Finally, we extend thanks to Vice Admiral Arthur K. Cebrowski, USN, President of the Naval War College, who aided this enterprise at several key junctures. First, he established the Asia-Pacific Studies Group and directed a redoubling of efforts at the Naval War College to understand issues related to Asia and the Pacific. He also participated in the Asia-Pacific Forum and, of course, contributed the foreword to this volume.

PDT

STEPHEN PETER ROSEN

The Strategic Traditions of the United States in the Asia-Pacific Region

WHAT ARE STRATEGIC TRADITIONS? Why should we be concerned with them when we think about American strategic behavior in the Asia-Pacific region? Why should we not concentrate on the material factors, the "hard" data that will determine what nations will do?

Traditions are usually thought of as past patterns of behavior that affect, in some way, current and future behavior. Traditions may be familiar and comfortable, and for a social and political conservative, they are to be observed because they embody the collective experience and wisdom of a society. But in the field of military studies, tradition has both positive and negative implications. Tradition may reflect the habits of the last war, vividly imprinted on the minds of the men who waged it—valuable lessons learned, lessons paid for with blood. Tradition may also be habits of the last war that make it difficult to see and react to change.

A strategic tradition can also be thought of as variation of "strategic culture," the cognitive lens through which we view the world, the lens that focuses our attention on the policy options that are worth taking seriously and away from the frivolous options, the "nonstarters." Strategic culture also tells us what we should expect in terms of the reactions of other players and what the most important forms of interaction are. Because it is often difficult to get good information on these issues in a timely way, strategic culture helps us make decisions under conditions of uncertainty. Academics may recommend that under conditions of uncertainty one ought to wait until the necessary information has been collected, but policy makers often do not have that luxury, and at such times strategic culture or tradition is an invaluable decision aid.

Why do people have the strategic cultures or traditions that they do? Their cultures emerge from the intense emotional experiences

through which they have passed, experiences that created vivid and enduring memories that readily spring to mind. The Munich crisis, Pearl Harbor, the Cuban missile crisis, and the American war in Vietnam were such experiences. When future, or even present, conditions are difficult to discern, people make decisions based on what they see, and what they see is influenced by their memories of what has happened in the past. Sometimes these are personal memories; sometimes they are organizational or national memories. For example, when confronted with Ho Chi Minh, about whose ultimate intentions there was some doubt, Americans tended to observe that he was an ideological dictator. He was, but memory then added statements about what ideological dictators were likely to do and what this nation needed to do in anticipation: "We know what ideological dictators are like, because we faced them in the past, and we know that we need to stop them with military power." That was not objective reality, but it was the way Americans decided what reality meant in terms of what they had to do. These sets of interpreted memories can be thought of as part of our culture, our tradition.

When a nation is confronted with complex, ambiguous situations that are difficult to understand, its cultural perspective may affect how it reacts. Peter Schwartz is an expert in helping business executives realize, by means of discussions and interviews, what their assumptions are about how the world works and what factors drive developments in the marketplace. It is important for executives to understand how they look at the world, because they may not fully realize what is driving their decisions and what factors they may be paying too little attention to.

Iain Johnston analyzes the same kind of issues with regard to the Chinese national security elite, not by means of direct discussions and interviews but by reading the texts that members of the elite study and discuss. This is a useful technique—though not without problems, since what people read and study does not always reflect the ideas inside their heads. It is a particularly problematic technique when the books that people read say contradictory things or include passages that can be interpreted in contradictory ways. The technique works better for people who are told explicitly how they should read the relevant texts and are punished if they deviate from the correct interpretation. The cadres of the communist parties of the world

have constituted such groups, as do, to a lesser extent, the officer corps of military organizations that have officially approved doctrines and training materials. Members of hierarchical, disciplined organizations are especially likely to have meaningful, shared strategic traditions.

That said, what can we say about the American perspective on Asia and the Pacific? There are all kinds of Americans; they have had different experiences and have read different books. It is next to impossible to point to a particular American tradition that says anything useful or specific about the shared mental perspectives of nearly three hundred million rather individualistic people. Let us, instead, talk about four smaller groups of people, about whom we may be able to say something a bit more specific, because they share experiences and belong to disciplined organizations. Then we will suggest how and why objective reality may cause problems for people who have these mental images of Asia and the Pacific.

What are the strategic traditions and perspectives of the U.S. Navy, Marine Corps, Army, and Air Force with regard to this region? What have these services experienced there over the last fifty years? How might those experiences have created memories that affect their outlooks? It may be objected that services do not have genuinely national strategic perspectives, that they concern themselves with military operations, not the general relationship of political goals to military means. Yet services do have strategic perspectives that relate military means to military goals, and their views on what a future war would be like and how it would be fought often have powerful impact on higher-level policy. For these reasons, service perspectives matter.

When speaking of the Pacific, it is natural to begin with the U.S. Navy. Let us simplify matters: what would senior naval officers say if asked how they thought about the Pacific? The response of a representative officer might be as follows.

The Pacific belongs to us. The most important experiences my organization has lived through over the last fifty years demonstrated over and over again that we can dominate the Pacific and so enable the United States to project power and influence to the periphery of the Asian landmass. After the defeat of Japan and withdrawal of the British, we were the only major naval power left in the region. As the Japanese navy revived, it did so under

our tutelage, in cooperation with us, and in ways that did not challenge us. The United States was able to fight a major war in Korea utilizing our unchallenged command of the sea for aircraft carrier operations, amphibious landings, and logistical support of ground and air forces in Korea and Japan. We were able to use carrier aviation in the Vietnam War unopposed by naval forces or significant land-based antiship weapons systems. We had a problem with air-to-air combat in Vietnam, but specialized training, the Top Gun program, fixed that.

The Soviets were a problem, but we dominated the strategic antisubmarine-warfare world, and they never really learned how to do blue-water naval operations: the Soviets had severe problems up to the end of the Cold War with at-sea replenishment, for example. They never mastered even the rudiments of carrier aviation. The Backfire bombers could have been a problem, particularly if they had used nuclear antiship weapons, but we never really believed, in our heart of hearts, that the Soviets would go nuclear at sea early in a war. If we had believed that, we would have had to acknowledge that we had a big problem for which we had no solution.

The Chinese navy is not in the same league with the Soviets, let alone us. The one or two advanced destroyers and antiship missile systems they have do not fundamentally change that picture. When we sent two carrier battle groups to the waters near Taiwan in 1996, we showed everybody that we still rule the Pacific and can influence events on the Asian periphery.

Today and for the future, we can operate in the Pacific by means of a network of bases and ports on foreign soil. This way of conducting operations began with the island-hopping campaign across the Central Pacific in 1943–45 against Japan. It continued through the Cold War with bases in Japan itself, Okinawa, the Philippines, and elsewhere. We have had some problems with the Philippines and in Okinawa, but we can manage them. In any case, other people, like the Singaporeans or the Indians, would open their doors to us if and when a serious Chinese naval force emerged.

What about the Marine Corps? A senior officer from that service might give this kind of response.

We have fought many times in the Pacific-Asia theater, and it has been a deadly place for us. From the Boxer Rebellion to Tarawa and Iwo Jima, from the Chosin reservoir to Khe Sanh and Hue, a lot of Marines have died here. As amphibious forces, as straight-leg infantry, as urban warriors, we have taken very heavy casualties in Asia. We do not take this part of the world lightly, and we do not assume that we would be able to execute our

missions there easily, even with all the high-tech weapons in the world—of which we, as Marines, get only the leftovers. We think very hard about what to do there militarily, and we are not sure what the answer is. Why else would you think that we are engaged in the most serious set of military experiments to explore the future of any of the services ?

An Army officer might reply to our question in this way.

We cannot trust American politicians when they talk about war in Asia. They keep saying that the Army will not fight ground wars in Asia. But if you look back, after World War II we never fought in Europe; all we did was fight ground wars in Asia. First we excluded Korea from our defense perimeter in 1950, then Lyndon Johnson said he would not send American boys to Vietnam to fight battles that Asian boys should fight, and look what happened. Ground wars in Asia are like other dirty, nasty things: they happen.

Asia is a big headache for the Army. When we fight in Asia, we compromise and degrade our core skills in the conduct of high-intensity, combined-arms maneuver warfare. Sure, we used a lot of helicopters in Vietnam, but that was still nothing like going up against the Soviets. What we would like is a big, friendly Asian land power on our side so we do not have to send hundreds of thousands of our soldiers into battle. General "Vinegar Joe" Stilwell had it right, in the Second World War: train the Nationalist Chinese and let them fight the Japanese. We did it right in Korea by building up the South Korean army so we could go home. If Creighton Abrams had been in charge earlier in Vietnam, Vietnamization would have started earlier, and we would all have been better off.

And an Air Force officer might have this response.

We have air supremacy in Asia, and air supremacy is good. Strategic bombardment works, it can win wars, and it has. Look at Japan in 1945: eighty Japanese cities on the target list, eighty Japanese cities destroyed, and the war was over with no need to invade Japan. Nukes were nice but not essential. In Korea, airpower was the war winner. After the Army and Marine Corps had fixed the Chinese, we could plaster them and their supply lines, human waves or not.

The problem in Vietnam was that bastard Robert McNamara. When he became secretary of defense, he crippled us with an incremental, politically micromanaged air campaign. When Richard Nixon authorized Linebacker II, we showed what we could do with a real air campaign. We got the North Vietnamese back to the negotiating table with the Christmas bombing of

1972. It was the Strategic Air Command that deserved the Nobel Peace Prize, not Henry Kissinger.

Like the Navy, we can operate in this region by means of a network of bases on foreign soil. Air-to-air refueling means we can use fighters with ranges that work very nicely in the European theater as bombers in Asia. That is good thing, because it means that fighters can remain the dominant platforms in our service.

Putting words into the mouths of service officers is presumptuous. Drawing out implications from the remarks we put into their mouths is even more presumptuous. Nevertheless, there seem to be common elements implicit in what representative spokesman might have to say about their services' experiences in the Pacific:

- Nuclear weapons have not mattered very much in practice in the Asia-Pacific region. We can still bomb and fight in Asia the way we would in the "pre-nuke" environment, except for strategic sanctuaries in China and the Soviet Union or Russia, since our wartime enemies have been small, nonnuclear powers.

- Offensive forces, not defensive systems, have been dominant in this region.

- We have had, and will have, allies who give us bases and help when we need them.

- Finally, getting to Asia from the United States is not a problem for warfighters, however large a problem it is for the logisticians. We do not have to worry about military opposition as we move our supplies across the Pacific.

The exercise becomes interesting at this point. Will future conditions in the region be consistent with what our traditions tell us we can expect? There is good reason to think not. First and foremost, the assumption of the irrelevance of nuclear weapons for warfighting will clearly be called into question. All of the potentially hostile nations with whom we may have military problems are nuclear powers or nearly so: China, North Korea, Pakistan, India, Russia, a unified Korea in the future, maybe Taiwan. How would we use American military power against targets in the homelands of nuclear powers?

Would we attack the naval vessels of nuclear powers in wars about issues less weighty than saving the world from military domination? Nuclear weapons will matter a great deal; they create large areas that are off limits to American offensive military power.

American ports and air bases on foreign soil will be increasingly vulnerable to precision, nonnuclear attack. How will host nations that do not have nuclear weapons with which to deter attacks against them feel about this? How will we operate in the region if theater ballistic missile defense turns out not to be the answer to our prayers? Defensive systems to protect and reassure our allies may become the dominating factor, for American political purposes.

The availability of American allies is by no means assured. If there is a military crisis involving China, Taiwan, and the United States, and if Japan does not help, many Americans will ask why we are doing so much to help Japan. Trends are already visible in Japanese politics that advocate security policies that are less closely tied to the United States. There could be significant anti-American sentiments in a unified Korea, since there would be no North Korean threat to justify our presence. It will be many decades before India offers us bases, if it ever does.

It is hard to see how we will use significant amounts of conventional ground forces in Asia. This has been said before. In the past, however, we went to war to deal with what American political leaders perceived to be military aggression across international boundaries. We would fight to help Taiwan for that reason, but that would not involve ground forces. We really do not want to go to war with China on the mainland of Asia. North Korea will not last forever. For what will we use ground forces in this theater?

Over time, China will probably be able to make it harder for the United States to intervene in political military crises near China. The question will not be whether the Chinese forces are better or worse than ours but whether they could increase the risks of American operations near them in diplomatic crises. Even getting to Asia will not be as simple as it used to be, because the Chinese will have information warfare techniques that can slow us down; they could "hack" into civilian air traffic control networks, for example, as James Mulvenon of the RAND Corporation has pointed out. Other forms

of attack on our trans-Pacific logistics train are not too difficult to imagine, including the use of biological agents.

What, then, is the point? We have drawn an overly simple picture for the purpose of suggesting that the experiences of the American military over the last fifty years have, in different ways, given the services, collectively, a perspective on this theater that may make it difficult for them to perceive the emergence of a probable future. If so, there may be subtle lags in this nation's adjustment to the future. Of course, things could work out differently. China could become completely democratic and peaceful, or it could fall apart. Asia could become like Europe—rich democratic and peaceful. It may be that we suffer from the habits of thought acquired during the Cold War: we have been thinking here about this region as a theater of war, but perhaps it will not be a theater of war at all, actual or potential, for decades. If that is the case, however, the United States will have an even larger process of adjustment to manage. But if interstate war remains possible in this region, the American military's strategic traditions may not be good guides to action.

PAUL DIBB

Strategic Trends in the Asia-Pacific Region

THE AREAS OF MAXIMUM DANGER AND INSTABILITY in the world today are in Asia, followed by the Middle East and parts of the former Soviet Union. The strategic situation in Asia is more uncertain and potentially threatening than anywhere in Europe. Unlike in Europe, it is possible to envisage war in Asia involving the major powers: remnants of Cold War ideological confrontation still exist across the Taiwan Straits and on the Korean Peninsula; India and Pakistan have nuclear weapons and ballistic missiles, and these two countries are more confrontational than at any time since the early 1970s; in Southeast Asia, Indonesia—which is the world's fourth-largest country—faces a highly uncertain future that could lead to its breakup. The Asia-Pacific region spends more on defense (about $150 billion a year) than any other part of the world except the United States and NATO Europe. China and Japan are among the top four or five global military spenders. Asia also has more nuclear powers than any other region of the world.

Asia's security is at a crossroads: the region could go in the direction of peace and cooperation, or it could slide into confrontation and military conflict. There are positive tendencies, including the resurgence of economic growth and the spread of democracy, which would encourage an optimistic view. But there are a number of negative tendencies that must be of serious concern. There are deep-seated historical, territorial, ideological, and religious differences in Asia. Also, the region has no history of successful multilateral security cooperation or arms control. Such multilateral institutions as the Association of Southeast Asian Nations and the ASEAN Regional Forum have shown themselves to be ineffective when confronted with major crises.

In judging the strategic future of Asia, we should learn from previous failures of assessment and refrain from overconfident, straight-line extrapolations. After the fall of South Vietnam in 1975, there was great fear that communism would spread quickly to the rest

of Southeast Asia and that the dominoes would fall. That did not occur. In the 1980s, we were told that the coming Japanese economic superpower would soon outstrip the United States; instead, Japan has recorded barely one-third of the economic growth of the United States since 1990. Less than five years ago, it was being forecast that the so-called "Asian economic miracle" would inevitably give the region a larger economy than the United States and Europe; that view was destroyed by the Asian economic crisis. There have also been predictions that China will be the new economic giant and that its gross national product will be bigger than that of the United States by 2010. But by most measures, China's economy is only a fraction of that of the United States.[1]

This article assesses the strategic environment in the Asia-Pacific region over the next five years, which is the period of most relevance to policy. It analyzes the geopolitics of the region, the strategic outlook and balance of power, and the risk of military conflict in such places as the Taiwan Straits, the Korean Peninsula, and the Indian subcontinent. It also examines the prospects for Indonesia's security and what that might mean for Southeast Asia as a whole. The article concludes by analyzing, from the viewpoint of a prudent defense planner, America's policies toward the region and by assessing whether they need improvement.

THE GEOPOLITICS AND MILITARY GEOGRAPHY OF ASIA

There is a fashionable view that geography and geopolitics are no longer relevant in the post–Cold War era. That is demonstrably untrue in Asia, where there is a fierce sense of national sovereignty, enormous variations in culture and civilization, and a struggle for power and influence among the region's great powers. There are over two dozen outstanding territorial conflicts in this part of the world; some of them—such as those between China and Taiwan, the two Koreas, and between India and Pakistan—are potentially very dangerous. While it is the case that globalization and the information revolution are having an increasing impact on Asia, the assertion of

1. According to the IISS, China's economy is about the same size as that of Canada.

old-fashioned nationalism and state sovereignty undermines the argument of those who assert that the importance of the state is declining.

The strategic environment of Asia is characterized by the presence of three great continental powers in the north of the region: China, India, and Russia. An arc of maritime powers, many of which are allies or friends of the United States, flanks them. Except for Japan, most of these countries are middle-sized or small powers: South Korea, Taiwan, the ten ASEAN countries, Australia and New Zealand, and the small island nations of the South Pacific. Almost half of the world's maritime trade passes through the confined straits and archipelagic waters of Southeast Asia and the South China Sea. The United States has traditionally been the dominant naval power in this part of the world. Neither China nor India will have a true blue-water navy over the next five years, although they will both seek to extend their naval influence, and therefore their strategic ambitions will overlap in Southeast Asia. This is an area of great strategic significance for the United States and its allies—especially Japan, which transports nearly all of its oil imports through the region. China too is becoming more dependent upon sea lines of communication, as its trade increases and it needs to import more of its energy requirements.

The political makeup of Asia is highly varied, and this adds to the geopolitical complexity of the region. Unlike Europe, where a broad swathe of democracies now occupies most of the continent, Asia has four of the world's five remaining communist countries: China, North Korea, Vietnam, and Laos. While there has been an encouraging rise of democracy in recent years in South Korea, Taiwan, Thailand, and the Philippines, authoritarian regimes are firmly in power in Pakistan and Burma, and the governments in Malaysia and Singapore practice forms of "soft authoritarianism." As for Indonesia, it remains to be seen whether democracy will survive there. In any case, the trend to democracy in the region, if it continues, does not necessarily imply easier relationships with the United States, as the New Zealand case demonstrates. The highly questionable proposition—which has become an article of faith in some quarters in Washington—that democracies do not go to war with democracies may be disproved one of these days in Asia. In any case, deep-seated historical, cultural, religious, and territorial differences in Asia suggest that

irrespective of the development of democratic institutions, the dangers of armed conflict remain. Late in 1999 there was a risk that military conflict would erupt (over East Timor) between Australia and a newly democratic Indonesia.

As the "revolution in military affairs" spreads to Asia and introduces longer-range and more accurate weapons supported by good surveillance information, the geography of Asia will be compressed. The introduction of long-range cruise missiles and the development of ballistic missiles will make smaller countries much more vulnerable if deterrence fails. The risk then will be either of a retaliatory proliferation of ballistic missiles or of the acquisition from the United States of a protective ballistic missile defense, which in turn may lead to the multiplication of offensive missile systems. The ballistic missile proliferation challenge for the United States and its allies will be more acute in Asia than anywhere else.

The ready availability of advanced conventional weapons not only compresses but alters the geography of the region. For instance, the proliferation of supersonic antiship cruise missiles will make it more dangerous for the United States and its allies to operate militarily in the littoral environment of many states of the region. Thus, although the long lead-times in acquiring major military platforms are likely to keep the overall orders of battle of regional countries from changing much over the next five years, capabilities in many instances will change quickly, through the acquisition of relatively cheap, long-range, and accurate tactical missiles.

The structures and doctrines of many of the region's armed forces are also changing. In particular, there is less emphasis on land forces and greater attention to developing small but capable navies and air forces. There is also a trend toward the development of amphibious troops for the protection of offshore territories and assets. Acquiring modern air forces and navies is becoming increasingly expensive; the cost of acquiring and operating military platforms approximately doubles with each new generation. But fewer platforms will in many instances be able to deliver more lethality and firepower. The ready availability of satellite photography with a resolution of one meter or less, together with accurate Global Positioning System information, will mean that even small powers can have credible deterrent forces.

Nonetheless, the gap between the military technology of the United States and that of potential peer competitors in the region will, if anything, widen over the next five years. The central question for America's allies in the region will be whether they will be able to keep up with U.S. military forces in terms of basic interoperability of communications and weapons systems.

THE BALANCE OF POWER IN ASIA

The Asia-Pacific region has entered a particularly complex strategic situation; a new balance of power may be evolving. The Asian economic crisis, tension between China and the United States over Taiwan, North Korea's nuclear and ballistic missile programs, the risk of war between India and Pakistan, and the possibility of Indonesian disintegration have all arisen suddenly, and they serve to underline the basic insecurity of the region. But whether Asia remains a peaceful region will largely depend upon the struggle for power and influence between the major powers: China, Japan, India, Russia, and the United States. It is not in the interests of the United States or of its allies to see the region dominated by any one Asian power or by a concert of them.

China is a rising power that sees itself as the natural leader in Asia. It perceives its aspirations in this regard as being thwarted by the American military presence in the region and the U.S. alliance network. China is acquiring, with assistance from Russia, modern military equipment that will enable it to prevail militarily in the South China Sea against any regional power, if it so wishes. Were China to succeed in asserting sovereignty over the South China Sea, it would be able to penetrate deeply into Southeast Asia and influence events there. Thus there are serious questions surrounding the rise of China to power. Will China be a responsible and cooperative member of the international community, abiding by the community's rules of nonaggression? Or will China become an expansionist power, as have other rising powers in the past?

World history has been marked by the rise of ambitious new powers seeking to displace weaker powers. China is many decades away from being a peer competitor of the dominant world power, the United States; already, however, the main danger to the region is the risk that the next military confrontation will be between the United States

and China. David Shambaugh stated in early 2000 that growing "strategic competition" is likely to characterize Sino-American relations for most of the coming decade, whatever American administration comes to office in 2001.[2] The greatest danger is over Taiwan: war between the United States and China in the Taiwan Straits might well draw in America's allies, including Australia. Washington would expect its other allies, particularly Japan and South Korea, to support it, and such expectations could seriously damage its alliances in the region.

Short of such cataclysmic events, the main danger is that pressure might increase for individual nations to side with either China or the United States in their respective struggles for influence, thereby dividing the region. Some countries, such as the Philippines and Vietnam, would probably climb into the U.S. bandwagon. Others, such as Malaysia and Thailand, might incline toward China. Indonesia has traditionally been hostile to China, but President Abdurrahman Wahid has talked recently about a triangular relationship with China and India that would offset Indonesia's former close relationship with the United States. The future course of Indonesia's relations with China will be followed with the utmost scrutiny, not least by Australia. The purchase by Indonesia of arms from China, for instance, would cause alarm.

There is the further issue that China does not accept the rationale for the U.S. forward military presence in Asia. It explicitly urges the abrogation of all alliances, arguing that they are not conducive to peace and security in the post–Cold War world; Chinese officials have openly called for the removal of U.S. forces from the region. Before his visit to Australia last year, President Jiang Zemin proclaimed that alliances were "obsolete." However, China must accept that the United States is not going to withdraw from Asia and that America's alliances are not going to disappear. China needs to understand that Asia without the United States would be an especially dangerous place, vulnerable to conflict between China and Japan.

As China's influence in Asia grows, India—which wants to be accepted as a major power—will seek to compete with China. Until

2. David Shambaugh, "Sino-American Strategic Relations: From Partners to Competitors," *Survival* (Spring 2000): 97–115.

recently, India's poor economic performance, its preoccupation with Pakistan, and earlier its alliance with the former Soviet Union served to limit its interest elsewhere in Asia. But the Indian economy now seems set on a path of reform and is growing strongly. The military balance on the subcontinent now firmly favors India, and with each year that passes its superior economic performance will improve its military advantage. India, therefore, will be able to lift its strategic horizons. Southeast Asia is a natural area for its future focus; India has long-established ties to that region and has territories, including the Andaman and Nicobar Islands, in close proximity. Already India is seeking to strengthen its old relationship with Vietnam, as well as with Japan. The United States could become a useful partner for India in its upcoming competition with China.

Japan is by far the most important power economically in Asia; its economy accounts for 60 percent of Asia's gross national product. Nonetheless, China—whose economy is less than a fifth the size of that of Japan—has a higher political profile in the region. Japan spends more on defense than any other Asian country, and it has the most modern navy (both surface combatants and submarines) and air force in the Asia-Pacific. Japan, however, continues to be unwilling to use its military forces except in the most modest of United Nations peacekeeping operations. Japan's resulting inability to provide leadership in Asia commensurate with its economic power is a worry. Partly, this has to do with lingering memories of Japan's aggression in the Second World War. It also stems from Japan's preoccupation with its domestic problems; its economy has been virtually stagnant for a decade. Moreover, as was demonstrated during the Asian economic crisis three years ago, the United States is not willing to allow Japan to become the financial leader in the region. Still, it is important that Japan take on more of a leadership role in the region, in order to offset the growth in China's influence. When it does, Japan will face a challenging strategic environment, marked by the rise of China to power and by the prospect of a unified Korea—over seventy million people who see Japan as a traditional enemy.

The most crucial strategic relationship in the region will continue to be the alliance between the United States and Japan. This relationship has recently been reaffirmed and reinterpreted to provide for greater logistical support to U.S. forces operating in the area. It

remains to be seen, however, whether in fact Japan would support American military operations on the Korean Peninsula or across the Taiwan Straits. For the rest of the region, including China, the United States–Japan alliance provides an essential assurance that Japan will not dangerously rearm. Japan could double its conventional military forces within five years, or produce nuclear weapons. Neither will occur as long as Japan continues to have confidence in the United States and in its military presence in Northeast Asia. Even so, there are already signs that for the first time in over fifty years Japan is beginning to develop its own strategic concepts and dedicated force-structure elements, such as military satellites and a defense intelligence organization. The Japanese are also beginning to worry about the durability of the U.S. commitment in Northeast Asia and about America's tendency to go over its head in its dealings with China. What must be prevented at all costs is an erosion of Japan's confidence in the United States and a consequent military confrontation (or strategic accommodation) between Japan and China.

Russia, which is the other major power, is unlikely to be a significant player in Asia for the foreseeable future, even though it possesses important military assets in Northeast Asia. It will remain preoccupied with its internal political and economic affairs and the situation along its borders, especially in Siberia and the former Soviet Central Asian republics. Russia's ability to supply advanced conventional weapons to China and India is, however, a matter of concern. Arms exports are one of the few competitive products of the ailing Russian economy. Russia has the capacity to upset the regional military balance, and it is already doing this through its arms shipments to China.

POTENTIAL FLASHPOINTS AND TROUBLESPOTS

The most dangerous part of Asia at present is, as we have noted, the Taiwan Straits. There seems to be in the domestic politics of Taiwan an inevitable dynamic that leads the island to assert its international status as an independent state and to confront China's "one China policy." The situation is exacerbated by growing tensions between the United States and China over this issue, as well as by unease in Washington over China's nuclear weapons program and in Beijing over the U.S. desire to deploy national and theater ballistic

missile defenses. Dispute over these issues brings with it real risks of miscalculation. China lacks the conventional military capability to mount an amphibious invasion of Taiwan, and this will remain the case for at least the next five years.[3] But there are other options open to China, including a naval blockade and the use of ballistic missiles. War across the Taiwan Straits would, inevitably, bring in the United States, and then (as already mentioned) involve enormously difficult choices for its allies in the Asia-Pacific region—hence the strong desire by those allies to see the current tensions between China and the United States over Taiwan resolved by peaceful means.

The situation on the Korean Peninsula remains fraught with danger, as it has been for almost fifty years. The possibility of a North Korean attack on the South is ever-present, despite the recent lessening of tensions. Even so, the outbreak of war is unlikely. Unlike in the early 1950s, North Korea could not now count on military support from China and Russia; it would face the bleak prospect of total defeat by the United States and South Korea. Still, miscalculation by the North Korean regime cannot be discounted, nor can a sudden collapse of the North, which would present the South with the horrendous costs of creating a unified nation.[4] The most likely scenario for the next five years is a continuation of a manageable degree of tension. Developments in relations between the North and South since June 2000 suggest that there may now be some prospect of direct peace negotiations between them. Should war break out, however, the United States would naturally expect its allies quickly to provide tangible and useful military contributions. If Japan were to refuse to do so, it would put at risk its relationship with the United States.

India and Pakistan have been in confrontation with each other since their creation as separate states in 1947. The possession of nuclear weapons by both these countries and their development of ballistic missiles have produced a situation fraught with great danger.

3. For a somewhat contrasting view, see Jianxiang Bi, "Managing Taiwan Operations in the Twenty-first Century: Issues and Options," *Naval War College Review* (Autumn 1999): 30–58. Dr. Bi agrees that Chinese capabilities for a cross-Strait assault are inadequate but senses that Beijing might feel itself obliged to make the attempt notwithstanding.

4. One estimate puts the cost to South Korea of reunification at one-third of its annual budget over a decade or more.

Their religious and territorial differences, as well as the fact that the military balance between them is moving in favor of India, may result in a highly volatile scenario in which the use of nuclear weapons is a real possibility. There is a serious lack of early-warning technologies and of nuclear weapon command and control arrangements in both these countries. If the world ever experiences exchanges of nuclear weapons, the first may well be between India and Pakistan.

In Southeast Asia, the most crucial question is the future of Indonesia. Indonesia is in the middle of a dangerous political transition; the central issue is whether Indonesia will remain a cohesive nation-state or disintegrate. There is a better than even chance that Indonesia will muddle through and retain its basic territorial integrity, although the provinces of Aceh and Irian Jaya (West Papua) are high-risk situations. Were Indonesia to disintegrate, the implications for neighboring countries—especially for Singapore and Malaysia, as well as Papua New Guinea and Australia—would be serious. These nations would be faced with an unstable and violent neighbor. Relations between Indonesia and Australia have already become very strained over the East Timor issue; friction between the two is now higher than it has been for many decades. There are those at senior levels in the Indonesian armed forces (the TNI) and foreign ministry who believe that Australia's next step will be to destabilize West Papua.[5]

The most optimistic scenario leads over the next two to three years to a stable, democratically elected central government in Jakarta. But transition from an authoritarian military regime to democracy is always dangerous. The Indonesian defense minister, Juwono Sudarsono, has said that the shift will be gradual, that it could take ten to fifteen years.[6] There is no doubt that the creation of a rules-based civil society will take a very considerable amount of time. Those in the United States who want to push Indonesia quickly in this direction need to learn more patience.

The reaction from the TNI to any attempts at creating independent states in Aceh or West Papua would be intense and might well put an end to democracy in Indonesia. The focus of the external powers,

5. Indonesia's foreign minister, Alwi Shihab, is quoted as saying that "Indonesia's foreign policy places Australia as an external factor that endangers its national integrity, especially in Papua." *Sydney Morning Herald,* May 31, 2000, 11.

6. Associated Press, April 11, 2000.

as well as of such major international institutions as the International Monetary Fund, must be on helping Indonesia to recover economically and build a democratic society. This will be no easy task. As a 1998 World Bank report commented, "Indonesia is in a deep crisis. No country in recent history, let alone one the size of Indonesia, has ever suffered such a dramatic reversal of fortune."[7] The Indonesian economy remains very vulnerable to another economic crisis, just when the political situation in Jakarta has become so volatile. A combination of religious fervor and strident nationalism in a failed Indonesian democracy would be of great concern to Indonesia's neighbors, especially if aggressive foreign policies were the outcome. A more extreme Islamic stance in Indonesia, when similar sentiments are emerging in Malaysia and the southern Philippines, would be deeply disturbing. A unified, secular, and democratic Indonesia is in the region's interest.

Another dangerous part of Southeast Asia is the South China Sea, where there are overlapping territorial claims between China (which claims all the islands and reefs), Taiwan, Vietnam, Malaysia, Brunei, the Philippines, and Indonesia. The United States is not a principal party to these territorial disputes, but it must make it clear to China that it will not tolerate Chinese territorial hegemony over the South China Sea. Regular demonstrations of the naval capabilities of the United States and its allies would be useful reminders to China that its proper course of action is negotiation with the countries of Southeast Asia.

The South Pacific has traditionally been the most stable part of the Asia-Pacific region, but it now comprises a number of failed states. Papua New Guinea, which shares a common border with Indonesia, has a fragile economy, high levels of corruption and violence, and an active secessionist movement on Bougainville. If Bougainville secedes, New Britain, New Ireland, and regions adjoining Indonesian Irian Jaya may also separate. The peoples of Papua New Guinea and West Irian share a Melanesian origin and a dislike of Indonesia. In the event of conflict between Indonesia and its Irian Jaya province, the Papua New Guineans—who have a security treaty with Australia—would side with their Melanesian brothers.

7. *Indonesia in Crisis: A Macroeconomic Update* (Washington, D.C.: World Bank, 1998), 1.

Several of the other South Pacific islands are scarcely viable economically and have regimes noted for corruption. In the Solomon Islands there is an active insurrection between the peoples of Guadalcanal and Malaita, which has led to the overthrow of the elected government. Fiji has just experienced its third coup since 1987, and ethnic tension between the indigenous Fijians and the Indian community has resulted in widespread violence and disenfranchisement of the Indians. George Speight's coup was no more than an act of an armed thug. Harsh diplomatic and economic sanctions have been applied by Australia and New Zealand.

New Zealand, which is Australia's oldest ally, is no longer a member of the ANZUS alliance and has so reduced its defense capabilities that it is capable of little more than peacekeeping operations. As a result, Australia, which confronts an arc of instability stretching from Indonesia and Papua New Guinea to the Solomon Islands and Fiji, will increasingly see New Zealand as more of a liability than a useful defense partner.

UNCERTAIN U.S. POLICIES

American political power and military presence is the key to maintaining a peaceful balance of power in Asia over the next five years.[8] Only the United States has the power, credibility, and distance (both geographical and cultural) from the region to maintain the regional balance. Other contenders for this role would not be acceptable locally: China is feared as a potentially dominant—and perhaps expansionist—power; great suspicion still surrounds any ambitions for regional leadership that Japan might have; India is seen as essentially peripheral to East Asian affairs; and Russia is a weak and distracted power.

U.S. credibility is based not only on its military presence but also on its long historical ties to the region, extending back a hundred years. Most countries in the region, apart from China, agree that the departure of the United States would leave the region open to fierce contention between China and Japan, or India, possibly leading to war. But the United States is distracted these days by domestic events and

8. This section draws on Paul Dibb, "The Strategic Environment in the Asia-Pacific Region," in *America's Asian Alliances,* ed. Robert D. Blackwill and Paul Dibb (Cambridge, Mass.: MIT Press, 2000), 1–17.

Europe. It is also much more severely stretched than in earlier decades; it must react to crises across the globe with a military little more than half the size it was in the Cold War.

For that reason, there must now be some doubt whether the United States can fulfil its much-vaunted East Asian strategy, based on a capacity to handle two regional conflicts "almost simultaneously."[9] Inability by the United States to cope with a major crisis in, for example, the Korean Peninsula at the same time as it was fighting a regional adversary elsewhere, perhaps in the Middle East, would be disastrous for its alliance system. The United States is the only nation with the power to enforce security across the region. No reasonable ally, however, can expect Washington to be a perfect arbiter and enforcer of security, and indeed, there is a growing perception that the United States tends to carry out its military duties only after armed conflict has broken out.

This uncertainty over the speed of a U.S. response has consequences for countries in Asia that expect the United States to maintain regional peace and security. Many in Asia believe that the United States will not necessarily be on the spot (except in Korea) at the moment when conflict breaks out. It may—depending on the degree of strategic interest and the nature of domestic reaction—turn up quickly, and it might ultimately restore the status quo ante, but this will be of little comfort for nations whose territory has been threatened in the meantime. Moreover, the manner in which the United States intervenes will be strongly shaped by domestic considerations: it will seek to respond to an armed conflict in the most domestically acceptable way—in other words, with airpower. But in some of the more likely regional scenarios, ground forces would be essential.

Strategic inconsistency was evident in the U.S. response to the Asian economic crisis. Asia's multilateral institutions—APEC (Asia-Pacific Economic Cooperation), ASEAN, and the ASEAN Regional Forum—failed to play any role in addressing the crisis, underscoring how heavily regional economic and strategic stability

9. This is defined as the ability "to deter and defeat nearly simultaneous large-scale, cross-border aggression in two distant theaters in overlapping timeframes, preferably in concert with regional allies." William S. Cohen, *Annual Report to the President and the Congress* (Washington, D.C.: Department of Defense, 2000), 7.

relies on the policies and initiatives of the United States. This means that Asia's welfare depends critically on the depth of strategic understanding in Washington. But it appears that U.S. policy makers still weigh strategic significance in Cold War terms: South Korea received quick and substantial economic assistance, because it faced a communist North armed with nuclear weapons; Indonesia did not, because, the Cold War being over, the world's fourth-largest country is no longer important to the United States as a bastion against communism in Southeast Asia. Instead, Washington let the IMF impose dangerously destabilizing measures on Jakarta. Apparently, human rights rather than geopolitics dominate the United States–Indonesia relationship today. While human rights have an undeniably important place in international diplomacy, they should not dominate relations with an Indonesia struggling to maintain its social and political cohesion. For the sake of the stability of the whole of Southeast Asia, the United States needs to focus more on the critical importance of Indonesian unity and cohesion.

The United States does not appear to have developed a new standard by which to measure the strategic significance of countries such as Indonesia. A decade after the Cold War ended, it is time for Washington to develop a more refined process for deciding the policy response to crises in Asia—some of which will determine the future of the region. It should cease allocating economic and political support on the basis of Cold War strategic values but devise new tenets for its strategic engagement policy in Asia.

There is also growing unease in the region about America's longer-term commitment to keeping about a hundred thousand troops deployed in Northeast Asia, which has been the position of U.S. administrations for the last decade. Adding to the sense of uncertainty is open discussion in the United States about how emerging military technologies, particularly in long-range precision strike, could lessen the need for forward operating bases. The total number of U.S. troops in South Korea and Japan and at sea with the Seventh Fleet is in any case now much closer to ninety thousand; the figure of a hundred thousand is becoming increasingly less credible. Thought also needs to be given to the impact on the American presence of a future unified Korea, both in Korea itself and in Japan. This is not to argue that there are no imaginable political circumstances in which there could

be a phased reduction of American forces in Northeast Asia. But the implications for confidence within the region of a sudden and large-scale reduction suggest that any drawdown would need to be planned in advance, in consultation with allies.

There is no unifying enemy like the Soviet Union to keep the United States and its European allies together, yet the NATO alliance has adjusted, by rejuvenating its charter and expanding its membership. Will the United States and its allies in the Asia-Pacific region also devise a new common security concept? Or will there be a gradual weakening of the bilateral alliances with Australia, Japan, and South Korea? The alliance in the Asia-Pacific should no longer be threat based, but rather should emphasize shared interests in the maintenance of regional stability.[10]

There seems to be a growing interest in the United States in the idea of multilateral security. Adm. Dennis C. Blair, the commander in chief of the U.S. Pacific Command, has promoted the idea of "security communities." The idea here is to encourage "collective efforts into resolving regional points of friction; contribute armed forces and other aid to peacekeeping and humanitarian operations to support diplomatic solutions; and plan, train, and exercise . . . armed forces together for these operations."[11] According to Admiral Blair, these security communities may be alliance-treaty signatories, participants in nonmilitary organizations like the ASEAN Regional Forum, or simply groups of nations joined by geographic considerations or common concerns. The communities would be committed to policy coordination, including combined military cooperation on specific regional security issues, to advance peaceful development over time without major conflict.[12] The problem with this idea is that it risks diluting the primacy of strong bilateral security alliances in the region, and that it may be seen as being aimed, eventually, at the creation of a multilateral security enterprise in Asia.

10. See Paul Dibb, *Will America's Alliances in the Asia-Pacific Region Endure?* Working Paper no. 345 (Canberra: Strategic and Defence Studies Centre, May 2000).

11. See House International Relations Committee Subcommittee on Asia and the Pacific, statement of Adm. Dennis C. Blair, U.S. Navy, Commander in Chief, U.S. Pacific Command, *On U.S. Security Concerns in Asia,* Washington, D.C., March 8, 2000, 12.

12. Ibid.

Asia has not had a good track record with multilateralism. The Southeast Asia Treaty Organization, which was created in 1954 and dissolved in 1977, was not an effective organization. Unlike NATO, it never had standing forces that could be committed in the event of conflict. The ASEAN Regional Forum started off in the early 1990s with much fanfare and with the aim of progressing steadily from military confidence-building measures to preventive diplomacy and, eventually, conflict resolution. But in the seven years of its existence it has not progressed much beyond discussing basic confidence-building measures.[13] Many of the military forces in Asia are highly secretive, declining to publish even the most basic information about their capabilities. They resist arms-control ideas and transparency measures, even those of kinds common in Europe. It is difficult therefore to be optimistic about the outlook for multilateral security cooperation in Asia. American ideas in this regard need to be better thought through, and they need to avoid any appearance of being aimed at containing China.

GUIDELINES FOR U.S. POLICY MAKERS

Strategic developments in Asia are not likely to pose fundamental challenges to American military power and influence over the next five years, as long as the United States retains a credible forward military presence and is not found wanting in a major military crisis involving its allies. However, the United States and its allies need to do more together, given the unpredictability of the strategic situation in Asia and the speed with which adverse events could unfold.

There is no doubt about the fundamental economic strength of the United States and its allies in the region, or of the military superiority of the U.S. alliance system. The concern is the cohesion of America's alliances in an era where there is no common threat but doubts exist about the political will of leaders to use force if confronted with military adventurism in Asia. Any perception of wavering or ambiguity in the U.S. military commitment to the region could lead to rapid destabilization. America's allies need to do much more to provide for their own security, to develop military forces that can deal with crises

13. For a balanced discussion of the strengths and weaknesses of the ASEAN Regional Forum, see Khoo How San, ed., *The Future of the ARF* (Singapore: Institute of Defence and Strategic Studies, 1999).

in their immediate neighborhoods and that can also make useful contributions to U.S. operations farther afield.

With these guidelines in mind, let us proceed to some specific policy recommendations. First, United States security planners and their allied opposite numbers need to *prepare for less benign strategic futures* in Asia, not relying on comfortable predictions that the region will experience prolonged stability and peace. These alternative futures obviously embrace such scenarios as war between the United States and China over the Taiwan Straits, and conflict on the Korean Peninsula. But planners should also examine what the United States should do in the event of nuclear war between India and Pakistan; of Chinese use of military force in the South China Sea against a friendly ASEAN country; and of the emergence in Indonesia of a strongly nationalist regime that antagonizes its neighbors.

There is a clear implication here for *allied intelligence services:* the size of the task in the Asia-Pacific region suggests more (rather than less) in the way of intelligence cooperation. But the sheer outpouring of data from overhead collection systems threatens to overwhelm our analytical capabilities. Allies need to do more about training good minds who are expert on Asia and who are not afraid of challenging conventional intelligence wisdoms.

From a defense planning perspective, it is important to understand that in the Asia-Pacific region potential military operations *will be essentially maritime* in nature. Apart from the Korean Peninsula, U.S. military forces are not likely to be involved in large-scale ground-force operations. The dominant geopolitical change in the new security environment has been the virtual elimination for military planning purposes of allied continental commitments; the emerging struggle for power in Asia will focus on political fault lines that are maritime rather than continental in aspect. The development of China's military power and the response to it of India and Japan are likely to put pressure on the chain of America's friends and allies in the long littoral extending between South Korea and Taiwan in the north to the ASEAN countries and Australia in the south.

The new *technological challenge* in this maritime environment is the growing threat from high-speed, precise cruise missiles—both air and sea launched—and long-range ballistic missiles that can threaten fixed forward operating bases.[14] These technological changes mean

that U.S. and allied forces operating in the complex littoral and archipelagic waters of the region will be more vulnerable than they have been; maritime battlefields in the Asia-Pacific will become more lethal. For America's allies who want to operate in joint task forces, there will be force-structure implications in the cost of platforms, like air-warfare-capable destroyers, that can operate in high-threat environments.

While no peer competitor to the United States will emerge over the next five years, the *political challenge* is that alliance relationships in the Asia-Pacific region will be less predictable, and less committed to allied war-fighting, than they were in the Cold War. America's key allies in the region (Japan, South Korea, and Australia) would be most reluctant, for example, to commit forces in a U.S.-led coalition war with China over Taiwan. Also, America's aversion to casualties suggests that the United States will be most unlikely to commit forces on the ground in Southeast Asia—as was demonstrated in East Timor.

The United States will continue to hold the balance of power in Asia over the next five years, but its policies will come under increasing scrutiny by its friends and allies alike. It is important in this context *that American policy not demonize China* as the next "evil empire." Neither Japan, South Korea, nor Australia would be willing parties to such an ill considered approach. Of course, America's allies must make it clear to China which side they are on and that they will not tolerate Chinese interference in alliance relationships. But the United States needs to develop much more thoughtful policies toward China, including in such areas as ballistic missile defense.[15]

The commitment of the United States to forward basing in Northeast Asia and to the maintenance of a nominal hundred thousand troops needs careful handling over the next five years. The new administration seems likely to review the question of U.S. forces based overseas. At least until the Korean question is settled, *it would be unwise to announce any hasty withdrawals.* Care also needs to be taken

14. See *Mobile Targets from under the Sea,* MIT Security Studies Conference Series (Cambridge: Massachusetts Institute of Technology, Security Studies Program, 2000), 6–16.

15. For a comprehensive discussion of this topic see Zalmay M. Khalilzad et al., *The United States and a Rising China* (Santa Monica, Calif.: RAND, 1999).

with any subsequent effects following any U.S. withdrawal from South Korea on the American military presence in Japan and on inclinations in Tokyo to build up its own capabilities. While Japan should be encouraged to improve its defense forces over the coming years, in order to become a more useful security partner of the United States, this should be done gradually and with due regard for the sensitivities of other countries in the region.[16]

Given the greatly reduced size of the U.S. Pacific Fleet since the end of the Cold War and the much broader range of potential contingencies in which it could be involved, the *United States should expect more of its allies.* Japan and Australia in particular could significantly supplement the Pacific Fleet's surface ships, submarines, and maritime patrol aircraft.[17] While these platforms will not generally be of the same combat capability as those of the United States, they should be adequate for littoral operations in mid-intensity conflicts. Some, like the conventional submarines of Japan and Australia, have operational advantages not possessed by the United States.

In general, the United States needs to develop *more coherence and predictability* in its Asia-Pacific security strategy. This applies especially to its policies toward China, as mentioned, but the United States also needs to give greater attention to Southeast Asia and, especially, Indonesia. The central importance of Southeast Asia to the maritime trade of the entire Asia-Pacific, the fact that the ten ASEAN countries have a combined population of over five hundred million, and the key role of Indonesia all point to the need for Washington to give greater attention to this part of the world. For instance, Australia cannot be left essentially on its own, with only episodic U.S. interest and involvement, to help Indonesia emerge from its current acute political and economic difficulties.[18] As we have seen, the future of that country will profoundly affect peace and stability in

16. See Robert D. Blackwill, "An Action Agenda to Strengthen America's Alliances in the Asia-Pacific Region," in Blackwill and Dibb, eds., 130.

17. Between them, Japan and Australia have twenty-two submarines (the U.S. Pacific Fleet [PACFLT] has thirty nuclear attack submarines [SSNs]); sixty-six destroyers and frigates (PACFLT has fifty-three major surface combatants); and 109 P-3 maritime patrol aircraft (PACFLT has seventy-seven). International Institute for Strategic Studies, *The Military Balance 1999–2000* (London: Oxford Univ. Press for the IISS, 1999), 27–28, 183, 192.

18. Blackwill, 123.

Southeast Asia. Its potential to interfere with freedom of passage in the Malacca, Sunda, and Lombok Straits should be a matter of concern to defense planners in the United States as well as Australia.

Further, the United States needs to take *great care in developing multilateral security ideas,* such as "security communities." While the intention may be to prepare for peacekeeping and humanitarian relief operations, there is a growing unease that well-tried bilateral alliances will be eroded in the process. There is already a view in the region that America's key alliances are nowhere near as important to it as they were in the Cold War, that vital American national security interests are no longer clearly defined, that Washington involves itself unpredictably in some overseas episodes and not in others. In these circumstances, there is a risk that the alliance framework in the Asia-Pacific will begin to fray.

In light of the uncertain strategic future facing the region outlined in this article, the United States and its allies need to do more together to shape the regional security environment to their advantage. With better coordination they are well placed to do so—but they need to develop habits of franker strategic dialogue about contentious issues. The United States should listen more carefully to its allies and friends who are in the region and who well understand the nuances of strategic developments there.

ABRAM N. SHULSKY

An Assessment of the "Objective" Political Conditions That Pertain in the Asia-Pacific Region

MY PURPOSE HERE is to provide a *tour d'horizon* of the Asia-Pacific political landscape, emphasizing the features that affect the most significant political-military issues.[1] Before embarking on a country-by-country, or subregion-by-subregion discussion, however, a few words are in order about the Asia-Pacific region as a whole, considered within the context of the global international system.

We start from the fact that the current international system is characterized by "unipolarity"—or more provocatively, "U.S. hegemony." Although, strictly speaking, "hegemony" is closer to "leadership" than it is to "empire," it still is not a term one can use in polite society. Nevertheless, when Clinton administration officials spoke of the United States as the "indispensable nation," they were really expressing the same thought. Thinking in terms of leadership, we are reminded that U.S. hegemony does not—and cannot—rest on sheer power alone, however important American military, economic, and political power is in maintaining it. It must also rest on the U.S. role in promoting and underwriting a kind of "world order"—what President George Bush referred to in the early 1990s, in the context of the Gulf War, as the "new world order"—that other states will find congenial to their interests and supportive of their values. To the extent that other states feel this way, they have incentives to tolerate and even assist U.S. hegemony. If enough countries with enough power did not feel this way, they would have an incentive to form instead a "balancing" anti–United States coalition. Indeed, this is the result that realist

1. This analysis draws on the author's contributions to Zalmay Khalilzad et al., *The United States and Asia: Towards a New U.S. Strategy and Force Posture* (Santa Monica, Calif.: RAND, 2001).

theory would, in general, regard as the most likely.[2] So far, at least, it has not happened.

Let us digress for a moment to consider what this "new world order" might look like, taking Europe—with its liberal, democratic regimes and free-trading, market-based economies—as an illustration. In the recent military action concerning Kosovo, the European states, together with the United States, felt justified in intervening in the internal affairs of a sovereign European state in the interest of upholding certain standards of decency and human rights, and of enforcing the notion that certain types of tyrannical behavior were no longer permissible. Similarly, the diplomatic boycott of Austria (in protest against the presence in the government of the far-right Freedom Party) illustrates the belief that the domestic political affairs of a European country are not exclusively its own business, that the other European countries have the right to register, in a forceful manner, their opposition to a perceived threat to liberal democracy.

This groping of the European states toward a new order is bolstered by a convergence among European states with respect to ideology and culture. Mainly as a result of World War II, aggressive, belligerent nationalism has been discredited as an ideology; the opponents in that conflict have become reconciled, and Germany, the primary source of the war's horrors, has convincingly demonstrated its repudiation of its former ideology and accepted responsibility for its past actions. With the end of the Cold War, the cultural and historical unity of Europe could be reestablished. Thus, while U.S. power underlies these processes, and while its military power in particular was essential for them, they culminate in cultural and institutional phenomena.

The point of this digression is to highlight the ways in which the situation in the Asia-Pacific region is quite different from that in Europe. While U.S. military power plays an important role in maintaining stability in the Asia-Pacific, the "ideological" aspect of

2. One scholar, applying "neorealist theory," stated the matter this way: "I start with a very simple premise: states balance against hegemons, even those like the United States that seek to maintain their preeminence by employing strategies based more on benevolence than coercion." Christopher Layne, "The Unipolar Illusion: Why New Great Powers Will Rise," *International Security* 17, no. 4 (Spring 1993): 7. Similarly, "In a unipolar world, the hegemon's possession of actual or latent military capabilities will result in balancing regardless of its intentions" (page 14, note 34).

American power (what is often called "soft" power) exerts a weaker pull in Asia than in Europe. On the positive side, most countries of the region have come to terms, by and large, with the United States–led and promoted liberal trading order as the best means of achieving their top-priority goal, which is their own respective economic and technological development. Indeed, the Asian financial crisis of 1997 has weakened the appeal of the "Asian model" of development; American-style capitalism is about all there is left. In South Korea and Taiwan, authoritarianism is being replaced by democracy, thus belying the argument that the latter is a Western import unsuited to "Confucian" societies. Similarly, Indonesia, a predominantly Muslim nation, has embarked on a process of democratization, although one plagued by tremendous instability. Conversely, India, which has maintained a democratic system of government despite its poverty, is moving, albeit in fits and starts, away from its traditional Fabianism toward a free-market economy.

However, democracy and support for human rights are not as universally accepted as norms as they are in Europe. It remains the prevalent view in some countries that authoritarianism is necessary for political stability and economic success; all but one of the world's remaining communist regimes are in Asia. The international institutional framework of the region remains relatively undeveloped as compared to Europe, and there is less commonality and mutual influence on the cultural level. Nationalist sentiments, often fed by resentment concerning past injustices suffered at the hands of colonial powers, are stronger and were not discredited by the experience of World War II—except in Japan (and there not totally). Perhaps most significantly, the ability of the strongest and most successful democracy of the region—Japan—to serve as a model is weakened by that nation's cultural singularity and its inability to come fully to terms with the twentieth-century history of its relations with its neighbors.

Generally speaking, the Asia-Pacific region may be characterized by the following:

- Economic dynamism and emphasis on economic development
- Growing military strength, albeit at a moderate pace
- A continuing, and in some cases strengthening, sense of nationalism (in reaction to colonial experiences and in lieu of ideology)

- Weak regional security institutions
- Incomplete reconciliation of World War II enemies
- Contested boundaries (especially maritime boundaries and ownership of island groups).

The contrast with Europe could not be greater.

As in Europe, the United States plays a leading role in Asia, and its military presence is crucial for stability. The United States has been able to play a large role with a relatively small commitment of force. But for various reasons, this favorable situation may be coming to an end. In many countries the situation seems to be becoming more fluid; many countries have more resources than they had in the past; and may have greater incentives for transforming those resources into military power. Thus, it is not surprising that one analyst has termed the region "ripe for rivalry."[3] Below the surface, various countries are apparently building up their potential strength, and if—or more pessimistically, when—they enter the geopolitical arena as confident "actors," they may find themselves engaged in conflicts with their neighbors. Nevertheless, there are some positive indications as well, of which the primary one is that most governments in the region seem to understand that peace and stability are, if not absolutely necessary, at least highly preferable conditions for promoting their economic and technological development.

CHINA

A Rising Power?

The Chinese have been embarked for more than two decades on a remarkably successful program to increase their economic and technological level of development. Despite the recent downturn associated with the Asian financial crisis of 1997, and significant structural weakness in, for instance, the banking sector, China's economic success has been unprecedented for a country its size. As China's economy expands and its technological level increases, it will be able to build up its military forces, a project on which it is already engaged. While military modernization has generally taken a back seat to eco-

3. Aaron Friedberg, "Ripe for Rivalry: Prospects for Peace in a Multipolar Asia," *International Security* 18, no. 3 (Winter 1993/94): 5–33.

nomic modernization, percentage increases in military spending in the past several years have exceeded growth in GDP.

The importance of this modernization must be assessed in the light of China's strong sense of nationalism and its geopolitical ambitions, which could bring it into conflict with its neighbors and with the United States. While these are not the only determinants of Chinese national security policy, they distinguish China from countries that are more content with the international status quo and do not harbor major ambitions beyond the enhancement of their security and prosperity within the current international order.[4]

First and foremost among these distinctions is the fact that China claims territories that it does not currently control, most importantly Taiwan but also the South China Sea. Until the mid-1980s, both Chinese governments, if not all Chinese, agreed that Taiwan was a part of China. But whereas the old Kuomintang had been a fervent believer in "one China" (of which, of course, it hoped to regain possession some day), the indigenous Taiwanese, whose views counted for more as Taiwan democratized, are today much less attached to the cause of reunification. Furthermore, having achieved democracy in their own country, Taiwanese are understandably less willing to jeopardize it by recognizing Beijing's sovereignty over them. The election of Chen Shui-bian, of the traditionally independence-oriented Democratic Progressive Party, highlights the danger, from Beijing's point of view, that an indefinite delay[5] in recovering Taiwan could lead to a consolidation of the island's de facto independence in ways that would make eventual unification more difficult, if not impossible.[6]

4. For a thorough discussion of the determinants of Chinese national security behavior, see Zalmay M. Khalilzad, Abram N. Shulsky, Daniel L. Byman, Roger Cliff, David T. Orletsky, David Shlapak, and Ashley J. Tellis, *The United States and a Rising China: Strategic and Military Implications* (Santa Monica, Calif.: RAND, MR-1082-AF, 1999), chap. 2, on which this section draws heavily.

5. China's "White Paper" of February 2000 stated, for the first time in a formal government document, that an indefinite delay by Taiwan's leadership in entering unification negotiations could lead China to use force against the island. Previously, formal statements had always described unmistakable acts by Taiwan (such as declaring independence) or others (such as the "occupation" of Taiwan by foreign troops) as the triggers for a Chinese use of force.

6. This underlying political and social dynamic in Taiwan is probably more important than whether a given Taiwanese leader makes provocative or conciliatory statements, although events of the latter sort tend to dominate the discussion of the issue.

China's response to this situation has been bifurcated. On the one hand, China has sought to entice Taiwan by offering seemingly favorable terms for reunification (under the rubric of "one country, two systems");[7] on the other, it has engaged in saber rattling to warn Taiwan against pursuing an enhanced international standing.[8]

Despite China's relative moderation in terms of policy (as compared to the nationalisms of rising powers in the past, such as Germany from the 1860s to World War II), some observers have noted a rising tide of Chinese nationalist sentiment among some officials, particularly in the People's Liberation Army (PLA), as well as among certain segments of the public.[9] The sense that China has finally found the right formula for modernization and that it is not condemned to weakness, backwardness, and national humiliation has fed the idea that China can indeed act internationally like a great power.

7. A formula initially proposed by Deng Xiaoping in the late 1970s, when the People's Republic of China may have believed that the U.S. de-recognition of the Republic of China offered a favorable opportunity for reunification.

8. Similarly, China has been willing to use military force to assert its claims in the South China Sea. Until 1995, many believed that China would use force only against Vietnam, as it had done in 1974 and 1988. However, in February 1995 China stationed armed vessels at, and built permanent structures on, an islet (Mischief Reef) claimed by, and relatively close to, the Philippines. In general, however, China has attempted to defer questions of sovereignty with respect to the South China Sea while promoting the idea of bilateral "joint development" of its resources. Such a stance preserves China's claims while deferring any decisive confrontation, presumably until such time as China is in a better position to vindicate its claims against those of rivals.

9. In a review of a Chinese book that claimed that China would "become the leading power in the world by the third decade of the next century," John W. Garver argues that "this book is representative of recent nationalist tracts designed to fan and profit from patriotic ardour in contemporary China" and notes that "there is a profitable market in China today for books that contain forceful and proud patriotic rhetoric—they are popular with the reading public." Garver then expresses his "hunch" that the book "does reflect the thinking of at least some Chinese officials." Interestingly, the book was banned shortly after it appeared. "China as Number One," *China Journal*, no. 39 (January 1998): 61–66.

More broadly, China regards the current international system, in which the United States as the only "superpower" often acts in a "hegemonic" manner, as inherently unsatisfactory. At the beginning of the 1990s, many Chinese observers predicted that the predominance of the United States would erode, allowing for the rapid emergence of a "multipolar" international system. This view of the fragility of the U.S. position was subsequently refuted by events, but Chinese policy retains the ostensible objective of replacing the current "unipolar" system with a multipolar one in which China will be one of several more or less equal "great powers."[10]

For the present, China has to live with the presence of strong American military forces in the region. Of particular importance for China are the 1998 United States–Japan defense guidelines, which envisage a Japanese role in crises in the areas "surrounding" Japan. The Chinese suspect that this provision would apply in case of a Taiwan crisis. In general, the various steps Japan has been taking to increase its defense capability and role in the world (such as participation in United Nations peacekeeping operations) are worrisome for China. Indeed, China's support for multipolarity would seem to be counterproductive in this regard, since its logical result would be a Japan that was forced to look after its own security interests in a more independent manner than at present. For the Chinese, the key question is whether the United States–Japan alliance constrains Tokyo's political-military capabilities or merely provides Japan with military protection to augment its indigenous strength and political cover to assert its own interests.

10. Thus, in 1996–97, when Sino-U.S. relations were strained, the Chinese succeeded in incorporating statements in favor of "multipolarity" into the communiqués of President Jiang Zemin's summit meetings with Presidents Boris Yeltsin of Russia and Jacques Chirac of France. "Joint Statement by the People's Republic of China and the Russian Federation on the Multipolarization of the World and the Establishment of A New International Order," *Beijing Review*, May 12–18, 1997, and Beijing Xinhua in English, 0905 GMT May 16, 1997, published as "'Text' of Beijing-Paris Declaration" in FBIS-CHI-97-095. The question of the real—as opposed to rhetorical—significance of "multipolarity" for current Chinese national security policy is discussed in Khalilzad et al. (1999), 10–11.

Internal Strains

The preceding discussion assumes the continued existence of the current Chinese regime. However, recent actions by the Chinese leadership—most notably, the large effort expended in the (still incomplete) suppression of the Falun Gong movement—suggests that the leaders themselves are uncertain of their control and nervous about the future. The Falun Gong may be particularly frightening to the government not only because it managed (in April 1999) to organize stealthily a huge demonstration in Beijing but because it fits into a pattern of mystic/religious rebellion in Chinese history. Unlike the attempt to form a democratic political party, the Falun Gong (despite the fact that its leader now lives in exile in New York) cannot be dismissed as a vehicle of alien Western ideas.

Fundamentally, the opening to the world (in terms of travel, permission for Chinese students to study abroad, information flows, etc.) and the introduction of private enterprise have undercut many of the controls typical of a totalitarian state.[11] In addition, there seems to be a wave of unrest throughout China, mainly involving workers and pensioners whose failing state-owned employers have neglected to pay their salaries and pensions, as well as peasants protesting the imposition of illegal taxes and fees by local officials. The pervasive corruption of official China, a phenomenon that the government has started to attack, albeit incompletely,[12] also helps to discredit the government in the eyes of the average person. The Chinese leadership seems to be concerned that entrance into the World Trade Organization (WTO) will accelerate the reform of state-owned enterprises, a process likely to lead to more unemployment as redundant workers are laid off, and that it could worsen the financial binds in which some enterprises find themselves, leading to more failures to pay salaries and pensions.

11. Jiang Zemin's reported announcement that the Communist Party will set up cells in private enterprises indicates the importance of this problem, although one can wonder whether his proposal constitutes much of a solution.

12. For example, a provincial deputy governor was recently executed for accepting bribes in the amount of approximately $650,000. At about the same time, however, the leadership went out of its way to protect the wife of a Politburo member implicated in a massive smuggling operation, involving many billions of dollars, in the southern port city of Xiamen.

Thus, it appears that the Chinese regime may be entering rough seas. What will happen cannot be predicted: the stresses on the regime are great, and yet the Chinese leadership has proved resourceful at improvising and managing incidents (such as Tienanmen Square) that seemed much more dangerous than does the current situation.

NORTHEAST ASIA

Korea

South Korea, along with Taiwan, is a democratic success story; it appears to have navigated the passage from more or less free-market authoritarianism to democracy. Its leader, former dissident Kim Dae Jung, has shown a remarkable degree of self-confidence in undertaking to engage North Korea without putting himself or his country at political or military risk.

At the same time, North Korea's disastrous economic condition has prompted its leadership to seek to extract the maximum amount of aid possible from the outside world, using its nuclear and ballistic missile programs as leverage.[13] It also obliged North Korea to relax its self-imposed isolation; its leader, Kim Jong Il, hosted a "summit" meeting with the South Korean president in June 2000. Aside from the possibility of facilitating visits to family members across the border, the main result could be an attempt to boost South Korean investment in North Korea. The goal, from the South's point of view, would be to improve the North's economic situation while gradually inducing it to give up its totalitarianism; in this way, the South hopes that unification, when it eventually comes, will be less expensive and less disruptive than if it occurred earlier as a result of a North Korean collapse.

This development opens the possibility of some sort of reconciliation between North and South Korea, one in which South Korea (and other countries) would bolster the North Korean regime by means of direct investment and continuing donations of food and other vital commodities. If so, the result on the political level might be a lessening of tensions, which in turn might induce South Korea to

13. See Nicholas Eberstadt, *The End of North Korea* (Washington, D.C.: AEI Press, 1999), 98–102, for a discussion of North Korea's "aid-maximizing" strategy.

reduce its attention to military preparations against an invasion. On the other hand, North Korea's main leverage for extracting such concessions is precisely the threat posed by its seeming willingness to act irrationally, coupled with its nuclear and ballistic-missile capabilities; therefore, it is likely that North Korea will have to make periodic threats and cause occasional crises in order to continue to extract "tribute" from South Korea and other countries interested in the stability of Northeast Asia.

The alternative possibility is the total collapse of the North Korean regime as a result of the continued hardships suffered by its population. While some observers believe that this is a near certainty, it is not clear how it could come about unless the country's economic difficulties led to a split within the leadership.[14]

Japan

North Korea's nuclear and missile programs, like China's military modernization, confronts Japan with new security challenges. The key question is whether Japan will be as willing to rely as totally on U.S. protection against these new threats as it was with respect to the Soviet threat. In addition, the mere passage of time, as well as generational change, may weaken the antimilitarism and pacifism that has characterized Japanese public opinion since World War II. Even now, politicians and others occasionally give voice to a latent sense that the tutelage the United States has exercised over Japan should come to an end. Thus, Japan may be facing major strategic decisions in the next decade.

Japan has begun to build up its military strength in response to these challenges, and it has been willing to be more active militarily. The key question in this regard is whether these manifestations are proceeding within the context of the United States–Japan alliance or as steps toward breaking free of it. So far, it would appear that the former is the case.

At present, maintaining the U.S. alliance and acting only within its context would seem to be the far wiser course for Japan. Other than the

14. As de Tocqueville noted, the most dangerous time for a tyranny is when it is attempting to reform. The North Korean leadership has steadfastly resisted this particular temptation.

cultural factors noted above, it is hard to see any reason why Japan would wish to change a situation in which its national security needs have been met so cheaply. However, the Japanese have to be concerned either that the United States may wish to reduce its commitment to the region or that Japan will face a threat against which the United States may not be a reliable ally. For example, the Japanese may believe that while a unified Korea could pose a security challenge to them, the United States would be unwilling to take sides.

Given Japan's economic strength, it could, at some sacrifice, become a major military power, capable of defending itself and its sea lines of communication. This course of action would have grave drawbacks. Not only would the economic sacrifice be great, but the increased military expenditures would come on top of the large outlays Japan faces because of its aging population and shrinking labor force. Assuming that Japan is unable to cope with the cultural shock of accepting large numbers of immigrants, it will face the necessity of conserving on manpower in both the economy and its military; this should be possible but would require widespread economic reform (such as streamlining of its inefficient agricultural and commercial sectors) and large investments in labor-saving technology, for both the economy and the military.

Alternative strategies for Japan could be to seek a modus vivendi with China as the upcoming power in the region[15] or to seek to balance Chinese power by acquiring other allies in the region. The most obvious of these would be India, Vietnam, and, depending on circumstances, perhaps a unified Korea (although Korea might prefer to remain equidistant from both China and Japan, or even to "tilt" toward China). In the

15. This would not be inconsistent with modern Japanese history, which has at least twice seen Japan make alliances with predominant powers (Britain in the pre–World War I period and the United States after World War II) the bulwark of its security policy. (On the other hand, both Britain and the United States are distant liberal democracies, while China is a neighboring authoritarian state.) However, given residual ill will toward Japan in China, Japan might find it difficult to reach a satisfactory modus vivendi with China; presumably, it could only come about as a result of a traumatic event that led the Japanese to lose all faith in U.S. support. On the other hand, China would have a great deal to gain from such an arrangement (e.g., relatively unfettered access to Japan's world-class technological capability), and a pragmatic leadership might be willing to suppress its own, and its population's, anti-Japanese sentiments in order to facilitate it.

absence of a strong tie to the United States, Tokyo would consider the Indian navy an important factor helping to secure (or threatening) Japan's vital sea lines of communication to the Persian Gulf.

SOUTHEAST ASIA

The Southeast Asian subregion contains countries with widely varying characteristics, from the suspicious Marxism-Leninism of Vietnam and the brutal authoritarianism of Burma (Myanmar) to the nascent but unstable democracy of Indonesia and the hesitant reformism of the Philippines. A number of themes affect all or most of these countries.

Recovery from the Asian Financial Crisis

The Asian economic crisis came as an unexpected shock to a region that, on the whole, had been enjoying unprecedented prosperity and growth. While the economic effects of the crisis have been, by and large, overcome, and economic growth has returned to much of the area, the crisis had important political effects that are still being felt.

The most dramatic of these was the Indonesian political crisis that led to the collapse of the Suharto regime and the seating, through a generally democratic process, of Abdurrahman Wahid, a moderate Islamic figure, as president. The crisis also led, indirectly, to the secession of East Timor and the igniting and inflaming of separatist movements elsewhere in the country. The future of Indonesia remains a big question mark hanging over the area; if it can extend and consolidate its turn toward democracy and resolve separatist grievances without breaking apart, Indonesia could become the major force in Southeast Asia. On the other hand, if it fails politically, the humanitarian crisis that ensues could be massive. Australia in particular would be drawn into the problem in a big way, although the entire world community would have to become involved, as it did in East Timor.

Secondary effects of the crisis were to discredit the so-called "Asian model" of economic development—which came to be referred to more pejoratively as "crony capitalism"—and to strengthen reformist tendencies. In some cases, such as Indonesia, revulsion against the corruption inherent in the discredited "crony capitalism" has been an impetus for democratization as well. An exception to this

trend is Malaysia, whose prime minister, Dr. Mahathir Mohamad, responded to the crisis with virulent attacks on "globalized" capitalism and some of its more prominent and colorful figures, such as George Soros (of Soros Management Fund LLC). Perhaps not coincidentally, Mahathir is also engaged in a vicious political battle against his erstwhile deputy to retain his power. At present, Mahathir appears to be winning, but the religious and ethnic forces just below the surface suggest that his time may be running out.

Southeast Asian Attitudes toward China

China's potential power is obviously the major geopolitical fact that the Southeast Asian nations see as they consider their situations over the longer term. In addition to the basic question of how to live in the shadow of a potential "eight-hundred-pound gorilla," there are two specific issues related to China that many of them must deal with: territorial disputes (primarily in the South China Sea) and the status of ethnic Chinese populations.

In geopolitical terms, the Southeast Asia nations have tended to be wary of China, but generally speaking, any significant threat is seen as still far off in the future. Nevertheless, some countries are already aware of the threat and allowing it to influence their policy: Singapore, for example, despite its close economic relations with China, has tended to favor retaining American influence in the region for this reason and has offered access to its territory to U.S. military forces.

In the past, this geopolitical concern with China has been counteracted, in some cases, by a more immediate concern with Vietnam. For example, Thailand cooperated closely with China to keep alive the Khmer Rouge resistance to Vietnam's invasion of Cambodia and to the Hun Sen regime that Vietnam put into power there. With the entrance of Vietnam into the Association of Southeast Asian Nations (ASEAN) in 1995, however, this motive had tended to become less powerful.

China claims the entire South China Sea, thus bringing it into potential conflict not only with Vietnam and the Philippines (with whom it has contested specific islands and reefs) but Malaysia and Brunei as well. China may also claim Indonesia's important Natuna

offshore gas field. Chinese occupation of the Philippine-claimed Mischief Reef in 1995 dispelled the notion that China would use force to vindicate its claims only against Vietnam, and the Philippines was able to rally ASEAN on the issue. In addition, this experience has led the Philippines to be more interested in military relations with the United States, leading to the conclusion of a "visiting forces agreement" (VFA) last year. The South China Sea issue is a complicated one, since the non-Chinese claims are in conflict with each other as well as with those of China, leading to minor flare-ups, such as those between Vietnam and the Philippines in 1999.[16]

Finally, some Southeast Asian nations remain suspicious of China due to its past attempts to use the ethnic Chinese populations in Southeast Asia to pursue its own ends. For example, China supported predominantly ethnic Chinese communist guerrilla forces in Malaysia and Myanmar. Similarly, Indonesia's perception of China has been soured by suspicions concerning Chinese involvement in the Indonesian Communist Party's coup attempt in 1965.

In any case, the relation between the indigenous populations and ethnic Chinese is a major domestic political issue in several Southeast Asian countries, at times resulting in horrendous anti-Chinese pogroms. While China has tended not to involve itself in the fate of the ethnic Chinese populations in Southeast Asia,[17] this factor introduces a certain wariness in attitudes toward China.

Vietnam

In this context, Vietnam deserves special mention. Historically, Vietnam has seen China as the major threat to its security, and with the expulsion of the United States from Vietnam in 1975, this historic pattern recurred with a vengeance, culminating in the Chinese invasion of 1979. At the moment, both sides have worked to improve rela-

16. "The [Philippine] Department of National Defense had said Magsaysay Reef was previously unoccupied and that the new [Vietnamese] structures there threaten the country's national security, although the Chinese facilities on Mischief Reef pose the immediate, graver threat." *Manila Business World* (Internet version), March 17, 1999, reprinted in FBIS-EAS-1999-0317, as "SRV Assures Manila No PRC-Like Structures on Spratly Reef."

17. Except when other stakes are at issue, as in the disputes leading up to the Chinese invasion of Vietnam in 1979.

tions and have resolved their dispute concerning the land border. Remaining are the maritime disputes, concerning the division of the Gulf of Tonkin and conflicting claims in the South China Sea; the latter led China to use force in 1974 and 1988, over the Paracel Islands and the Spratlys, respectively.[18]

In the long run, however, it is hard to believe that Sino-Vietnamese relations will remain untroubled. The Vietnamese interest in rapprochement with the United States (highlighted by President Clinton's visit in late 2000), despite the leadership's concerns that any type of opening or reform will endanger its domestic political control, seems to attest to an abiding suspicion of China.

As noted, one of the fallouts of the financial crisis was the inflaming of separatist movements in Indonesia. Recently, Islamic separatist groups in the southern Philippines have also become more active, perhaps invigorated by the Indonesian example. In addition, financial difficulties raise the possibility of renewed tension between indigenous peoples and the ethnic Chinese community, which is politically vulnerable in many countries because of its conspicuous economic success.

SOUTH ASIA

This region was forcefully brought to the forefront of U.S. and world attention by the Indian and Pakistani nuclear tests of 1998. President Clinton's visit to India made clear that even though some of the nonproliferation-related sanctions[19] remain in place, India, at least, would not be treated as a "rogue nation."[20]

18. The forces the Chinese ousted from the Paracel Islands in 1974 were South Vietnamese; presumably the Chinese wished to secure those islands before they were inherited by North Vietnam.

19. Various economic sanctions were initially imposed, and both countries were pressured to adhere to the Comprehensive Test Ban Treaty (CTBT) and other arms control limitations.

20. Even in the case of Pakistan, which received less friendly treatment from the president, the key issues were the military overthrow of democracy and support for (or at least indifference toward) terrorism, rather than the nuclear tests.

India's Long-Term Prospects

One of the key uncertainties is whether India will be able to emulate China's sustained economic dynamism, thereby laying the basis for an expanded political-military role. Compared to China, India has many advantages that could enable it to become the region's next economic success story: it has a vigorous and sophisticated high-tech sector, supported by high-quality academic institutions; it enjoys a functioning legal system that can protect property rights; and it will not face a population aging problem in the next two decades. Although India faces a large task in privatizing various state-owned industries,[21] it has the legal infrastructure in place for doing this. Perhaps most importantly, India's political system, unlike China's, is not threatened by increasing links to the rest of the world and increasing prosperity; if anything, these forces could be expected to strengthen India's democracy.

On the other hand, India possesses serious disadvantages compared to China: its basic educational system is inferior, and illiteracy rates are higher; it has not overcome the effects of the caste system; it is subject to greater internal strains and secessionist tendencies among its great variety of ethnic, religious, and social groups;[22] and most importantly, its leadership has tended to be less pragmatic with respect to economic policy—it is hard to imagine an Indian leader echoing Deng Xiaoping's credo that "it does not matter whether the cat is black or white as long as it catches mice." India's democratic system, while an advantage in the long run, does present some immediate obstacles to many reform moves that would make sense economically. Thus, whether or not the Indian reform process will culminate in a dynamic economy enjoying sustained East Asian–style growth rates remains to be seen.

In any case, it seems likely that India will adopt, at the least, a wary posture toward China, but it is unclear whether this will degenerate into an outright political-military competition between the two

21. Most notably, electricity production and distribution.

22. A recent study suggests that Indian society's "fragmented nature" has been and is a "powerful factor in shaping the modern Indian military," and not necessarily for the better; indeed, the comparison is made to the military forces of the Austro-Hungarian Empire. Stephen Peter Rosen, *Societies and Military Power: India and Its Armies* (Ithaca, N.Y.: Cornell Univ. Press, 1996), 255–56.

countries. India will most likely continue to develop its nuclear deterrent capability vis-à-vis China. While the Chinese will not like this, their options for opposing it would appear to be quite limited. In any case, the Indian goal would probably be merely to establish a credible deterrent against any Chinese attempt to use nuclear blackmail. This in itself may not threaten any vital Chinese interests, so that the overall Chinese reaction to the ongoing Indian nuclear and ballistic missile development programs may be muted. Indeed, recently, as China has focused on Taiwan, it has moved to improve relations with India.

Aside from India's development of a nuclear deterrent posture primarily targeted against China, there are several other possible bones of contention between the two powers:

- The ongoing border issue, put on the back burner in 1993
- Political-military rivalry in Southeast Asia (especially Myanmar) and the adjacent maritime areas
- Chinese attitudes toward Indian "hegemony" in South Asia
- Evolution of the situation in Tibet.

The border issue has been quiescent since September 1993, when the "peace and tranquility" agreement was signed, according to which both sides agreed to respect the "line of actual control" (LAC) pending a final settlement.[23] While the LAC has not been converted into a formal international border (and the Chinese seem to be balking at demarcating it authoritatively), it seems unlikely that this issue would flare up again unless one of the countries decided to raise it for other reasons.

One of the more likely possible causes of political-military rivalry would be continued Chinese pursuit of a significant presence in Burma (Myanmar).[24] Neighboring states have reacted to this

23. J. Mohan Malik, "China-India Relations in the Post-Soviet Era: The Continuing Rivalry," *China Quarterly*, no. 142 (June 1995): 317.

24. According to one observer, Burma "has given obeisance to China in exchange for its independence and minimal intervention in its internal affairs. However, arms transfers and economic ties have dramatically increased China's influence within Burma. In fact, a few years of trade and military aid have turned the nonaligned state of Burma into China's client state—an objective that the three decades of Beijing-supported insurgency and the Burmese Communist Party's armed struggle failed to achieve." Ibid., 340–41.

development in several ways. Despite the unsavory character of its regime, Burma has been tentatively approved for membership in ASEAN. In India, a so-called "Look East" policy was adopted by which India sought to enhance its ties with the Southeast Asian nations.[25] One could envisage a sustained Sino-Indian rivalry for influence in Southeast Asia, with Burma and Thailand leaning toward China, and Vietnam toward India. According to the *Far Eastern Economic Review,* "Already there are signs that an informal security-cooperation chain is forming between India, Japan and Vietnam—all of whom share a common strategic concern in China."[26]

Over the years, China has often sought to help South Asian states, most notably by supporting Pakistan's nuclear program, resist what it has called India's attempt to gain "regional hegemony."[27] China's refusal to "accept Sikkim as part of India," one Indian observer claims, "is still regarded by the general [Indian] public as an act of unfriendliness," especially as contrasted with India's support for China's claims to Tibet and Taiwan.[28] In general, however, China has been rather

25. Sino-Indian rivalry in Southeast Asian is not a new phenomenon. In particular, India's friendship with Vietnam has been of significance in this regard. Interestingly, India's foreign minister (now prime minister) Atal Behari Vajpayee was visiting Beijing when the Chinese attacked Vietnam on February 17, 1979; this visit marked a thaw in the two countries' relations, which had been strained since their 1962 border war. China's ability to achieve tactical surprise (despite the fact that it had been broadcasting its intention to "punish" Vietnam) may have depended in part on the fact that Vietnam did not "[expect] China to spoil this new thaw by mounting an attack on India's friend Vietnam while Vajpayee was still in China. In fact, Hanoi was so confident that on February 16 Premier Pham Van Dong, along with Chief of Staff Van Tien Dun and other senior leaders, had left for Phnom Penh on a four-day visit." Nayan Chanda, *Brother Enemy: The War after the War* (New York: Harcourt Brace Jovanovich, 1986), 356.

26. Nayan Chanda, "After the Bomb," *Far Eastern Economic Review*, April 13, 2000, 20.

27. For example, in the wake of the Indian nuclear tests of 1998, an article in the Chinese military newspaper claimed that India's strategy sought "to seek hegemony in South Asia, contain China, control the Indian Ocean and strive to become a military power in the contemporary world." Liu Yang and Guo Feng, "What Is the Intention of Wantonly Engaging in Military Ventures—India's Military Development Should Be Watched Out For," *Jiefangjun Bao* [Liberation Army Daily], May 19, 1998, 5, in FBIS-CHI-98-141, May 21, 1998.

28. Mira Sinha Bhattacharjea and C. V. Ranganathan, "India and China—I," *Hindu*, May 8–10, 2000, 12, reprinted in FBIS-CHI-2000-0508.

careful in its South Asian activities not to push too far; it has not, so far at least, been willing actively to encourage India's neighbors to resist its influence.

Finally, there is Tibet. Reversing earlier British policy, Prime Minister Jawaharlal Nehru acquiesced in the Chinese occupation of Tibet and recognized it as an integral part of China. Following the Tibetan revolt of 1959, India provided a refuge for the Dalai Lama but has prevented him from engaging in high-profile political activities in India. India now faces the question of whether to provide similar refuge to the seventeenth Karmapa, the teenage religious figure who escaped from Tibet in February 2000. However this question is decided, China is likely to regard India's attitude toward Tibet as slightly troubling; the mere presence of major Tibetan religious figures on Indian territory provides some support for the forces of Tibetan resistance to Chinese rule.

Regardless of how the Sino-Indian relationship develops, India appears likely to pursue a more active political-military role in the world. We have already noted the Indian interest in forging closer relations with the nations of Southeast Asia. More speculatively, India and Japan could see a common interest in balancing Chinese influence in the region and in protecting sea lanes of communications from the Middle East; one focus of Japanese-Indian cooperation has been antipiracy training for the Japanese coast guard and the Indian navy.[29] While at present India probably sees Japan's close ties to the United States as an obstacle to cooperation, that could change if either Japan becomes a more independent actor or U.S.-Indian relations improve. Similarly, India and Iran share a common concern with respect to Pakistan's influence in Afghanistan and its support for the Taliban.

Indo-Pakistani Relations

In the near term, of course, India's main national security concern is its ongoing conflict with Pakistan, especially as it is manifested in Pakistani support for the Islamic insurgency in Kashmir. The nuclear tests of 1998 appear to have convinced Pakistan that a nuclear standoff exists between India and Pakistan, thus making the situation safer

29. Chanda, "After the Bomb," 20.

for lower-level conflict. An example of such lesser conflict was the occupation in the spring of 1999 by Pakistani-supported forces of the mountainous Kargil region of the Indian-Pakistani border; ultimately the forces were driven out by a fairly large Indian military effort.

For Pakistan, this type of low-level harassment of India represents its best chance of gaining control of Kashmir. As long as the indigenous insurgency is not fully suppressed, Pakistan can support it at relatively low cost to itself, while imposing a larger cost on India. While it may seem a long shot, Pakistan may hope that the victory over the Soviets in Afghanistan can be duplicated in Kashmir. In any case, the struggle in Kashmir provides a rare point of unity for Pakistan, and it employs Islam-inspired guerrilla warriors who might otherwise cause trouble in Pakistan itself, a nation in which Islamic fundamentalism is gaining in political influence.

In the past, India has adopted a defensive stance toward this sort of Pakistani harassment. A repetition of the Kargil incident could, however, lead India to consider whether a more forceful response might be advisable, to solve the problem once and for all. Some observers have argued that we may be seeing the beginnings of a major change in opinion in New Delhi, from a relatively relaxed posture toward Pakistan toward one that actively questions whether the stability of Pakistan is in India's interest.

This view could be bolstered by a sense that Pakistan may be on its last legs in any case. The current military government may be Pakistan's last chance to get its economic house in order; while some positive steps were taken initially,[30] the pace of reform seems to have slowed. If the military government fails, separatist and Islamic forces are in the wings. A failing Pakistan might both invite and compel India to react more strongly to the next Kargil episode.

CONCLUSION

The Asia-Pacific region thus presents a very contradictory picture. On the one hand, the region— its generally quiet security situation underwritten by a relatively small U.S. military presence—has

30. Such as cracking down on the looting of the nation's bank by well-connected members of the elite.

enjoyed more than two decades of unprecedentedly rapid economic growth. The "formula" for participating in this economic growth is evident, and it involves not only domestic economic reform but a willingness to participate in the fundamentally liberal international economic order. Even India has climbed on the bandwagon, and one may ask whether Vietnam and—who knows?—North Korea can be far behind.

At the same time, unlike in Europe, many basic national ambitions have not yet been attained or relinquished, and nationalist and ethnic passions lurk just under the surface. If we turn to realist theory, we would focus on the gradual emergence of one potential great power, China, with another, India, perhaps following along ten to twenty years behind. Historically, the odds of managing the emergence of new great powers peacefully have not been good. The interplay of these contending forces will determine the fate of the Asia-Pacific region, and of much of the world.

LEIF ROSENBERGER

Understanding Changes in Asia's Economic Landscape

THE U.S. STRATEGIC TRADITION IN Asia has long historical roots. On the positive side, this strategic tradition provides policy continuity; it prevents an overly reactive American foreign policy. In more recent times, this strategic tradition manifested itself in the economic realm by tending to create a U.S. image of an "Asian economic miracle." For almost thirty years, American policy makers took Asia's strong economic growth for granted. The U.S. strategic tradition toward Asia finally created a dangerous mind-set that was difficult to adjust. The mind-set was: "Don't confuse me with facts that the Asian economic miracle is over. My mind's made up. It's a success story. The bad economic data is just a tactical blip." In other words, negative economic indicators that would have triggered panic about Latin American economies were dangerously brushed aside when it came to Asian economies in early 1997.

Thankfully, this myopic U.S. mind-set about Asia's economic miracle is giving way to a more objective view of the strengths and weaknesses of Asian economies. As a result of the region's economic crisis, U.S. economic policy in Asia has arguably been pushed into a state of transition. To some extent, American economic policy in Asia still resists change; however, to some extent it is starting to reflect the new economic realities that are appearing in Asia and that we will explore in this paper.

Of course, determining the difference between a strategic change and a tactical blip is not always easy. In fact, Colin Gray—in explaining why strategy is difficult—frequently says that to tackle the fog and friction of war is akin to exploring unknown terrain.[1] Similarly, Clausewitz argues that the key judgment that a statesman and commander must make is the kind of war he is fighting, not mistaking it

1. See Colin Gray, "Why Strategy Is Difficult," *Joint Forces Quarterly* (Summer 1999): 6–12.

for something alien to its nature.[2] In short, making the strategic call in war is no easy task. Making that call is equally difficult when analyzing Asian economies.

One way to help us tackle "the fog and friction" of Asian economics is to arm ourselves with sound economic theory. In this regard, it is important to keep in mind that all successful economic strategies must have a theoretical underpinning. While this paper will not dwell on economic theory, it is important to understand the theoretical contribution that David Ricardo has given us.[3] Many years ago, Ricardo explained through the principle of comparative advantage why it benefited two countries to engage in free trade even if one country had an absolute advantage in product specialization. Economists refer to Ricardo's model as a "positive-sum game," in that both sides gain economically from trade and enjoy what former U.S. secretary of treasury Lawrence Summers has referred to as "shared prosperity." Why is Ricardo's model relevant in Asia?

THE ASIAN TIGERS

For a number of years after World War II, the four Asian tigers—Hong Kong, Singapore, South Korea, and Taiwan—ignored the Ricardian model and tried inward-looking economic strategies. They generally substituted local production for imports. Their collective national economic performance was dismal. But for almost the last three decades of the millennium, the Asian tigers opened up their economies to freer trade and foreign investment.[4] Their growth was so spectacular that the World Bank called the economic performance of the Asian tigers an "economic miracle."[5] As a result, the tigers strengthened their economic security. The World Bank attributed their impressive performance to an economic strategy that basically embraced free trade and free movement of capital.

2. See Carl von Clausewitz, *On War,* ed. and trans. Michael Howard and Peter Paret (Princeton, N.J.: Princeton Univ. Press, 1976), 88.

3. David Ricardo, *Principles of Political Economy and Taxation* (London: John Murray, 1821).

4. See Ezra F. Vogel: *The Four Little Dragons: Spread of Industrialization in East Asia* (Cambridge, Mass.: Harvard Univ. Press, 1991).

5. World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford Univ. Press, 1993).

Of course, economic security seemed almost a given for many of the East Asian countries for almost three decades. No other region of the world even came close to their growth performance. East Asia grew three times faster than Latin America and twenty-five times faster than sub-Saharan Africa. How could a group of East Asian countries that were so radically different in so many ways develop an economic strategy that produced for all of them such extraordinary economic performance for so long?

At the core, the old rules of thumb for economic security were simple. Most East Asian economies generally had relatively open, export-oriented economies, characterized by vigorous trade and investment ties with the United States, Japan, and Europe. Secondly, they enjoyed high rates of national saving, as well as aggressive investment in physical and human capital. Thirdly, they generally pursued stable macroeconomic policies conducive to investment and commercial activity. Lastly, they possessed cultural factors that valued education and a strong work ethic.[6] To satisfy demand, Asian export industries combined an influx of cheap labor with large quantities of capital (through domestic savings and foreign investment). The quality of Asia's economic institutions and its stable but flexible political, social, and security surroundings helped shape this growth.

Unfortunately, the Asian economic crisis of 1997 and 1998 shattered the East Asian economic success story. It was a nightmare for regional policy makers; it rudely destroyed any sense of economic and financial security. The Asian economic crisis triggered a sharp fall in the economic fortunes of crisis-hit Asian states in the second half of 1997 and throughout 1998. Gross domestic product (GDP) for 1998 declined dramatically in Indonesia (-13.7 percent), Thailand (-9.4 percent), Malaysia (-6.7 percent), and South Korea (-5.8 percent).

Why did the economic strategy that had been so successful for East Asian states in the past fail so miserably in 1997 and 1998? What is driving the current bounce-back? Is it durable? What are the challenges these economies face? Can Japan be an engine of economic growth? Is China a source of economic strength or weakness for the region? How do the dramatic new events on the Korean Peninsula

6. See Leif Rosenberger and Mark Harstad, *Asia Pacific Economic Update* (Camp H. M. Smith, Ha.: U.S. Pacific Command, January 2000), 4.

impact on the economic component of comprehensive security in the region? The rest of this paper will address these critical questions.

Asian policy makers take some comfort from the fact that most regional economies are presently enjoying recoveries. But this current period of growth will not by itself ease their anxiety. To reduce their fears, Asian economic strategists need a better understanding of what shattered their economic and financial security in the past, and of how to strengthen and sustain economic and financial security in the future. They also need to grasp the idea that the old economic rules of thumb fail to generate durable economic and financial security in the new global economy. Nightmares of another Asian economic crisis will continue to haunt Asian leaders until they develop coherent new strategies and implement a new generation of reforms. Why did the old approaches fail to generate more durable economic and financial security for many of the Asian states? To answer this question, it might be helpful to examine the common flaws in the East Asian economic model that ultimately produced such dramatic economic and financial insecurity in 1997 and 1998.

During the best of times, most East Asian economic strategists believed that a rock-steady currency was the fundamental foundation of their sense of economic and financial security. For over a decade, they generally held their currencies stable against a basket of currencies dominated by the U.S. dollar. Currency stability inspired confidence among traders and foreign investors. Economic relations with countries that maintained stable currencies consequently appeared relatively risk free. For much of the decade from 1985 to 1995, Japanese manufacturers in particular saw Southeast Asia as an attractive locus for production, without the disincentives to export that they felt at home from a strong yen. Southeast Asian currencies, virtually pegged to a weak U.S. dollar, gave exports by the four Asian tigers a competitive shot in the arm.

In the boom years of 1994 and 1995, the tigers' weak currencies attracted huge capital inflows, much of it Japanese money. But despite these capital inflows, their governments, anxious to maintain price advantages for their exports, generally resisted pressure to let their currencies appreciate against the dollar. The result was an unhealthy surge of domestic liquidity. The combination of high national savings and large capital inflows produced huge pools of financial capital,

which businessmen used to drive economic growth. Add cheap labor to the mix, and it was little wonder that this economic formula helped the manufacturing exports of these Asian economies grow by leaps and bounds.

The flip side of weak currencies of these Asian economies (which were making their exports so attractive, and were soon to be hit by crisis) was a strong yen, which was undermining the export competitiveness of Japan. In 1995, the United States and Japan agreed that a stronger dollar and a weaker yen served the national interests of both countries. Between 1995 and 1996 the U.S. dollar rose 40 percent against the yen. Since the currencies of the pre-crisis Asian economies were generally pegged (in a de facto sense) to the rising U.S. dollar, the prices of their exports became overvalued and lost their competitiveness in 1996 and 1997. In January 1994, China had devalued its currency by 50 percent against the U.S. dollar. This gave China the potential to underprice its manufactured goods radically, compared to those of other Asian economies. This new export price advantage (plus the new export capacity that China was bringing on stream) hurt the exports of Asian economies in 1996.

As a result, Southeast Asian exports began to stumble in 1996. For instance, the contrast between the growth of Thailand's merchandise exports in 1995 (25 percent) and its export growth in 1996 (0 percent) was startling. This zero growth in 1996 pushed the Thai current account—which measures trade in goods and services—into a huge deficit of 8 percent of GDP. Given these trade difficulties, Wall Street and other financial capitals perceived the currencies of the Asian tigers as overvalued. Investors began to conclude that that the situation was unsustainable, and incentives to attack the currencies grew.

Why were the crisis-hit Asian economies not more concerned about the high current-account deficits? Their leaders conceded that large current-account deficits could be a bad thing but made the logical economic argument that if they mostly reflected higher investment, they would eventually increase an economy's competitiveness and therefore its ability to repay the debt. In any event, they reasoned that a current-account deficit would certainly be more sustainable than a deficit driven by consumer spending. The strategists of the Asian economies in crisis were quick to contrast

their investment-oriented current-account deficits with Mexico's consumption-driven one. In fact, in the four years leading to 1994, four-fifths of the increase in Mexico's current-account deficit had reflected lower savings and increased consumption. In contrast, the widening of most of these Asian economies' deficits reflected higher investment, not consumption.

On the surface, all this made perfectly good sense. But the underlying assumption here was that most of this "investment" spending was intelligent and potentially profitable. Unfortunately, nothing could have been farther from the truth. As will be seen, much of the so-called "investment" had been foolishly spent on redundant manufacturing capacity and a heavily oversaturated property market. In short, the result was oversupply rather than improvement in the quality and competitiveness of the exports of crisis-hit Asian economies. In addition, the leaders of these Asian economies generally dismissed Thailand's zero export growth as primarily "cyclical," reflecting potentially reversible factors. Such factors were weak demand for their exports in Japan and Europe, and the rising U.S. dollar; they hoped that both would somehow turn around in 1997. Such wishful thinking was no substitute for a coherent strategy, and it would haunt Asian policy makers in the months ahead. In some ways, the wishful thinking was understandable. After all, the countries of Southeast Asia had enjoyed phenomenal economic performance for over a decade. This success tended to blind the leaders of crisis-hit Asian economies to the shortcomings of their export-led economic models.

Meanwhile, the economic models of the crisis economies made it increasingly difficult for them to adjust to the new reality of a rising current-account deficit. If these economies had participated in a floating exchange-rate system, the large current-account deficit would have caused the Thai baht to depreciate gradually. A weaker currency would have increased the demand for Thai exports and decreased consumption of imports. That in turn would have lowered the current-account deficit and made it possible for Thai officials to balance their payments without the need for huge (and potentially destabilizing) capital inflows. But even when the financial crisis became impossible to miss, the leaders of crisis-hit Asian economies were handicapped by rigid mind-sets holding that stable currencies

had been the centerpiece of their economic success in the previous ten years. Conditioned by years of rote learning and bound in their mental straightjackets, it was impossible for the leaders of these economies to adapt and imagine economic success in a floating exchange-rate system.

THAI ECONOMIC INSECURITY

The fixation of crisis-hit Asian economies with stable currencies was particularly apparent in Thailand.[7] In a country with more than its share of political and economic turmoil, the currency peg seemed to many the only stable thing left in Thailand. Consequently, the Thai government refused to let the baht depreciate against a 40 percent rise in the U.S. dollar against the yen from 1995 to 1996, despite a rising current-account deficit. Instead, Bangkok raised interest rates, to keep the baht pegged to the rising dollar. High Thai interest rates hurt many manufacturers. The rates artificially strengthened the baht, which in turn made the exports of crisis Asian economies less competitive. The high interest rates also caused Thai consumers to cut their spending, which in turn shrank aggregate demand at home. The punishingly high interest rates prevented Thai businessmen from borrowing money at home in baht; that prompted increasing numbers of borrowers to go overseas for cheap capital. Thai financial firms wrongly assumed it was perfectly safe to take out foreign loans for their business clients.

The result was a flood of cheap foreign money, which allowed banks to make foreign currency loans in U.S. dollars at interest rates far lower than for loans in baht.From 1995 to 1996, foreign borrowing by Thai financial firms almost doubled. By 1996 Thai companies and individuals had piled up huge U.S. dollar debts; in fact, by 1996 they owed more than seventy billion dollars, half the country's GDP. This huge capital inflow covered the current-account deficit in the Thai balance of payments. But was the problem solved? Not exactly. On the surface, all was well—but not all capital inflows are the same.

Had Thailand been receiving a lot of foreign direct investment, this relatively "permanent" money would have contributed to

7. See Leif Rosenberger, "The Currency Crisis in SE Asia," *CSEA* [Contemporary Southeast Asia] (December 1997).

financial stability. Instead, Thailand was using a dangerously high percentage of short-term capital, or "hot money," to cover its current-account deficit. Had financial stability been a Thai goal, such "hot money" flows certainly would not have been a dependable way to achieve it. In response to the overseas borrowing, Moody's, the investment-rating agency, downgraded Thailand's short-term debt rating. Moody's correctly argued that this overreliance on volatile, footloose money made Thailand increasingly vulnerable to a Mexican-style financial shock. The International Monetary Fund told Bangkok much the same thing. Bangkok ignored the warnings.

Before long, the Thai economy became addicted to cheap foreign currency. The huge capital inflows left banks awash in cash, in a huge pool of excessive liquidity. Thai bankers asked themselves, "What should be done with all this money?" They responded by lending too much to politically well-connected businessmen for harebrained schemes, overinvesting in redundant manufacturing plants. The private sector, used to growing simply by investing, gave little or no thought to the actual demand for this new capacity; Thailand simply kept building more factories. The country became burdened with a surplus of virtually idle steel mills and petrochemical plants.

Worst of all, Thai residential-property companies kept sinking money into land and property, more than it could sell. As a result of this reckless speculation, a huge property glut developed; one unoccupied high-rise condominium after another dotted the landscape. (It would take twelve years to sell the accrued inventory of residential property. In Bangkok alone, 250,000 houses and apartments are lying idle.) As one observer put it, "The Thais love to invest in bricks and mortar." Construction proceeded at a furious pace, under the blind assumption that falling asset values would somehow go up, despite ample evidence to the contrary. In the words of one Thai banker, "I have often been impressed by my fellow Thai investors' insistence on their right to lose money."

On July 2, 1997, after spending billions of dollars trying in vain to maintain the baht at around twenty-five to the U.S. dollar (where the baht had stood for more than a decade), Bangkok announced a "managed float" of its currency, thus abandoning its peg to the dollar. Unfortunately, Bangkok offered the markets no coherent economic strategy to accompany it. By early September, the baht had gone into

a nosedive, dropping to a threshold of thirty-eight to the U.S. dollar, or a fall of 32 percent against the dollar since July. With no credible way to plug the hole in its balance of payments or to finance more rescue schemes, Bangkok was forced to look for outside assistance. In early August 1997, the Thai government accepted IMF conditions for a $17.2 billion financial package. In short, the Thai financial crisis is a nightmare Bangkok will not forget.

AUSTRALIA

In contrast to Asia's crisis-hit economies, Australia got it right. Australian leaders had carefully watched Japan's economic and financial mistakes and had taken corrective actions in the 1990s to reform their economy. As a result, Australia became a textbook case study in how to reduce economic vulnerabilities and strengthen economic security. Australia passed through the Asian financial crisis in 1997 and 1998 relatively unscathed.

In fact, Australia has not only weathered the storm but enjoyed remarkable prosperity. This resilience is particularly noteworthy in that 60 percent of Australia's exports go to Asia. Furthermore, about two-thirds of its exports consist of energy or commodities whose prices have collapsed. In the midst of the Asian economic downturn (1998), Australia was one of the world's fastest-growing economies, with GDP growth at 4.9 percent. Similarly, unemployment fell to 7.5 percent in 1998 (a new eight-year low), a time when jobless numbers were rising in many other states.

Why the success story in the midst of the Asian crisis and downturn? First, the Australians stayed the course with economic reforms begun in the mid-1980s; their floating exchange rate discouraged domestic companies from borrowing heavily in foreign currencies. Second, they reduced tariffs and privatized public enterprises. Third, the Reserve Bank of Australia correctly adopted a positive inflation target, which offset collapsing commodity prices and kept domestic demand high. Fourth, reforms of the telecommunications, aviation, the financial sector, and the electricity and gas industries reduced prices and boosted productivity and competitiveness.

To sum up, Canberra formed sound and nimble macroeconomic and international economic policies. Its Reserve Bank let the Australian dollar gradually float downward, making exports more

competitive in markets outside Asia, thereby boosting the local currency earning of commodity exporters. Finally, despite the weaker currency, interest rates were also trimmed to below 5 percent, which allowed the banking and business communities to flourish.

ASIA'S BOUNCE-BACK

During the first half of 1999, the crisis-hit states suddenly bounced back. Financial markets went up, currencies strengthened, Japan's over-the-counter stock doubled in value, and stocks in the rest of Asia rose on average 50 percent. In the Asian economies, real GDP growth shot up between January and July of 1999. Similarly, current account balances turned positive, after years of deficits. In addition, Asian stock markets skyrocketed 80 percent between October 1, 1998, and October 1, 1999. Why? Stocks now looked attractive because of low interest rates and the prospect of an economic rally in the region. An influx of both domestic and foreign money allowed investors to profit from these signs of recovery without worrying too much about balance sheets or managerial weaknesses among the region's companies.

Signs of economic life have caused foreign investors to pour money back into Asia. Foreign investors have been busy buying up local businesses. Overseas companies made acquisitions of $10.7 billion in the region in the second quarter of 1999, up from $4.05 billion in the previous three months. There was also an amazing $73 billion turnaround of capital flows. In 1998 Asia saw a $43 billion net capital outflow but in 1999 a $30 billion net inflow.

In our search for more economic security, we need to look first at the nature of the Asian bounce-back in the first half of 1999. Two key questions come to mind: What factors drove this six-month recovery, and are these drivers sustainable? For starters, a booming U.S. economy sucked in Asian products. That helped Asian industrial production return to positive growth in late 1998. Second, the bounce-back resulted from a short-lived Keynesian surge in government deficit spending and looser monetary policy. On the financial side, Asian markets also appeared to benefit during the first half of the 1999 from low world interest rates and a Wall Street that looked comparatively expensive. As a result, capital flowed to those Asians markets, which looked oversold.

Today, on the surface at least, the Asian economic picture seems much brighter than in the period before the meltdown. Asian countries' balances of payments are robust compared to the dismal picture back in 1997. There is no major capital flight from the countries that were then in crisis. The leveraged hedge funds, which caused so much damage back in 1997, are still largely absent from the fray. No regional contagion effect is at work. Thus the risk of a chain of regional devaluations is not great, unless China decides to devalue. The U.S. dollar is currently weak vis-à-vis the yen. The depreciation of Asian currencies against the dollar has given crisis-stricken Asian economies a significant export edge against a strong yen and the Euro.

Does this mean South Korea and the other crisis-hit states are out of the woods? Not exactly. In one sense, these stricken states have improved their economic security; certainly, one way South Korea can protect itself from economic insecurity is to have a great deal of it to begin with. But economic realities in Asia are not always what they seem on the surface. Moving to the next plateau of economic security invariably involves sacrificing some current prosperity in order to reduce financial vulnerability to crises in the future and sustain long-term economic prosperity.

Unfortunately, most of the Asian states have chosen to maximize short-term prosperity at the expense of long-term economic security. For instance, too many crisis-hit states used an unsustainable fiscal stimulus to drive economic growth. While a Keynesian stimulus triggered a bounce-back from the recession of 1998 and decisively contributed to soaring Asian financial markets in the first six months of 1999, the region's economies continue to rest on shaky foundations. For instance, Thailand has run huge fiscal deficits that make it more vulnerable to financial crises in the future; that moves Thailand to a lower plateau of economic security. More importantly, as we will see, fundamental economic reform remains elusive. The missing economic reforms are needed for two reasons: to prevent the next Asian economic crisis, and to lay the foundation for long-term economic growth in Asia.

The bounce-back in the first half of 1999 was something of a false dawn. While the "Asian economic crisis" is over and imminent danger has passed, Asia is not without its worries. In July 1999, a new

volatility hit Asia's economy, one that was especially apparent in the stock markets. In that month, after six months of atypically smooth upward progress, Asian stock markets resumed their traditional volatility: the meteoric highs of the first six months vanished, and Asian stocks tumbled, most to well below their first-half peaks. Except for Japan, currencies throughout Asia fell as well. In late September 1999 the Thai baht reached a thirteen-month low. The Singapore dollar, the Philippine peso, and the South Korean won also declined.

Thus, any illusions that the Asian bounce-back in the first half of 1999 was the beginning of another Asian economic miracle were quickly dashed. What had gone wrong? Why was the bounce-back not more sustainable? In particular, why did the stock markets and currencies weaken again? In short, how can Asia strengthen its economic and financial security?

From a macroeconomic perspective, the main reason for the new volatility was a lack of private demand. The fiscal stimulus—designed to boost demand—applied during the first half of 1999 was a necessary stopgap. Consumers and businessmen had arguably lost the ability, or at least the confidence, to spend money. But the fiscal stimulus was ultimately no substitute for strong private-sector demand at home. Meanwhile, Asian companies and consumers are in no position to pick up the shortfall in demand for very long. The combination of excess industrial capacity and a high level of corporate indebtedness means that demand for investment spending is likely to remain low. Moreover, the weak Asian banks are in no position to make new loans to corporations. Even the fortunate banks (those being refinanced through government programs) are cleaning their balance sheets rather than making new loans.

In addition, Asian countries that had no budget deficits prior to the crisis have since become profligate spenders. The five crisis-hit countries are expected to rack up budget deficits, amounting to 5 to 6 percent of GDP. For financial stability, a good rule of thumb says that the budget-deficit-to-GDP ratio should be no larger than the 3 percent limit set in Maastricht for entry into the European Union. Thailand's economic insecurity is particularly troubling; by the close of 1999 Thailand had run up a huge and unsustainable public-sector deficit of 8.5 percent of GDP.

International factors have also weakened Asian stocks and currencies. Most Asian currencies have been affected by higher U.S. interest rates; after the U.S. interest-rate hikes over the summer of 1999, Asian currencies began to look less attractive. The rising price of oil—at thirty-three dollars a barrel in March 2000—put increasing pressure on the U.S. Federal Reserve Board to raise interest rates to counter inflation. Higher U.S. interest rates would force Asian states to follow suit, thus slowing down their recoveries and worsening their economic security.

CHINA VERSUS INDIA

In contrast, China escaped much of the financial turmoil that Thailand experienced. Still, in recent years China's economic strategies had many similarities with those of the Asian tigers. China is another example of a country that pursued globalization, albeit in a less complete way than the Asian tigers. Like them, China successfully followed an export-led growth strategy.[8] In just two decades, China reduced poverty and raised living standards by opening its doors to the global economy. Back in 1975, 570 million Chinese had been living on less than a dollar a day. Just over two decades later, China showed spectacular results: by 1998 China had reduced the number of people living in poverty to 220 million.

In contrast to China's open-door policy, India pursued an inward-looking economic strategy that kept its doors closed to globalization.[9] It thoroughly discouraged international trade and the free flow of capital. Such protectionism was an abysmal failure: four decades ago, when it began this protectionist strategy, India had about four hundred million people living on less than a dollar a day; today it has about the same number. In short, a globalizing China strengthened its economic security, and a protectionist India weakened its economic security.

But what if India could somehow accelerate the pace of its economic growth? What if it grew at 10 percent a year for the next fifteen

8. William H. Overholt, *The Rise of China: How Economic Reform Is Creating a New Superpower* (New York: W. W. Norton, 1993).

9. See T. N. Srinivasan and Suresh Tendulkar, *India in the World Economy* (Washington, D.C.: Institute for International Economics, 2000).

years instead of its current 6 percent a year? Its standard of living would increase fivefold over two decades. Imagine what would happen if India attracted more inward foreign direct investment (FDI). In 1998 India's stock of FDI was only thirteen billion dollars, or 3.3 percent of GDP. This is a tiny fraction (a twentieth) of China's accumulated FDI in 1998, which was $261 billion, or 25.5 percent of GDP. India, therefore, remains a relatively inward, closed economy of limited importance in a global marketplace. The upside is that the new Indian government, armed with new political clout, finally has a fighting chance to open up its economy, implement economic reforms, reduce poverty, and raise living standards throughout India.

CHINA'S ECONOMIC INSECURITY

Unfortunately, China rested on its laurels.[10] After doing the "easy" economic reforms of opening its doors to the world, China failed to implement its microeconomic reforms fast enough to replace its communist industrial and banking institutions with free-market institutions. As a result, China is struggling to climb to the next plateau of economic security.

Sometimes Beijing clings to the old system. Technically insolvent state-owned banks destroy wealth by transferring the savings of Chinese workers to sick and inefficient state-owned enterprises (SOEs) that make too many goods nobody wants. Sometimes Beijing closes down SOEs, but at no time does it systematically create the essential foundation (i.e., market laws and institutions) necessary if the droves of unemployed Chinese workers are to shift from the old communist economy to a new entrepreneurial capitalist regime.

Therefore, when Premier Zhu Rongji visited the United States in April of 1999, he left behind economic insecurity, rising social unrest, and political uncertainty. In this difficult setting, Zhu tried to keep his eye on the ball. His objective was to strengthen Chinese economic and financial security; in particular, he sought U.S. political support for Chinese entry into the World Trade Organization (WTO). Zhu hoped that Chinese entry into WTO would help jump-start China's faltering economy. In particular, he hoped that WTO entry will

10. See "A Survey of China: Now Comes the Hard Part," *Economist*, April 8, 2000.

revive waning foreign investor interest, foster free-market competition, and pave the way for fundamental economic reforms in China.

Several developments, however, complicated the outlook. The Cox report (linking China to unauthorized disclosure of U.S. nuclear secrets), President Clinton's rejection of Zhu Rongji's unprecedented concessions for WTO entry, and the mistaken American bombing of the Chinese embassy in Yugoslavia dealt heavy blows to Zhu's efforts to get Washington's approval for WTO entry. In a heroic last-minute breakthrough in November 1999, negotiators obtained that approval on China's entry; however, the WTO story is really only a subplot of a much bigger story about China's economy.

On the surface, China's economy looked impressive in late 2000. Its economic growth was accelerating. China's GDP grew at an annualized rate of 8.2 percent in the third quarter of 2000.[11] This figure was up from 7.1 percent in 1999. Seven consecutive years of economic slowdown was expected to end in 2000, with GDP growth forecast to average 7.5 percent for that year. A number of factors drove this accelerating economic growth in 2000. These included rising exports, government pump priming, stronger growth in industrial output, and a successful antismuggling campaign. Asia's recovery and robust import demand from the United States and Europe fuelled spectacular export growth. In the first quarter of 2000, exports rose 39 percent year-on-year to fifty-two billion dollars, the highest quarterly increase since 1995. To maintain high aggregate demand, the government is starting its third consecutive year of using a significant fiscal stimulus to drive the economy. Finance Minister Xiang Huaicheng said state-funded pump priming would remain a major engine of GDP growth in 2000. Beijing would continue to use bond issues and banks to finance major infrastructure spending. The "Go West" strategy to develop the impoverished western part of the country is important in this regard. Finally, the 2000 budget raised total government spending by 12 percent, to $111.1 billion.

The government's spending binge helped improve the output in industrial production in early 2000. Industrial output rose by 10.7 percent in the first three months of 2000. That represented a steady acceleration from 10.4 percent in the first two months. Improving

11. Richard McGregor, "Chinese Economy Maintains Above-Target Growth Rate," *Financial Times,* 17 October 2000, 18.

prospects for permanent normal trade relations (PNTR) with the United States and China's WTO entry contributed to positive economic trends, in both contracted FDI for the future and FDI spent in the recent past. Contracted FDI jumped by 27 percent in the first quarter of 2000. Although FDI in China has been falling for the past two years, the tide appears to be turning. In 1999 the lingering effects of the Asian economic crisis, concerns over an overvalued exchange rate, and souring relations with Taiwan all contributed to an 11 percent fall in actual FDI, to $40.4 billion. In the first quarter of 2000, actual FDI fell just 2.7 percent from a year earlier, one of the smallest quarterly drops in the last two years. The 2.7 percent figure was dramatically less than the 12.1 percent decline recorded in the first two months of 2000. The difference was due to a 10.3 percent leap in FDI in March 2000.

Unfortunately, not all is well with China's economic security.[12] Private consumption remains weak. The hundred million unemployed workers, including eighteen million unemployed urban workers, do not spend much money. Millions of other Chinese are worried about losing their jobs. Even workers who are confident about keeping their jobs face futures in which housing, education, and health care will cost more. As a result, Chinese households continue to save rather than spend. Between 1992 and 1995, Chinese consumers spent seventy-eight cents and saved twenty-two cents out of each dollar they earned; between 1996 and 1999, Chinese consumers spent only sixty cents and saved forty cents out of each dollar they earned.

Another source of bad news has been price deflation.[13] The reluctance of the Chinese consumer to spend is one of the main reasons behind the price deflation that began in October 1998. It has led to price wars, depressed the profit margins of already hard-pressed SOEs, and hit incomes among a rural population of some nine hundred million. The waning fortunes of state enterprises have rendered them less able to service debts, applying further pressure on a state banking system already swamped by bad loans. The other main causes of deflation are overcapacity and oversupply; these bottlenecks will be difficult to rectify, because of political resistance—especially at city and county levels—to factory closures.

12. See Nicholas Lardy, *China's Unfinished Economic Revolution* (Washington, D.C.: Brookings Institution, 1998).

13. See A. Gary Shilling, *Deflation* (Short Hills, N.J.: Lakeview, 1998), 152–59.

Beijing also must carefully weigh how to address its growing fiscal problems. In the past it has tried to use a combination of taxation and government-controlled capital markets to finance much of its public spending requirements. But this approach is proving increasingly ineffective. Total government debt at the end of 1998 was almost five times the level of five years before. As a result, China has recently experienced difficulties in servicing its public debt.

Worse still, China faces an alarming list of future spending demands. For instance, China must recapitalize an insolvent state banking system, which is collapsing because of bad debts (estimated at 25 percent of total assets), which in turn are due to unprofitable SOEs, which continue to suffer from overproduction. Second, China must stand up a welfare/unemployment system to accommodate rural and urban unemployment. Third, China must create a solid pension system for an aging population (ninety million people over sixty-five by 2003). Fourth, Beijing must sharply increase infrastructure spending if it is to develop the impoverished western part of the country.

Beijing now realizes that these looming spending demands require a new approach. While the public financial shortfall cited above undoubtedly reflects insufficient tax revenue, Beijing would be ill advised to try to fill the gap simply with higher taxes. That would only worsen the macroeconomic problem of insufficient consumer demand in the economy. To reduce the burden on the consumer and minimize price deflation, Beijing must create a liquid bond market that would facilitate the issuance of long-term government debt. Beijing should opt for long-term interest rates determined in a Western-style bond market (rather than by the Chinese central bank). In other words, Beijing should carefully weigh the financial advantages of surrendering government control of capital markets and of pursuing true capital market reform, based on supply and demand for long-term government debt.

Chinese access to an open Internet is another key to Chinese prosperity. Jiang Zemin, China's president, can take some pride from Beijing's "Silicon Valley," filled with high-tech "whiz kids." This catalyst has propelled an explosion of Internet users in China. In the past two years, subscribers have increased fourteenfold, to 8.9 million. By the end of the year, China will be the world's biggest market for

telecommunications equipment. Global information technology promises to unleash the full economic potential of China. The leadership in Beijing, however, needs to assess carefully how to address the Internet in a Chinese social and political context. Total Internet freedom maximizes China's long-term economic potential, but too much Internet freedom could be destabilizing and threaten Beijing's political authority. Perhaps the best approach for Chinese leaders is to strike a balance: to continue to embrace the Internet but steer it in an orderly way to optimize a combination of economic growth and social stability.

China stands at the brink. It can strengthen its economic security, or it can crash and burn. What broad economic course of action is appropriate for China? The following are some economic options that China needs to consider carefully.

The first option would be to strengthen regulatory defenses. But can China remain safely behind its self-imposed regulatory barriers? Just as the bricks of the Great Wall were unable to protect the Middle Kingdom from the hordes, so regulatory and legal walls will not completely save China from global capitalism. Thus, the answer to its economic woes must not be mere reliance on such regulatory defenses.

The second option is neo-Maoism. Should China go back to the days of Mao? Should it revert to past economic and political practices, reversing free-market reforms and moving back to a more command-oriented economic model? Frankly, there are leftist forces in China that think this would be a good idea—but not many.

The third option is to opt for a "total" free market. In fact, many observers in the West say China must opt for this kind of "shock therapy." These analysts do not seem to understand the following reality: were it not for the fact that the renminbi is not yet convertible on capital account, China's banking system would have melted down during the Asian economic crisis. It would arguably melt down today as well. This course of action would cause China to go the way of Indonesia and Thailand, amid a mountain of bad debts and overleverage, the results of decades of politically driven credit policies. Thus, the "instant free market conquers all" analysts—who call for full, immediate, unfettered liberalization of the financial markets in China — are ill advised.

The best economic option for China is measured economic reform to strengthen economic security. This option involves increasing and broadening reforms from within. China needs to improve its internal economic and financial structure; it also needs to become more able to deal with free-market forces. At the same time, China needs to maintain at least some defenses until its financial institutions are strong enough to withstand the relentless forces of global capitalism. In short, China needs to develop commercial and investment bankers, trained and ready for financial battle.

THE RISE AND FALL OF JAPAN

Japan, like China, used an export-led strategy to drive high levels of economic growth. During the 1980s nothing could stop the Japanese juggernaut. Year after year Japan's economic performance consistently outpaced its rivals. During the second half of the 1980s, real economic growth averaged almost 5 percent annually, and unemployment was low. It seemed like the best of times.

Then the Japanese economy hit a wall. In April 1990 the Nikkei stock market collapsed, with share prices nosediving 40 percent. Land prices, while slower to respond, also plummeted. It was the worst financial crisis in Japan's postwar history. This 1990 financial crash is instructive for two reasons. First, it is worth remembering that the Asian financial crisis of 1997 and 1998 is nothing new for Asia. Second, Japan is still struggling to dig itself out of the financial hole it dug almost a decade ago. In fact, the 1990s were the "lost decade" for recession-weary Japan. Like China, Japan had rested on its laurels. It had pursued the easy economic reforms but dragged its feet on the tougher structural and financial ones. As a result, Japan also is frustrated in its efforts to climb to the next plateau of economic security.[14]

The origins of this boom and bust tragedy can be traced back to a flip-flop in Japanese monetary policy.[15] It all began back in the mid-1980s, when the yen surged against the U.S. dollar and threatened the competitiveness of Japanese exporters. In response, the Bank of Japan (BOJ) radically eased monetary policy. It lowered

14. See Robert C. Hsu, *The MIT Encyclopedia of the Japanese Economy* (Cambridge, Mass.: MIT Press, 1999).

15. See Thomas F. Cargill et al., *The Political Economy of Japanese Monetary Policy* (Cambridge, Mass.: MIT Press, 1997).

short-term interest rates to 2.5 percent, and cheap credit flooded the economy. Japanese investors overborrowed, which in turn drove growth of the money supply. Japanese stocks and property markets (the so-called "bubble economy") boomed uncontrollably. Too much cheap credit as well as signs of growing labor shortages raised inflationary fears at the BOJ. To dampen inflation, the bank decided to tighten monetary policy, thereby puncturing the inflated bubble. As part of its credit squeeze, the BOJ raised short-term interest rates five times between May 1989 and August 1990. This crusade to force speculation out of the stock and land markets was monetary overkill; it precipitated the financial crisis of April 1990.

Since Japan's "bubble" economy burst in 1990, Japanese performance has been grim: GDP growth has been virtually flat. The corporate sector has suffered rising bankruptcies and record losses. The once-dominant industrial sector is struggling. Social strains are emerging as the unemployment rate breaks a postwar record of 4.8 percent, higher even than the United States. A sense of malaise and economic decline has been reflected in suicide, of which the rate in 1999 was 35 percent higher than that of the year before. In spite of a series of multitrillion-yen fiscal packages, Japan is once again stuck in a recession. The world's second-largest economy continues to experience economic and financial insecurity; its goal of durable growth remains elusive. The Japanese economy started 1999 with a growth spurt; higher government spending helped the GDP rise in the first quarter by 1.5 percent over the previous three months. But in the second half of the year, as public spending petered out and the strong yen damped exports, the momentum disappeared. GDP fell by 1 percent in the third quarter and turned down again in the fourth.

In the fall of 1998 signs that the Japanese economy was starting to recover had triggered huge capital inflows into Japan. The avalanche of capital inflow had dramatically increased the demand for the yen, which in turn had caused the yen to soar. In this period the yen-dollar rate saw the biggest one-day swing since the collapse of the Bretton Woods exchange-rate regime in the early 1970s: over two days (October 7 and 8) the yen rose more than 13 percent. By mid-September 1999 the value of the yen—which had been on average ¥131 to the dollar in 1998—had risen to a dangerously high and noncompetitive ¥105 to the dollar. The rising yen made the soaring stock market look

increasingly suspect. A strong and overvalued yen threatened to throttle exports and choke off Japan's fragile recovery. Exports continued to drop in 1999, with a dismal 4.8 percent year-on-year drop in Japanese export volumes. Net exports contributed negatively to Japanese GDP in the first half of 1999.

Worse still, the concomitant depreciation of the U.S. dollar against the yen carried inflationary risks that could put pressure on the U.S. Federal Reserve to raise interest rates, which in turn would prompt Asian states to follow suit, slowing down the recovery of the crisis-hit states. Consequently, Japan's new success (stock market rally and growth spurt) drove the yen to dangerously high levels, which in turn triggered renewed failure (lower exports and a choke-off to recovery). After six months of tentative recovery, Japan's economy contracted by 1 percent during the third quarter of 1999. Letting the yen remain strong now produces a domestic economic disaster that Japan cannot afford. This negative trend can be countered, but only if there is a change in monetary policy, a change that the Bank of Japan has been determined to resist.

In the first quarter of 2000, the Japanese economy grew at its fastest rate in four years. GDP expanded at a quarterly rate of 2.4 percent—the highest figure since the first quarter of 1996. If sustained, this growth spurt would equate to an annualized rate of 10 percent. It reflects a number of factors. Exports grew 5.4 percent, in response to strong demand in Southeast Asia, and private capital spending rose 4.2 percent, after a two-year downward slump. Finally, it was time to fill up bare warehouses.

Unfortunately, two factors threaten the durability of this growth spurt: weak consumer confidence and huge government debt. With unemployment at a record 4.9 percent, consumers are afraid they will lose their jobs. Personal incomes are also falling. Japanese consumers are still burdened with the highest housing costs, electricity rates, and telephone charges in the world. The result? Consumers are saving for bad times, not spending. As for the huge government debt, when Tokyo's spending packages end, it could resort, because of depressed consumer spending, to yet another fiscal-stimulus package. However, that would do little to ease the crushing burden of the country's debt. Japan's central budget debt surged 13 percent in the twelve-month period ending in March 2000. Its gross public debt is

130 percent of GDP (150 percent, if off-budget obligations are considered). The Maastricht rule of thumb for financial stability is that public debt should be under 60 percent of GDP. Moody's has warned Japan that its 130 percent figure is financially unstable and has threatened to downgrade its government debt. On June 29, 2000, Fitch, the international rating agency, actually downgraded Japan's long-term currency rating, citing concerns over rising public debt and failure to achieve sustained recovery.

The Japanese are also embroiled in a new interest-rate battle. The growth spurt triggered a dispute between the Bank of Japan on one side, and most politicians and businessmen on the other. On June 14, the BOJ's governor announced that the central bank might end the loose interest rate policy that has been in place for the last two years. Why does the BOJ want to raise rates? The bank believes Japan is now in a durable recovery and can absorb higher rates and still maintain positive growth. The governor says the present superloose monetary policy creates a moral hazard, by encouraging reckless public spending and allowing companies to avoid restructuring. In short, higher rates are needed for financial discipline.

The Japanese election on June 25 threw a shadow over monetary policy making. The fact that the election left in power such free-spending men as Prime Minister Yoshiro Mori fuelled suspicions that the BOJ would tighten sooner rather than later. If Mori keeps priming the fiscal pump, the Bank of Japan could counter with a tighter monetary policy. The BOJ's frustration with both reckless overspending by the administration and corporate intransigence to restructuring is altogether understandable, even praiseworthy. But the threats of the overzealous BOJ to spike-up rates is based on flawed assumptions. Its medicine would kill the patient, because the current recovery is fragile. GDP statistics for the first half of 2000 are misleading; they take no account of the leap year in the first quarter. Careful accounting reduces growth from 2.4 percent to about 1.3 percent—hardly robust. Remember that a GDP spurt also took place in the first quarter of 1999, only to peter out. Japan fell back into recession in the second half of 1999. Thus much more evidence of a durable recovery would be needed to justify tightening monetary policy at this time.

Further, Japanese companies cannot handle higher rates now. Although companies may find it easier to avoid restructuring with zero interest rates, their balance sheets are currently very fragile. Increasing rates would threaten to push even more businesses into bankruptcy, hardly the outcome the Japanese economy needs. Third, higher interest rates—by hurting financially stretched firms—would bring yet more trouble for the banks. In addition, the banking sector, which holds large chunks of bonds, would see bond prices plummet, thus threatening their solvency. Fourth, while the central bank should raise interest rates if necessary to fight off inflation, there is no inflation in the economy. Quite the contrary—price deflation is running at 2 percent a year; the BOJ is fighting the wrong war. Higher interest rates would also lead to a stronger yen and would likely choke off the fragile recovery. Already, the yen is worth a third more against the dollar than it was in the summer of 1998. A stronger yen, by pushing down import prices, intensifies deflationary forces.

Forcing politicians to stop spending or coercing companies to restructure are tasks outside the mandate of the central bank. Worse still, the BOJ does not understand the continuing chronic weaknesses of the Japanese economy. These include years of sluggish growth, causing massive spare capacity, an overvalued exchange rate, falling prices, an excess of private saving, and a fiscal policy that cannot be stretched any farther.

The real enemy is a shortfall in demand. The way out of the box is therefore to boost demand. Raising interest rates will only weaken demand; before rates can be raised responsibly, there must be evidence of a sustained recovery in economic growth, and prices must stop falling. To boost demand, the BOJ must aggressively expand the money supply—to weaken the yen, restore confidence, relieve the credit crunch, and stimulate the economy. Toward this end, BOJ needs to print a lot more yen and inject this cash into the marketplace. The best way to do this would be to buy up ten-year Japanese government bonds, which are still flooding the market. The BOJ also should introduce an inflation target between zero and 2 percent. This psychological signal would reassure markets that Tokyo is truly committed to attacking the real macroeconomic enemy, which is deflation. In short, the BOJ should turn on the printing presses, create modest inflationary expectations, and encourage Japanese

consumers to spend their yen before their money loses value. Japan's macroeconomy improved in the first quarter of 2000.

An optimist might argue that the current economic problems are a result of the corporate restructuring now taking place in Japan. Job insecurity and wage cuts have made the public wary of spending, depressing the economy. The prospect of restructuring also largely explains the 40 percent rise in the Nikkei index over the past twelve months. In fact, corporate restructuring has hardly begun. Many Japanese companies are still trying to restructure painlessly, without making workers redundant. There has been much talk of changes to the corporate culture, and there have been a few high-profile examples, but the reality lags behind the rhetoric. Japan's economic weakness is instead a product of a chronic lack of confidence, an absence of corporate dynamism, and years of economic mismanagement.

Tokyo's enthusiasm for reform, such as it was, largely disappeared with the signs of economic growth last year. Although Tokyo had some success in financial sector reform and has introduced measures to aid corporate restructuring, it could have done far more. Expansionary fiscal policy has remained Tokyo's main policy tool. This averted meltdown but did not create the conditions for recovery. Therefore, a key political issue in 2000 is how to sustain Japanese growth. The Mori government (like the Obuchi government that preceded it) keeps hoping that more and more government spending will somehow keep the economy afloat. This Keynesian addiction is now financially destabilizing. The Japanese government has been content to delay difficult measures in the hope that the economy would get better by itself. Moody's warning and recent signs of another recession are merely the latest reminders that dithering is a deeply damaging way of conducting economic policy, no substitute for a responsible economic strategy.

THE CHANGING FACE OF KOREA

Finally, the dramatic Korean summit in June 2000 raises the possibility of stronger economic security in North Korea and therefore an overall improvement in the comprehensive security on the volatile peninsula. For starters, North Korea's economic strategy and performance have changed, and the Democratic People's Republic has ended its economic isolation; it has opened its door to foreign direct

investment. Also, the DPRK economy grew 6.2 percent in 1999, its first expansion since 1989. That growth accelerated in 2000, with state budget items higher in all areas, including military spending. Fourth, the historic North-South summit in June 2000 should lead to a plus-up in FDI and DPRK exports, which in turn would boost growth. Finally, U.S.–North Korean relations are also improving. Vice Marshal Jo Myong-rok—Kim Jong-Il's right- hand man and the top DPRK military officer—met with President Clinton in Washington, D.C., in October 2000, and Secretary of State Madeleine Albright subsequently visited Pyongyang. All of this bodes well for North Korea's economic security.

But a victory parade is a long way off. As summit euphoria fades, the Republic of Korea and the DPRK are exploring ways to attract enough foreign investment to rebuild the North's economy. The allure of the DPRK to foreign investors depends upon a business climate that is a mixed bag. The biggest obstacle to foreign investment is the poor state of the North's infrastructure. It needs a total overhaul: power shortages are frequent, and the crumbling transport network slows shipping and delivery schedules. This increases the risk that industrial projects will be unprofitable. To relax the infrastructure bottleneck, Seoul offered at the summit to rebuild the North's transport and energy networks. It has promised a direct rail line along the length of the Korean Peninsula; this line could cut transport costs for North-South trade by up to two-thirds.

Unfortunately, South Korea must shoulder the lion's share of the heavy financial costs of economic reconstruction in the DPRK. Goldman Sachs estimates the cost of economic reconstruction in North Korea and of overall Korean unification at a trillion dollars. In contrast, the South's initial promises of aid are strikingly modest. Why? ROK resources are strained by an expanded state budget deficit. Nine billion dollars have been allocated to save the ROK's troubled financial firms, and no end is in sight. The conglomerates (*chaebol)* are seeking construction orders for new roads, railways, and port facilities, but they are constrained by large debts from making large investments in the North.

There are a number of other obstacles as well to foreign investment in the DPRK. First, North Korean manufacturing industries have almost collapsed. Decades of mismanagement have turned

once-proud chemical and machine-tool industries into wastelands. Second, no one knows how much the famine has weakened the workforce. Thirdly, Pyongyang still maintains an iron grip on society; there is no sign yet that it would allow foreign investors to travel freely to their own factories and communicate with workers. The DPRK will face an FDI shortfall until it learns to let go. Fourthly, the tactical military threat is actually worse than before reconciliation, which understandably makes many foreign investors jittery. Fifth, the fact that all business is based on trust hurts North Korean prospects. Pyongyang has an atrocious record for keeping its word. Japanese investors, in particular, were burned in the early 1990s and will be twice shy in this new decade.

But not all is economic gloom and doom. To build trust, Seoul is seeking an improvement in the North's laws to protect foreign investment, including guarantees against property confiscation, treaties to avoid double taxation, and protections for intellectual property rights. In fact, foreign investors see many positive factors in the DPRK business climate. For instance, DPRK workers are literate, disciplined, and inexpensive. Wages are $150 a month in the manufacturing zones and just forty dollars a month inland. North Korea's location is another economic asset; with its proximity to South Korea, China, Russia, and Japan, the North could be a viable manufacturing base for industrial products, including consumer electronics, cars, garments, toys, and basic appliances. Finally, ROK companies, especially Hyundai, have invested in North Korea in the past and are ready to invest more in the future. In this regard, while the DPRK remains dirt-poor, private-sector North-South business cooperation is already off to a good start. For instance, over a hundred South Korean companies make everything from wallets to TV sets.[16]

Of course, much depends on the ROK economy. The South Korean economy continues to perform strongly; it grew at over 10 percent in 1999 and continued strong in 2000. However, the durability of this recovery depends on whether the government accelerates and deepens structural economic reforms. In this regard, President Kim Dae-jung got off to a good start in his pursuit of economic reforms. He was especially successful in opening the door to foreign investment.

16. Discussions with South Korean economic officials, November 2000.

But the economic reforms are slowing down, for a number of reasons. For starters, the *chaebol* became complacent and slowed down their downsizing. Secondly, President Kim's honeymoon with the unions is over; they are now militant. Thirdly, he lost political clout following parliamentary elections and must now pick his fights more selectively. Finally, President Kim needs the *chaebol* and the banks on his side for economic reconstruction in the DPRK; now is not the time to antagonize them.

Kim's political inability to push through financial reforms has translated into a painful missed opportunity to create a truly open, competitive economy. The South's economy might even be in danger of backsliding into a system in which the *chaebol* and government collude to keep the market from working. The weak financial system, which has been bailing out companies, could falter, pushing Korea back into financial crisis. In other words, ROK economic surgeons are ending their work in the middle of a serious operation. As economic reform slows down, financial turmoil worsens.

FINAL OBSERVATIONS

China's export led strategy and performance has been particularly noteworthy. In just two decades, China reduced poverty and raised living standards by opening its doors to the global economy. In contrast, the number of poor people in India is the same as it was four decades ago, because that country has kept its doors closed to globalization. Unfortunately, China chose to rest on its laurels. It pursued the easy economic reforms but dragged its feet on the tougher microeconomic reforms. As a result, China is struggling to climb to the next plateau of economic security.

Similarly, Japan used an export-led growth strategy to become one of the richest countries in the world. Then, in 1990, the Japanese stock and land markets crashed. Japan's economy is still insecure. In fact, the 1990s were the "lost decade" for recession-weary Japan. Like China, Japan rested on its laurels. It pursued the easy economic reforms but also dragged its feet on the tougher structural reforms. As a result, Japan is also frustrated in its efforts to climb to the next plateau of economic security.

The crisis-hit states (Thailand, Indonesia, and South Korea) ignored the lessons of Japan's financial crisis and clung to an outdated

economic model. They refused to reform their economies and had to learn their economic security lessons the hard way. The homegrown economic vulnerabilities of their economies made them easy victims of the Asian economic crisis. In Thailand, these shortcomings included high trade deficits, overvalued exchange rates, a fixed exchange rate mind-set, and an economic model that favored runaway economic growth over financial stability.

In contrast to the crisis-hit economies, Australia carefully watched the Japan's economic and financial mistakes and took corrective actions in the 1990s to reform its economy and strengthen its economic security. As a result, its economy was largely immune to the Asian economic crisis.

During 1999 most of the crisis economies enjoyed amazing economic recoveries. In one sense, these states have improved their economic security. Certainly one way to protect a country from economic insecurity is to be prosperous, but moving to the next plateau of economic security invariably involves sacrificing some current prosperity in order to reduce financial vulnerability to crises in the future, and in order to sustain long-term prosperity. This is a lesson that some Asian leaders are starting to learn, and they are adjusting their economic strategies to reflect ways to strengthen economic security. Unfortunately, most Asian states have chosen to maximize short-term prosperity at the expense of long-term economic security.

South Korea got off to a good start after the economic crisis. For instance, President Kim opened the South Korean economy to more foreign investment. The economy boomed. Unfortunately, South Korea became complacent and slowed the pace of reform. As a result, the country is presently enjoying an economic boom without reform of its overborrowed *chaebol*. The bankruptcy of Daewoo should have been wake-up call; unfortunately, Seoul chose to ignore it. As a result, South Korea remains vulnerable to another financial crisis, another boom-and-bust cycle. That moves South Korea to a lower level of economic security.

A different situation obviously confronts North Korea. In contrast to the economic boom in South Korea, North Korea's dirt-poor economy has been in steady contraction during most of the 1990s. But in the year 2000 a number of positive developments brightened the picture. For instance, North Korea's rock-bottom level of economic

security (or severe economic insecurity) began to change for the better. The economy grew in 1999 and continues its recovery in 2000. The visit of Marshal Jo to the United States in October and that of Secretary Albright to North Korea are also moving U.S.–North Korean relations in a positive direction. While analysts of North Korea debate the nature and extent of the changes in that country, there is no question that North Korea is opening its doors to business, an action unthinkable just a few years ago. As North Korea gradually moves closer to a Chinese role model of economic outreach to the world and farther away from the old Indian model of closing doors to globalization, its economic security should improve. If North Korea can sustain its economic outreach, it has a fighting chance of reducing poverty and raising living standards in the future.

CONCLUSIONS

The U.S. strategic tradition makes it difficult for Americans to adjust to new economic realities in Asia. One way to help us tackle "the fog and friction" of Asian economics is to arm ourselves with sound economic theory. Earlier in the paper we saw how David Ricardo's law of comparative advantage was particularly insightful in explaining Asian gains from trade and shared prosperity. Most East Asian countries implemented David Ricardo's ideas and enjoyed export-led growth. To take advantage of the opportunities that globalization presents, Asian economies need to continue to follow Ricardo's advice and insulate their economies with "second generation" economic reforms.

In this regard, it is not enough to globalize; the important issue is *how.* Thomas L. Friedman underscores why emerging market economies need to develop attractive "software" to attract and retain the "electronic herd" of foreign investors. Friedman says these economies need "the right software, political institutions and political consensus that can protect property and innovation, maintain a level playing field, ensure that the most productive players usually win, and provide some minimum safety nets to catch the losers."[17]

That said, it is also important to know what these emerging Asian economies need to watch for in the future if they are to avoid other financial train wrecks. In this regard, all senior U.S. officials responsible for Asia need to monitor closely Asian economies that are at risk

and vulnerable to financial turmoil. Instead of passively waiting for the next financial crisis to occur and then suddenly reacting to it, we need to be more proactive to early indications and warning of financial turmoil in Asia. In other words, we need to make sure that policy makers are not caught off guard by sudden financial turmoil in Asian states.

But how do we know that countries are at risk? At the U.S. Pacific Command we are working with IMF, the Federal Reserve, and other U.S. government agencies to develop an early warning system for national financial chaos. This financial "I&W" system would sound alarm bells when a country's economic performance is in the danger zone. Some of the alarms fall into the following five broad financial categories:

- Overvalued currency (fixed exchange-rate system)
- Lack of ability or political resolve to defend a currency
- Nature of high current-account deficit (sustainability)
- Nature of capital inflow
- Nature of the debt.

In addressing each category, we have a number of specific factors we watch. For instance, in analyzing whether a currency is overvalued, we look at three indicators: inflation differentials, export slowdown, and current account as a percentage of GDP.

We might use the following "ball park" signals:

- If a country has a current-account deficit of, say, 3 percent of GDP, it is in the safety zone (green light).
- If a country has a current-account deficit of 5 percent of GDP, there is reason for concern (yellow light).
- If a country has a current-account deficit of 8 percent of GDP (where both Mexico and Thailand were before their meltdowns), there is cause for alarm, a red light.

In addressing whether or not a country can defend its currency, we need to look at the actual level of foreign exchange reserves as well as at the more subjective matter of whether the country has the political resolve to defend its exchange rate. A good example here would be China. China certainly has robust foreign reserves, but does it have the political resolve to defend its currency with higher levels of

17. Thomas L. Friedman, *The Lexus and the Olive Tree* (New York: Farrar, Straus and Giroux, 2000), 158.

unemployment and social unrest? In this case, it is absolutely essential that economists check with political analysts before making such a call.

We also need to look at monetary policy constraints. For instance, will an upcoming election kill the political will to raise interest rates to defend the currency? Will weak banks or a property bubble make it impossible to raise interest rates to defend the currency? A government might be fearful that the whole banking system would collapse under such a credit crunch.

In addition, we need to look beyond the actual current account as a percentage of GDP. In asking whether a high current-account deficit as a percentage of GDP is sustainable, we need to ask: Are imports going mostly for investment (good) or for consumption (bad)? If mostly for investment, we need to ask whether this investment is going for tradables (exports), which is good, or for nontradables (say, into an oversaturated property market), which is bad.

If robust capital inflows (in the capital account of the balance of payments) are offsetting a high current deficit, we need to ask whether the capital flows are primarily stable (such as foreign direct investment), which is good, or primarily unstable (stocks or hot money), which is bad.

Finally, in assessing private foreign debt, we need to look at how much debt is stable and of long-term maturity and how much is less stable and of short-term maturity. What percentage of the debt is hedged, or protected, in the futures market (good), and what is unhedged, vulnerable to currency devaluation (bad)?

U.S. and Asian governmental organizations, therefore, need to share research and work closely with international financial agencies to develop and take advantage of an early warning system that would give officials of the U.S. and Asian governments strategic warning of financial turmoil in Asian states. This is increasingly important in the year 2000, as higher oil prices and a soft information technology market make Asian economies more vulnerable to global financial turmoil.

JOHN R. LANDRY

The Military Dimensions of Great-Power Rivalry in the Asia-Pacific Region

GREAT-POWER COMPETITION IN ASIA will dominate international affairs in the twenty-first century. The beginnings of this rivalry are already evident. China and India question the "rules" established by Western states and seek stronger regional and ultimately international roles than are currently available to them. Central Asia, only recently free of Soviet imperial domination and now prized for its potential oil reserves, is rapidly becoming a source of twenty-first-century gamesmanship among a number of competing powers. Further, numerous lesser powers seek shelter from coming storms, wary of entangling relationships because of rapidly shifting political winds and currents.

Five great powers are in, or on the periphery of, the Asia-Pacific basin. Each possesses interests in the area, and all will compete, though not with equal weight or energy. Two states, China and the United States, will play central roles. Russia, Japan, and India will be on stage but not in the spotlight.

Competition in the Asia-Pacific region need not be military, for there are other sources of power that might prove more effective and less dangerous; nevertheless, all the signs point to a growing military rivalry. In the first place, a number of intraregional disputes remain unresolved. Chinese claims on Taiwan and the Spratlys; a military standoff on the Korean Peninsula; long-standing Sino-Indian border contests; India's and Pakistan's deadly quarrel in Kashmir; China's and Japan's competing claims over offshore islands—the list seems endless. Each of these disputes, as well as others not mentioned, reminds us that memories are long in this region and that mechanisms for resolving disputes are few and largely ineffective.

A variation of this theme is the suspicion of some states that neighbors may be manipulating discontent among dissatisfied ethnic groups. In some instances these concerns are real, in others they are

imagined. India and Pakistan are caught in such a duel; China suspects that neighbors may be fanning separatist fires among ethnic groups in border areas; and Russia is convinced that Islamic groups operating out of Afghanistan cross Central Asian states to aid rebel forces in Chechnya. As with territorial disputes, there are few satisfactory means of resolving suspected manipulations of domestic difficulties.

While many of these disputes are local in character, some conceal more fundamental strategic disagreements regarding regional leadership. China, for one, fears the reemergence of Japanese power and Tokyo's imputed desire for a more expansive leadership role both in Asia and in the international arena. For their part, China and India have begun to jockey for position in Southeast Asia as Beijing attempts to consolidate its position in Myanmar (Burma) while New Delhi also bids for influence with Yangon, offering an apparently welcome means of counterbalancing increasingly aggressive Chinese penetration into Myanmar's political and economic life.[1]

Beyond local disputes, some Asian states believe that the dominant political, economic, and military position of the United States—globally and in the region—constitutes a threat to their capacities to achieve appropriate regional prominence. China in particular is convinced that the United States intends to maintain and prolong its "hegemonic" position by constraining Chinese growth. Some Chinese officials, particularly in the military, believe the United States is pursuing a containment strategy in the region, certainly with Japan today and perhaps with India in the future.[2] American military bases, force presence, and security relationships are believed to be part of this strategy.

Together, these long-standing disputes, the emergent competition for the right to order political relationships in the region, and the absence of institutionalized conflict-resolution mechanisms suggest that military power will play a significant part in the region's future. Recent trends in defense spending appear to support this conclusion. From 1985 to present, defense spending in the region is up more than

1. "China's Ambitions in Myanmar," *Strategic Comments* (International Institute for Strategic Studies) 6, no. 6 (July 2000), 1–2.

2. David Shambaugh, "China's Military Views the World: Ambivalent Security," *International Security* (Winter 1999/2000): 62.

30 percent, at a time when arms expenditures in many other areas have been decreasing. Eleven of the world's top twenty arms importers and ten of the top twenty defense spenders are either in the region or on its periphery.[3]

THE CHARACTER OF MILITARY RIVALRY IN ASIA

Several general, objective military factors will shape military competition in the Asia-Pacific region. In the first place, the vast expanse of the region and its geographic configuration as a cluster of "island" states—either actual islands or with difficult terrain along many international borders—make it difficult for Asia-Pacific nations to project military power using traditional military means. Capabilities of Asian states to project land power far beyond their borders is limited and probably will remain so for some time. Consequently, initial force projection in the Asia-Pacific region will most likely be conducted with missiles and aerial systems. Stand-off warfare will be the norm, and air and naval forces will eventually become the ascendant services for projecting force in the region. Land forces will figure prominently only after adversaries' strike capabilities have been neutralized.

Ironically, however, many Asian states will find it difficult to break away from traditional patterns of reliance on land armies. Although domestic circumstances are changing and eventually will diminish the need for armies for domestic stability, many Asian states—such as North Korea, the Philippines, Indonesia, most of Central and South Asia, and even China and India—still depend today on large armies to maintain internal security and to complete the process of nation building. Even where these requirements have begun to recede, long-standing traditions and bureaucratic interests make it difficult to realign the roles and missions of the services and arms, and to shift priorities and resource allocations.[4] It will take time, perhaps as long as a generation in some cases, before navies and air forces—and perhaps even more specialized services, such as missile, rocket, or space

3. See U.S. Arms Control and Disarmament Agency, *World Military Expenditures and Arms Transfers, 1997–1998* (Washington, D.C.: U.S. Govt. Print. Off., April 2000).

4. Michael McDevitt, *The PLA Navy: Past, Present, and Future Prospects,* Conference Report, Project Asia (Alexandria, Va.: CNA Corporation), 2.

forces—emerge with greater influence and greater shares of resources.

A second general objective military condition is that few regional states have been successful in developing self-sufficient defense industrial capabilities. This trend reflects the growing complexity of advanced military weapons and the fierce and successful competition of private enterprises with those in the public sector for scarce investment and human resources. Whatever the case, virtually all Asian states remain dependent on foreign arms suppliers, further limiting their ability to chart an independent path.

A third factor is nationalism. As in Europe before them, Asian rivalries will in large part derive from and be shaped by nationalism. As traditional sources of political legitimacy are swept aside, leaders in many states (for instance, China, India, Indonesia, and possibly Russia) will turn to nationalism as a means of integrating newly mobilized citizens. Nationalism will likely be effective in achieving those ends, but at a price: it will undoubtedly stoke the fires of military rivalry among states in the region, and if the history of Europe is any guide, such rivalries can be expected to be difficult to control and terrible in ferocity.

CHINA'S CENTRALITY IN ASIA'S GREAT-POWER RIVALRY

In addition to the general conditions mentioned above, four specific economic and political realities will drive a major part of future Asia-Pacific military rivalries. All of them center largely on China's interests, but they will inevitably influence Beijing's neighbors.

In the first place, Chinese leaders clearly understand that their regime's fate is to a considerable extent in Taiwan's hands. A successful independence bid by Taiwanese leaders would threaten to bring down the government and perhaps even destroy the Chinese Communist Party. Given that reality, the apparent constancy of U.S. support for Taiwan, and China's current inability to seize the island rapidly enough to present a fait accompli, the military imperatives are immense. Beijing must find the means to deter Taiwan's bid for independence in the short term while developing longer-term capabilities both to seize the island if necessary and to hold off external intervention.

Second, Beijing apparently understands that China's economic development over the past several decades has left it increasingly more vulnerable to external influences. As China's political leaders have moved to exploit privatization and capitalist business practices, its military leaders have become acutely aware that the nation's economic center of gravity resides in the eastern provinces. As a measure of this reality, more than 70 percent of China's exports originate from the coastal provinces.[5] This eastward gravitation of China's economic heartland has had numerous consequences, not the least of which, according to Chinese strategists, is increased military vulnerability.

Two aspects of this economic shift probably concern the Chinese militarily. First, the proximity of China's most advanced economic enterprises to the eastern coast brings them within reach of U.S. air and sea power, hostage to one of the greatest strengths of the United States, long-range precision strike. In addition, unlike its Cold War industrial base, which was protected against nuclear strikes by its remoteness, dispersal, and hardening, China's modern economic infrastructure is fragile. Chinese military strategists seek means of safeguarding their newfound economic infrastructure—an infrastructure upon which the People's Liberation Army (PLA) is heavily dependent.

A third reality driving military developments in the region is China's increasing need for energy. As China's economic growth continues, its oil imports, now something around six hundred thousand barrels per day, will grow tenfold. Most of this requirement will be satisfied by Persian Gulf oil—from where the shipping lanes through the Indian Ocean are within reach of India's growing navy. Farther east, China's tankers must travel through the contested South China Sea. Concerns for the security of oil "sea lines of communication" will exacerbate Beijing's sense of economic vulnerability and thus accentuate its drive to exert sovereignty over the Spratlys and to develop means of controlling sea lanes through the area.

CHINA'S MILITARY QUEST

Perceived vulnerabilities associated with the trends discussed above, and the general objective military conditions discussed earlier,

5. *China Statistical Yearbook 1999*, 425.

have influenced China's recent military developments and its emerging military strategy. In turn, China's response has begun to shape the security perspectives and activities of a number of its neighbors.

First, China has developed a comprehensive military strategy, with near-term and longer-term components, to deal with its extensive security challenges. In the near term, China has given priority to a number of missile programs that are probably intended to thwart Taipei's bid for independence. We cannot know for sure how much confidence China's leaders place in this element of the strategy, but the pace, scale, and cost of their missile programs suggest that it is not a trivial hope.

Second, for the longer term, Beijing has apparently given priority to maritime and air projection capabilities. Chinese military leaders have expressed an interest in and a right to exercise control out to what has come to be called the "first island chain." This expanse extends eastward from China to a line from the Kuriles through Taiwan and the Philippines, encompassing most of the South China Sea. This area includes both Taiwan and the Spratlys. Control in this security area would protect Beijing's territorial claims and vulnerable coastal economic zones on the coast, as well as energy shipments flowing through the South China Sea and its access to energy sources under its relatively shallow waters. Such control would also place at risk the naval forces of an adversary, forcing stand-off strike operations upon them if they wanted to reach Chinese territory. Eventually, China would probably wish to exercise control out to what is termed the "second island chain," extending its ocean security zone to a line from the Kuriles through the Marianas to Papua, providing the even greater buffer that would become desirable as technology extends the range of strike weapons.

A third element of China's response is to limit regional support for foreign forces operating in the region. In wartime, without regional bases U.S. forces would be hard pressed to maintain a tempo of operations sufficient to maintain the initiative. In times of peace, Beijing will seek diplomatic assurances that foreign forces will not be permitted sanctuary in war. In crisis and conflict, China would doubtlessly threaten to use its long-range missiles—both ballistic and eventually cruise—to intimidate states providing U.S. access to bases and support. In short, Beijing will seek extended deterrence, threatening the

escalation of a conventional war with the United States to any nations providing sanctuary to American forces based in neighboring states. Inevitably, China will bring to bear threats implied by its nuclear forces as part of this strategy.

Assessments of China's current military capabilities abound. It is a subject that needs little discussion, but for clarity, let me mention a few of those related realities.[6] The PLA remains a huge force, the world's largest military, but only small elements of that immense structure are modernized. Force projection capabilities are limited in reach, lethality, and sustainability. Air defenses, both over Chinese territories and for its naval forces, are porous. The PLA's abilities to identify and track forces beyond its borders, command and control its forces, and employ combined-arms and joint forces remain weak. Always in the back of the military's calculations is the simple fact that Chinese defense industries—all of which are part of Beijing's antiquated state-owned enterprises sector—have yet to demonstrate a capacity for producing high-quality armaments (excepting, of course, missiles).

Beyond these military weaknesses, a number of nonmilitary issues will determine in part the pace of the PLA's modernization. China faces numerous obstacles to continued domestic growth and governance. The obstacles are legion. How is China to feed a still-growing population with only 10 percent arable land? How is it to reform the vast state-owned enterprises, which consume a significant proportion of investment resources while contributing far less to gross domestic product? How is it to hold in check centrifugal forces in an increasingly pluralistic society? How is it to find employment for the hundreds of millions of Chinese citizens expected to migrate to urban zones in the coming years? How is China to generate the resources necessary to improve infrastructure for continued economic growth, providing for public welfare of a growing urbanized population and for the increasingly estranged, less developed western provinces?

6. See Mark Stokes, *China's Strategic Modernization: Implications for the United States* (Carlisle, Penna.: Strategic Studies Institute, September 1999); Anthony H. Cordesman, *The Asian and Chinese Military Balance* (Washington, D.C.: Center for Strategic and International Studies, January 2000); and Frank W. Moore, *China's Military Capabilities* (Cambridge, Mass.: Institute for Defense and Disarmament Studies, June 2000).

But for all these difficulties, China's also possesses great potential strengths. China is a demographically young state, unlike Russia and Japan. With diminishing population-growth rates but a healthy age distribution, Beijing possesses the human capital necessary for a vibrant future.[7] Of course, exploiting these strengths depends on Beijing's ability to develop its vast human resources. In absolute numbers, China produces more engineering and natural science graduates than any other regional nation except Japan, but it lags in proportions of total age cohorts receiving higher degrees.[8] Based on what we find in China's commercial enterprises, Beijing has yet to find a means of funding its technologists at a rate equal to that of advanced regional states.[9] We assume that this is equally true, if not more so, in defense-related industries. What is unclear, however, is how rapidly Beijing could accelerate these trends in a positive direction. It is possible that even modest education and technology/human-capital investment rates would enable China to achieve advances in those defense projects needed to challenge either regional neighbors or foreign powers seeking to project influence into the region.

A second source of potential Chinese military strength in the long term may, ironically, derive from Beijing's measured allocation of defense resources over the past two decades. During that time, Chinese leaders have accorded last priority, among the "four modernizations," to defense. This restraint has undoubtedly contributed to China's rate of economic growth, the lifeblood of what the Chinese call "comprehensive national power." In addition, this strategy may also provide greater flexibility in adapting the PLA to longer-run imperatives. By constraining defense resources, Beijing has produced or procured small numbers of new systems, choosing next-generation weapons-technology development instead of large-scale series production of each new system. In this way, China may be keeping a larger number of research-and-development paths open for exploration than would otherwise be possible. It may also enable the

7. Secretary of Defense, *Asia 2025 Summer Study* (Washington, D.C.: Office of Net Assessment, 2000).

8. Roger Cliff, "China's Potential for Developing Advanced Military Technology," in *Institutional, Economic and Organizational Basis of Military Capability,* ed. Anthony Lani and Kimberly Brickell (College Park: Univ. of Maryland, Center for Institutional Reform and the Informal Sector), 213–28.

9. Ibid.

development of a series of "breakthrough" capabilities, so-called "disruptive technologies," as the basis for a future military capable of achieving an independent, regional revolution in military affairs.

A third strength follows also paradoxically from the security challenges confronting the Chinese state. As a number of recent studies have shown, successful military innovation most often occurs when a nation is singularly focused on a challenging security problem—a problem so acute that it compels consensus throughout both military institutions and the larger body politic.[10] The Taiwan problem provides such a focus for the PLA and Chinese society today. It is similarly true that the military capabilities required to meet the Straits challenge have extensive applicability to a number of other security dilemmas confronting Beijing.

THE ASIAN RESPONSE

There are several ways of measuring the regional response to China's current path: regional patterns of military expenditures and arms imports, political-military alignments among key states, and attempts by regional states to strengthen U.S. security commitments.

Regional Arms Imports and Military Expenditures

Table 1 provides comparative data on the value of regional arms imports and total military expenditures from 1987 to 1997. Table 2 displays the nature and quantity of arms imports by East Asian states for two comparative six-year periods: 1986–91 and 1992–97. The data indicate a significant increase in East Asian armament imports and military expenditures over the course of the last decade compared to other regions.

Since 1987, East Asian arms imports have more than doubled, reaching 30 percent of the world total in 1997, with imports rising 19 percent annually since 1993. Over the course of the decade, it is the only region in which arms imports have shown a positive growth rate. Similarly, East Asian total military expenditures have grown at annual rates faster than those of any other region except South Asia.

10. See Richard O. Hundley, *Past Revolutions, Future Transformations: What Can the History of Revolutions Tell Us about Transforming the US Military?* (Santa Monica, Calif.: RAND, National Defense Research Institute, 1999), 59–73.

Table 1
Regional Defense Expenditures and Arms Imports, 1987–97

Defense Expenditures

	World Share (%)		Real Growth Rate	
	1987	1997	1987–97	1993–97
North America	28.7	34.2	-3.3	-3.8
Western Europe	16.1	22.1	-1.9	-1.5
East Asia	8.9	20.7	3.2	5.1
Eastern Europe	34.8	7.6	-22.6	-9.3
Middle East	6.8	6.2	-6.9	-0.8
Central & South America with Caribbean	1.8	3.6	-2.7	4.9
South Asia	0.9	2.0	3.1	6.8
Oceania	0.6	1.1	1.9	-1.1
Africa	1.2	1.8	-2.1	-0.7

Arms Imports

	World Share (%)		Real Growth Rate	
	1987	1997	1987–97	1993–97
North America	1.9	3.7	-1.5	-1.6
Western Europe	12.6	16.4	-3.3	-2.8
East Asia	12.1	30.2	2.7	19
Eastern Europe	8.5	1.7	-19.6	-0.6
Middle East	38.1	36.4	-4.8	4.2
Central & South America with Caribbean	6.0	2.8	-18.2	-1.2
South Asia	7.8	2.1	-23.5	0.7
Oceania	1.6	1.9	-1.7	-4.5
Africa	11.2	2.3	-20.5	-1.4

Source: U.S. Dept. of State, *World Military Expenditures and Arms Transfers* (Washington, D.C.: Bureau of Arms Control, 1998).

Table 2
East Asian Arms Imports
1986–97

Land Armament	86–91	92–97
Tanks	442	655
Artillery	883	1,651
APCs	1,031	747
Naval Armaments		
Major Surface Combat	9	52
Other Subs	108	64
Missile Attack Boats	0	6
Subs	2	10
Air Armaments		
Combat Aircraft	395	480
Other Aircraft	225	333
Missiles		
SAMS	3,281	3,893
Antiship	92	213

Source: U.S. Dept. of State, 1998.

During that time, the region has moved from fourth to second in the share it represents of total global military spending. In short, patterns of military spending by Asia–Pacific Rim states reveal a region beset by deep and apparently enduring insecurities.

The data in table 2 reveal equally interesting trends. During the second half of the last decade, East Asian arms acquisitions increased almost sixfold for major naval surface combatants, fivefold for submarines, and twofold for antiship cruise missiles. These acquisitions extend to states in Northeast and Southeast Asia and are precisely

the kinds of arms needed by nations anticipating major future maritime challenges.

Regional Political-Military Alignments

Regional security alignments in East Asia are not new. U.S. bilateral relationships with Japan, Korea, and Taiwan have anchored security in Northeast Asia since shortly after World War II. The Association of Southeast Asian Nations (ASEAN) was formed in the mid 1960s among Southeast Asian states that were at risk from national insurgencies, many of which were receiving active support from Beijing. But since its inception, ASEAN member countries have never accepted that their cooperation constitutes a military alliance. Whatever security was acquired by those states accrued primarily through bilateral relationships with the United States and other external powers—the United Kingdom, Australia, and New Zealand.

In 1993, ASEAN's members created the Asian Regional Forum (ARF), a loose coordinating body of twenty-one Asian states. The new body was to initiate confidence-building measures among the participating countries, develop a system of preventative diplomacy, and ultimately pursue conflict resolution. The pace and scale of the ARF's progress can be reasonably questioned, but member states are genuinely pleased that they have been able even to address the range of security issues covered so far, given their past reluctance to do so.

Since the late 1990s, however, there has been evidence of increasing willingness of states throughout East Asia to cooperate more fully on a range of security issues. In 1999, the Philippines, Thailand, and South Korea committed substantial numbers of troops to UN peace-enforcement operations in East Timor. Malaysia's prime minister has further suggested an expansion of traditional peacekeeping operations in the region to include safeguarding sea and air lanes from piracy and hijackings.[11] In support of this latter initiative, Japan offered in November 1999 to send elements of its Maritime Safety

11. Sheldon Simon, *Asian Armed Forces: Internal and External Tasks and Capabilities,* NBR Analysis, vol. 11, no. 1 (Seattle, Wash.: National Bureau of Asian Research, 2000), 12. Retrieved from the World Wide Web: http://www.nbr.org/publications/analysis/.

12. Ibid.

Agency—the Japanese coast guard—to assist in counterpiracy operations in the South China Sea.[12]

These fledgling cooperative activities are not likely to lead to more substantial military activities any time soon, however, because regional states are reluctant to commit to behavior that would almost certainly be interpreted by China as confrontational.

Strengthening the U.S. Security Commitment

Many East Asian states count on more than self-help and cooperative regional arrangements to underwrite their security. The support of strong extraregional states is perhaps the most vital and enduring element of their calculations. In recent years, a number of these states have increased their levels of cooperation with the United States.

Singapore, for example, is joining for the first time in the annual U.S.-Thai Cobra Gold military exercise. Singapore has offered the United States access to the new Changi naval base, which can accommodate aircraft carriers and was to be operational in 2000. The Philippines, too, have sought greater U.S. support to stave off Malaysian, Chinese, and Vietnamese incursions into Manila's economic exclusion zone. Also, in a move reversing a 1996 ruling by that nation's Justice Department, U.S. warships are again invited to stop at Philippine bases, under the provisions of a newly ratified visiting forces agreement.[13]

The 1997 U.S.-Japanese agreement on defense guidelines is perhaps the most significant recent manifestation of a strengthened security bond between the United States and a regional nation. That agreement, accompanied by supporting legislation passed by the Diet in 1999 after the North Korean launch of a missile over Japan in 1998, commits the two countries to cooperate in a number of areas, including refugee relief, noncombatant evacuation, search and rescue, and perhaps most importantly, logistical assistance to U.S. forces in international waters (under a set of conditions that separates Japanese forces from actual combat zones).[14] Neither party sees this enhanced cooperation as primarily resulting

13. Ibid., 9.

14. International Institute for Strategic Studies, *Strategic Survey 1999–2000* (London: IISS, 2000), 205–13.

from increased concerns with China, although Beijing clearly perceives that to be the case.

SUMMING UP

It is difficult to forecast how regional security balances will look ten years from now; as has been argued, even the Chinese are divided on that issue.[15] But the underlying forces driving current trends are probably enduring, and they clearly point to a period of uneasy jockeying by a large number of states in the decades ahead.

Over the long haul, China will most certainly rise to great-power status, with a military capable of dominating regional neighbors. Three trends—armaments, cooperation, and dependence on external security umbrellas—will likely continue to characterize East Asian responses to the security challenges posed by China's growth. None responds solely to Chinese actions, but they all reflect in large part concern for Beijing's future path. To the extent that East Asian states are able to build security institutions considered nonthreatening by all regional states yet strong enough to constrain aggressive ambitions, the area can hope to evolve peacefully. In that regard, East Asia faces a challenge very much like that which confronted Europe in the late nineteenth century: how to integrate a rising power into regional security relationships in a way that acknowledges the reality and legitimate claims of the new power without forfeiting the rights of all other states. Europe was unsuccessful, and it paid a heavy price for its failure. The task for regional states and powers beyond Asia in the coming decades is to create conditions that will prevent a repetition of Europe's disaster.

15. Michael Pillsbury, *China Debates the Future Security Environment* (Washington, D.C.: National Defense Univ. Press, January 2000), 305–308.

ROUNDTABLE

Net Assessment—Objective Conditions versus the U.S. Strategic Tradition

ROBERT SUTTER

I WOULD LIKE TO NOTE HERE some of the points made in the past twenty-four hours in the context of a framework for looking at U.S. Asia-Pacific relations, and then to look out over the next four or five years.

I think the key question from the American policy point of view is: Will trends in the region work for or against U.S. interests?

We talked a bit about what U.S. interests are. We can summarize them by saying we want a favorable strategic balance; we want stability; and we want to curb conflict. We want to promote open markets and economic access. We also want—the forum did not spend a lot of time on this—to promote our democratic values and international norms.

After today's discussion, I think we see a wide range of issues, and these issues are growing in importance for U.S. policy. They challenge American interests in a wide range of ways. What we'll find as we move into the next few years is that the U.S. ability to deal with these issues will be complicated. Also, I think, American policy makers will be burdened, to some degree. In other words—and this is particularly the case for policy makers who are domestically focused—they may not be able to devote enough attention to the many and diverse issues for U.S. policy emerging in the region. If that happens, the ability of the United States to interact effectively with the region will, I think, be challenged.

The forum pointed to a number of issues that seem rather dire from the American point of view. However, the kinds of developments that are likely to take place over the next few years in the region are not so dire. To get American policy makers to focus on such

issues may be more difficult than it would be for major crises, problems that clearly require policy attention.

Now let us take a look at what seem to be driving the trends in the East Asian region and what they possibly mean for U.S. interests. I think the first big driver is uncertainty over the regional security environment. Here the United States plays a big role. As was pointed out, a number of the countries in the region do not know what our objectives really are; we appear to be unilateral in many things that we do. The forum spent a great deal of time talking about the rise of China, and this is an important element, but it seems to me that it did not spend enough time discussing the nature of Japan. Will Japan recover? Japan's international role is another uncertainty in the regional environment. Also, of course, there are the hot spots—Korea, Taiwan, and the South China Sea. India and Russia are additional elements of uncertainty. What this means for the region, it seems to me, is that on one hand the regional governments want to keep on good terms with the United States for the most part, but on the other hand, they are hedging. There is a lot of hedging going on, and it is increasing. This hedging is going to challenge the abilities of American policy makers to interact effectively with the region.

The second set of drivers comes from globalization and information exchange, which the forum addressed at length. I do not see the governments in the region obstructing these phenomena in major ways. They recognize they have to go along with these economic trends—they need them for economic modernization. I would submit that nation building is really what regional governments are focused on. They are not concentrating on military development per se but on staying in power—and nation building is centrally important for that. Globalization, in turn, is a trend they have to go along with in order to conduct effective nation building. They do so grudgingly in some cases, because the openness that comes with globalization challenges authoritarian regimes and also carries negative "baggage"—various groups, dissidents, insurgents, and others use global networks of communication for their purposes, which is obviously not good today for the stability of states like Indonesia. Nonetheless, the trend is that the regional governments will generally conform to United States–backed norms in these areas.

A third trend in the region, a third driver, is maturity. The countries in the region want respect, and to get it they are being more assertive. They are assertive in a variety of ways—economic policy, political policy, etc. Japan is the good example. Yes, Japan is having an economic hard time, but the Japanese are much more assertive than they used to be, and they are getting more assertive as time goes on.

A fourth set of factors that lead to regional uncertainty comprises the internal situations in big countries in key areas: Indonesia, China, and of course, North Korea. In addition there is a transition of leadership under way in South Korea; the forum also talked about transitions in Taiwan and in Japan.

All of these things will add to a sense of dynamism in the region, a dynamism that will come into play with respect to American interests. So if we look at these four sets of drivers—uncertainty over the regional security environment, economic globalization and information exchange, growing regional assertiveness stemming from the maturity of regional nations, and major internal problems—we can assess how the dynamic they produce is affecting U.S. interests.

What are the implications of these things for American security interests? I think that the countries in the region want a continued U.S. military presence, an active U.S. security role in the area. But there are many challenges. China, of course, is working against the United States; it wants to get the United States gradually out of East Asia, in particular. The forum talked about our allies' chafing over their asymmetrical security relationships with the United States; this affects Australia as well as Japan, South Korea, the Philippines, and Thailand. Here I would like to emphasize with reference to Japan and South Korea a point that the forum has not emphasized much—the nature of our basing structure in these areas. This is a very serious issue: yes, the people in these countries want alliances with the United States, but do they want bases? The latter question involves a very different set of issues. As these governments become more assertive, as they become more hedging in their approach toward the United States, the nature of our basing structure in the region is called into question.

On the economic side, clearly the countries in the region want the United States to remain actively involved in the region, and they want access to the American markets, American investment, and so

forth. But at the same time, they do not want what they see as heavy-handed American intervention. The result has been a growth of intraregional cooperation, a point the forum has only touched on. But it seems to me this is very significant for American interests over the longer term. How far will this intraregional cooperation go? Japan is playing a key role behind the scenes, working out these arrangements—the ASEAN Plus III meetings, other efforts of that kind, the "Asian swap" issue—which basically exclude the United States. These kinds of patterns are beginning to emerge. What is going on here? What does this mean for American interests?

Politically, the countries in the region by and large support the American goals of good governance, accountable government, and so forth. But when we move into the realms of human rights, democracy, and such things, there is a good deal of resistance—particularly to the high-handed approach Americans seem to take at times.

Having taken an overall look at particular interests of the United States and how they are affected by regional trends, I think the question is whether the countries will work together. We have models of cooperation in Europe, but obviously Asia is different from Europe in this regard. Will Asian governments cooperate? Will they cooperate in ways that work against the United States, or ignore it? I think that the pattern suggests the answer to both is yes: they will work together in the economic area, and (through hedging strategies) to some degree in security areas, in ways that may not oppose the United States but will ignore it in various ways. This too will lead to certain difficulties that the United States will have to deal with.

I am not positing a major crisis in East Asia. I do not foresee the major flare-ups that the forum has talked about at such length—Korea and, of course, the Taiwan Straits leading to some sort of United States–China confrontation, or a major economic crisis. Perhaps these will happen; however, I think the more likely trend is one of incremental change. This kind of incremental change, it seems to me, will lead to many small but growing issues, to which the United States will have to pay attention if it wants to interact successfully with East Asia and South Asia. The subject is going to need a great of the attention of American policy makers, day in and day out.

MICHAEL MCDEVITT

I WOULD LIKE TO HIGHLIGHT several key points related to the theme of this excellent conference. I will start with Steve Rosen's extremely thought-provoking keynote address, "The Strategic Traditions of the United States in the Asia-Pacific Region." His general orientation was toward warfighting, or the operational aspect of America's experience in East Asia and the Pacific. I take a different tack. I am going to address the topic of "strategic traditions" at the level of grand strategy—or as it is now termed, "national security strategy." I feel at home with this conceptual approach, because it is the primary focus of the curriculum at the National War College—which was my last assignment on active duty.

The core of my strategic hypothesis is straightforward. From the very beginning, some two hundred years ago, the primary motivation—which over time grew into a "strategic tradition"—for U.S. involvement in East Asia has been access to the markets of Asia, especially China. American merchants wanted to sell American "manufactures" in China. This desire continues today (witness the debate on permanent normal trade relations with China).

This interest has formed the heart of our strategic involvement. Over the years, all of the various instruments of national power that were relevant or could be brought to bear have been used to ensure that America economic interests had a place in the "China trade." The primary motivation behind U.S. statecraft in all of its manifestations over the past two hundred–odd years has been to be included in—or perhaps more aptly, not to be *excluded* from—East Asia. America's policy prescriptions for Asia—in other words, its strategic choices—have revolved around this simple objective.

In the early days, when this country did not have the power to guarantee unilaterally its place in East Asia, the strategic choice was to "partner" with the British. About a hundred years ago, however, our strategy took on the decidedly military dimension that remains to this day. Starting with the "Open Door Notes," followed by Adm. George Dewey's 1898 victory in Manila (Dewey's Asiatic Squadron, incidentally, was based in the British colony of Hong Kong), the United States began to take a more prominent role in the military

affairs of East Asia. The Open Door policy was our first public explication of a conscious strategy that had as its ultimate objective the preservation of U.S. access.

Central to our regional strategic culture has been the recognition that bases in East Asia are essential if military power is to be a regular feature of our Asian strategy. This recognition also has long historic antecedents. One of Matthew Perry's primary objectives when his "black ships" in 1853 "opened Japan" was the desire to obtain a coaling station on Japanese territory so that steamers sailing the great circle from San Francisco to southern China could refuel. America's decision after the Battle of Manila Bay to annex the Philippines, which meant a very nasty, two-year fight with Filipinos seeking independence, was based on a realization that the Philippines offered a strategically central location from which U.S. forces could play a more direct role in keeping China's door open.

Our strategic culture in East Asia today is to use all the tools of American statecraft—diplomacy, military power, and economic power, in various combinations—to further the central objective of access to Asia. That is the reason why our rationales, our justifications, for being engaged in Asia are to ensure stability, maintain a balance of power, prevent the rise of a regional hegemon, and so forth. These arguments reflect "tactical" choices, in that they are deemed to be the best way to secure the central objective of not being denied access.

The second main point I want to make is that the two-hundred-year American legacy of involvement in the region has always been acted out within the context of a weak, or at least land-bound, China. The rise of China that we are witnessing today is unprecedented in all the years since serious Western involvement in Asia began in the early nineteenth century. We are entering into an era that is absolutely novel in our strategic experience. China is politically united, economically vibrant, and militarily able to defend its sovereignty. America's last experience with a rising power in Asia—the Japan of a hundred years ago—did not turn out well. I recognize the pitfalls of using historical analogy to make contemporary points, but it is does seem worthwhile to examine the nature of our relationship with Japan between, say, 1860 and 1941, to determine if it has any relevance today.

A question that comes to mind relates to Taiwan. Is the strategic, as well as operational, dilemma posed by America's implicit commitment to defend Taiwan analogous to what war planners faced between 1905 and 1940 in connection with the defense of the Philippines? The difference today, of course, is that in the first half of the twentieth century, imperial Japan had a large navy and could project military power throughout the region, whereas today China does not. But the past does offer tantalizing glimpses as to what the future might hold if China eventually fields means to project power beyond the Asia mainland. The entire issue of parallels between a rising Japan of yesterday and a rising China of today needs further consideration.

That brings me to my third point, that strategic culture revolves around an aspect of John Landry's excellent paper—the geostrategic landscape. His presentation reminded me of a large map hanging in the central stairwell at the National War College. It has a plaque with an inscription that passing students of strategy cannot overlook: "Everything Changes but Geography."

The geography of Asia creates a unique geostrategic environment, one that is part of our strategic tradition. First, the vast distances within Asia, as well as across the Pacific (and, in the last century, on to Europe), demand bases if "Western" military power and sustained economic involvement in the region are to be realized. Our dependence today on bases in Japan and Korea to anchor our hundred-thousand-person "commitment" to the region is the current manifestation of how the so-called "tyranny of distance" produces an unchanging need for bases to facilitate *meaningful* military presence. (Note the emphasis on *meaningful.* A small presence based upon rotational deployments is possible, but only at great expense and difficulty; sustaining a presence of a hundred thousand people through rotation is probably out of the question with today's force structure.)

Next, the geographical centrality and enormousness of a unified and relatively strong China in Asia create a number of geostrategic realities. Commentators often remark that the United States is the dominant military power in Asia; this is incorrect, an overstatement. The reality is that China is the dominant military on the continent of Asia. That reality has existed since America's Nationalist Chinese allies were driven off the continent by Mao Tse-tung; it was

demonstrated just two years later, between 1950 and 1953, when U.S. forces were fought to a standstill halfway up the Korean Peninsula. On the other hand, the United States has since 1945 been the dominant military power on the *rimland* of Asia. So in truth there is been a "condominium of power," unspoken but real, between China and America.

This point relates to the final significant geostrategic feature of East Asia that I want to point out, the number of important states that are island or archipelagic nations—Japan, Taiwan, the Philippines, Indonesia, Singapore, Papua New Guinea, Australia, and New Zealand. If we stretch the definition slightly we can also include Malaysia, connected to the continent only by the slender Isthmus of Kra. Stretching a bit farther, we can include the Korean Peninsula. What this means in strategic terms is that if Chinese continental military predominance is to weigh heavily on the policies and strategies of these rimland nations, China must be able to cross significant bodies of water. In Navy jargon, China must "go feet wet." But when it does, it enters the realm where the United States and its allies hold a decisive predominance of (naval) power. Of course, the opposite would pertain if the United States and its friends ever contemplated significant military operations on the Asian mainland.

This sharing of power has created a balance that could only be upset were the United States to leave the region militarily, or were either "condominium" power to become capable of projecting strategically decisive power into the other's arena of predominance. It is important to remember that our strategic tradition has been to stay away from military operations on the continent. When we have ignored that tradition in the past, the results have been mixed—and that was when China was not as powerful as it is today.

Let me shift now to what I see as a fourth element of America's strategic tradition. It is a recent element, compared to the others: the fact that since 1950 the United States has considered attacks on Chinese mainland territory off-limits. The bottom-line reason why Harry Truman fired Douglas MacArthur was that MacArthur wanted to widen the Korean War by attacking China. Truman demurred, although China had "invited" such a move by attacking U.S. forces, and although China had not yet developed nuclear weapons. During the Vietnam War, China was again treated as a sanctuary; the U.S.

national leadership spent an inordinate amount of time worrying about Chinese intervention.

What I am suggesting is that there is a fifty-year-old strategic tradition of unwillingness to permit the direct application of U.S. military power to the Chinese mainland. Now that China has a credible nuclear arsenal, it seems even less likely that the United States would attack China directly. This would be an interesting but essentially irrelevant and academic point were it not for the possibility of confrontation over Taiwan. I have no particular insight into any U.S. contingency planning on this issue, but were I still the director for strategy, war plans, and policy for the Pacific Command, I would certainly consider in planning for any military intervention in support of Taiwan that land-attack options were off the table, that the only engagements that would be permitted by the National Command Authority would be on, over, or under the water.

The Taiwan situation leads me to my fifth traditional strategic point. This tradition is also relatively recent, dating from World War II. In a nutshell, it is reliance on the use of overwhelming airpower. In major conflicts, the American way of war has been to establish air superiority over the theater and then apply air-delivered weapons in massive quantity. That the U.S. Air Force can bring five or six hundred tactical aircraft to a theater and then, in combination with the Navy—setting aside the budgetary rivalry of the two services—fly at will over hostile territory represents an incredible capability. This tradition is alive and well in Northeast Asia; Korea and Japan provide the bases essential to the task. But because of the lack of suitable basing facilities in Southwest and Southeast Asia, this tradition stumbles for contingencies beyond current tactical-aircraft range from Okinawa—say, three hundred nautical miles. A decade after the fact, we can only rue the somewhat cavalier attitude taken by national security authorities toward the utility of Philippine bases. Contrary to conventional wisdom, which says that our departure was inevitable given the rise of nationalist sentiment in the Philippines, there were options available. Had we chosen then to pursue them with the Philippine government, we would have today guaranteed access to and use of the air bases at Clark and Cubi Point.

But that is another story. These five points represent my understanding of America's "strategic traditions" in East Asia.

JONATHAN D. POLLACK

THE SPEAKERS AT THIS ROUNDTABLE were asked to assess whether and how objective conditions in Asia and the Pacific might redefine or conflict with the strategic traditions associated with U.S. policy in the region. The most important changes in this regard concern the relative balance of power between Asia and the United States. Despite the economic and political vulnerabilities evident in a number of Asian states, the long-term trends point toward a more powerful region, where the singularity of American military power as a component in U.S. strategy will be less dominant. However, much of the discussion of regional military developments during this meeting has emphasized more traditional measures of industrial and military power, with less attention to whether and how national power capabilities may be defined very differently in the future.

The central question confronting American policy makers in the Asia-Pacific region over the coming decade will be the dimensions and implications of major shifts in power relations. What will these shifts require of the United States? How might they alter U.S. risk taking in a future crisis? Would the U.S. definition of its vital interests change? What expectations will the United States have of its allies in terms of the division of labor and the allocation of responsibility? What kinds of capabilities does the United States deem appropriate for various national actors as they modernize their military forces? Much of this debate is focused on China, but these questions extend well beyond China.

For example, Steve Rosen in his paper talked about strategic traditions, or what we might call warfighting traditions of the different military services. Many of his observations reflect historical experiences and lessons learned from wars fought in Asia decades ago. But we have not had to fight in East Asia and the Pacific since the end of the Vietnam War. We have been prepared to fight if need be, and we have continued to forward deploy our power—and most would like to keep it that way in the future.

What strategies and policies are appropriate under different circumstances? If we miscalculate, or events turn out differently than

we anticipate, what objectives are appropriate? These discussions tend to focus more on the "how" than the "why" of military objectives. Mike McDevitt has just alluded to this consideration should there be a contingency involving China. In this regard, there is a tendency in some circles to reflect too much on old history. Many of these past conflicts reflected revolutionary-era struggles in Korea and in Vietnam. We have to ask whether those experiences will remain relevant in the future.

These experiences shaped U.S. military forces and policies in profound ways, but we are entering a very different era, especially in states where dynamic economic and technological development has transformed societies and political institutions. A good deal of what Steve Rosen characterizes as U.S. strategic traditions sounds almost inertial. I am sure that was not his intention; he wanted to describe the roles of the services in terms of the lessons they took away from past wars. But our discussion during the forum has emphasized the changing role of government and the extraordinary dynamism of the private sector. Much of the activity that is transforming the economic and technological underpinnings of various societies is occurring outside the governmental process. The question for the longer run is whether these kinds of changes impinge on how we prepare militarily. For example, we talked about the tyranny of distance and the constraints of geography. In numerous respects, it may not matter if the United States is many thousands of miles away from the region. But there are critical respects in which it does matter.

The United States also faces major questions about relations with allies. We tend to assume that alliances are permanently operating features on the security landscape. No doubt many have stood the test of time. But if we posit continuing shifts in power capabilities between the United States and its regional allies, then our partners will expect more compensation and recognition for their contributions to U.S. regional security goals. There is an obvious comfort level with our allies and with the political elites in countries with whom we interact very closely. But I often wonder how deep our knowledge goes. Again, at the level of our interactions and alliance relations, these links seem quite enduring. When we examine questions of political and generational transition, however, I for one am skeptical that we really understand these phenomena as well as we need to. It is not

that any of our regional allies want to separate from the United States. They clearly recognize the need to collaborate with the United States—but not to put all their eggs in one basket. Call it a "hedging" or "diversification" strategy, but the reality is that our allies do not see any major contradiction between having more capabilities of their own and still being closely linked to the United States.

All of this, however, has to be evaluated in the context of the possibility of major political and strategic changes. Korea affords an especially relevant example. If the day comes when North Korea is no longer the primary focus of our regional defense planning, things will be very different in the big five-sided building. There are a lot of people in the U.S. governmental process who are still not prepared for such major change. We need to think long and hard about future change, because we are beginning to see evidence of change in terms of how regional leaderships view their security options. They clearly desire U.S. involvement where there is latent or overt instability, notably in Indonesia. They also want American technology and access to the U.S. market. If there are threats to peace, they want the United States to be directly involved.

But let us look at what is happening right now on the Korean Peninsula. It is, after all, the *Korean* Peninsula. Though the United Stated is not marginalized amidst recent changes, the U.S. role on the peninsula has undoubtedly diminished. It is no accident that the maneuvering and meetings leading up to the South-North summit took place in China, reminding us yet again that geography and proximity do confer advantage to regional actors that the United States cannot readily match. We could find ourselves in a situation where the rationale that has sustained our presence on the peninsula for half a century is far less persuasive than it once was to the people of Korea. Even if the Koreans see incentives of their own to retain U.S. forces on the peninsula, the dynamics could be altered profoundly. This could be true either in the context of a defanged North Korea or of a North Korea that simply "goes away."

The implications of internal change are equally consequential with respect to Japan, but we really do not appreciate these shifts nearly as much as we should. The logic of our regional security strategy emphasizes the singularity of the American alliance relationship with Japan. In terms of bases, burden sharing, logistical support, and

other forms of assistance, one can certainly make that case. However, there seems to be a contradiction in our expectations of Japan. On the one hand, we continue to rely upon Japan as an essential security partner, and Japan remains central to our declaratory security strategy. But given that the Japanese economy has remained in the doldrums for a full ten years, there is a very striking contradiction in U.S. policy assessments. Since Japan is a wealthy, developed society, it can still devote major efforts to national defense. Nonetheless, Japan is very much in transition—because of its problematic financial and economic forecast, because of its aging population, and because of internal concerns about its possible marginalization in U.S. eyes. I wonder whether our traditional, paternalistic concept of "we lead, they follow" will remain viable over the long run; we may not be able to continue to go to that well.

So we face questions of reconstituting alliances on a different and sustainable basis. It is not clear, however, that the United States is willing to accommodate to major change even in Europe, where our allies are beginning, through the European Security and Defense Identity, to do things more on their own. We get edgy about this. That's not the role we planned for or are bargaining for.

If we look beyond our allies, there are larger questions of how to compensate states for their efforts to increase their national power. In Asia, this reduces to three very big, highly autonomous states—in no particular order, Russia, India, and China. I am not saying that one size fits all; we need to think very hard about what kinds of relationships are the most appropriate. If we cannot get the big picture right, a lot of unpleasant things could transpire, and regional conditions could grow worse as a consequence.

India is highly relevant to this discussion, since many in India aspire to a larger strategic role and want to draw in the United States more fully. Some in New Delhi entertain notions of India's playing a major balancing role against China. Although there is a certain tendency along these lines in Indian policy debate, it does not seem dominant in Indian strategic thinking. But numerous Indians regarded President Clinton's visit to New Delhi as a major success. Many in India felt psychologically and politically compensated by the visit, and these views may have an effect on future Indian policy choices. Over the longer run, if we collaborate more closely with India, the fact that

both countries have democratic systems will feature prominently in the rationale. Future prospects, however, will also depend on India's sustaining its economic transition.

Despite India's desire to emerge as a more significant factor in great power relations, the prospects for Indo-U.S. relations could also depend substantially on developments in Central and Southwest Asia. In discussions during a recent visit to India, a very prominent strategic thinker referred to the possible "Talibanization" of Pakistan. That warrants serious consideration; I do not believe it is simply scare tactics. Contending with such potential instability could provide a meaningful basis on which to achieve a more enduring center of gravity in U.S.-Indian relations.

Given the size of Asia's major powers, their capabilities and power intentions, and their aspirations to enhanced international roles, the prospect of major instability induced by ethnic and religious conflicts ought to be among the primary concerns in American interactions with the region. There may be no easy escape from such rivalries and conflicts. Looking at Asia and the Pacific as a whole, the dangers of instability are much more pronounced in Southeast Asia and in South and Central Asia than in Northeast Asia, where our primary strategic interests have long been focused. But many states remain highly wary of American power and intentions. They see a clear need to retain capabilities to limit the risks and dangers to their own security. China is high on the list of these states.

What kinds of scenarios might be relevant to future defense planning? Many do not involve enormous concentrations of weaponry or manpower. We all nod knowingly at assertions that national security is being radically transformed in the information age, but we have yet to think through what this implies in relation to our own long-term regional defense strategy, and what others might do to counter it.

China in this regard has a long-term goal of inhibiting the execution of an American strategy that impinges on China's vital interests. But nuclear weapons do not offer the Chinese a panacea. When I visited China in April 2000, a senior planner long involved in their nuclear weapons programs put a question to me: given the kind of targeting strategies that the United States has applied in Kosovo and other recent conflicts, what good are China's nuclear weapons and its no-first-use policy? From the Chinese perspective, it is all well and

good to think that nuclear weapons will deter the United States from striking first, but the Chinese are beginning to acknowledge and grapple with profound changes in their security calculus.

It is very difficult for us to gauge the parameters of such an internal debate fully and accurately. Many specialists on Chinese defense policy are trying to identify China's long-term security priorities. There are some very large tradeoffs the Chinese need to address between various weapons systems and defense technologies and the requirements for modernization. Moreover, the Chinese have a much more self-sustaining research and development capability in missiles and nuclear weapons than they do in their naval and air forces. For that reason, the rate at which they modernize naval and air power may be largely a function of what they are prepared to pay the Russians to provide—meaning that it takes even longer to integrate new capabilities into their operational planning. Developments in information technology also represent a major focus for Chinese defense planners, one that seems to be emerging as an additional and very important priority.

Despite frequent Chinese criticisms of U.S. regional strategy, I believe that the Chinese are not uncomfortable that we are hedging against them, as they are also hedging against us. It does not necessarily mean that we are on a slippery slope with Beijing. One of my criticisms of arguments that we need to prepare much more vigorously for the possibility of an antagonistic China is that it sells current American capabilities very short. It devalues the kinds of capabilities and presence that we already have. Nor do such capabilities necessarily have to be shaped in an explicit way as being oriented against China. But longer-term concerns about China are obviously one of the major reasons why we remain forward deployed in the Pacific.

We should not shy away from being explicit about our concerns about China. Unfortunately at times some of our policy pronouncements have entailed too much "happy talk"—in essence, wanting to say the right things and not offend. I am not advocating that we go nose to nose with the Chinese. But there are clearly reasons for our forward presence that are related to China. I think we need not be defensive about articulating that. It is curious why this seems to be such a difficult proposition. Currently, some Chinese write and talk about changes in warfare in very bold ways. This is a very entrepreneurial

era in China, even for writers in defense journals. Even though we should pay close attention to what different Chinese are writing, there is a vast amount of self-promotion and marketing going on, which makes it very difficult to determine the center of gravity in the Chinese defense debate. It is something that we are going to have to continue to follow very closely. At the same time, however, this forum's discussions have highlighted that for many regional leaders, Asia's economic and technological transformation will remain their highest priority. This seems the case for the Chinese. It does not mean that they will be oblivious to their military power, but their preoccupations with societal development will almost certainly remain dominant in their policy calculations.

It is simply not possible to predict where these internal processes and outcomes might lead the Chinese system over the longer run. Moreover, some outcomes will be directly influenced by U.S. policy actions. I am not trying to suggest that our power is going to be decisive in determining internal outcomes in China or anywhere else. Still, countries closely follow how our power affects their interests, and they decide their priorities accordingly.

Several speakers at this forum have argued that if the United States has no intention of introducing ground troops on the Asian mainland, then perhaps we are "self deterred." The end result is the same: stated or not, there are clear constraints on what the United States might be prepared to undertake in a regional conflict. At the same time, the Chinese have been very explicit that certain kinds of U.S. actions would be unacceptable—i.e., deployments, strategies, and activities that would directly impinge on their vital interests, especially in a crisis. But it is not unrealistic to expect that after Korean unification the U.S. willingness to maintain ground forces in Asia would be dramatically undercut—and that's going to have major ramifications for our credibility with our allies and the core structure and logic of our alliances and forward presence.

Let me make one last point about China. As has been remarked, China already constitutes in physical and demographic terms a very large share of what we describe as the Asia-Pacific region. Despite its size and its growth, most of China's neighbors do not seem to be exhibiting acute anxiety about China or Chinese power, though some neighboring states can be artful in obscuring their deeper concerns.

For example, this forum has discussed the security arrangements Singapore has devised with the United States. Singapore makes it very clear that though it desires a continued U.S. regional presence, it sees incalculable dangers in any movement by Taiwan toward independence. Korea, Japan, Australia, and other American allies acknowledge U.S. predominance, but they also want to ensure against the risks of a major confrontation between the United States and China. They do not want to put all their eggs in the American basket. I would even include Taiwan in this list. Taiwan depends profoundly on the United States, but it does not see a contradiction between being prudent with respect to China and seeking to open doors to the mainland. All governments in the region subscribe to various forms of constructive engagement with China. For better or for worse, none sees a practical alternative.

But they do so on the basis of certain expectations of the United States: in the final analysis, "being there" still matters. That may be a cliché, but however impressive our information technology and the speed of communication and financial flows may be, the states of Asia and the Pacific want the United States to be *visible.* It does send a message, and it does help shape what our allies, potential adversaries, and others think about the United States. But we need to work out how best to achieve this presence if we are to make it sustainable over the long term.

APPENDIX

Asia-Pacific Forum, June 11–12, 2000

KEYNOTE ADDRESS, "THE U.S. STRATEGIC TRADITION IN THE ASIA-PACIFIC REGION": *PROF. STEPHEN P. ROSEN, HARVARD UNIVERSITY*

OPENING REMARKS: *VICE ADM. ARTHUR K. CEBROWSKI, U.S. NAVY*

PANEL I: AN ASSESSMENT OF THE "OBJECTIVE" POLITICAL CONDITIONS THAT PERTAIN IN THE ASIA-PACIFIC REGION

Chairperson: *Mr. James A. Kelly, President, Pacific Forum CSIS*

Paper: *Dr. Abram Shulsky, RAND Corporation*

Discussants:
Amb. Darryl Johnson, Political Advisor to the Chief of Naval Operations
Dr. Andrew "Dex" Wilson, Naval War College

PANEL II: AN ASSESSMENT OF THE "OBJECTIVE" ECONOMIC CONDITIONS THAT PERTAIN IN THE ASIA-PACIFIC REGION

Chairperson: *Mr. Peter Schwartz, Chairman, Global Business Network*

Paper: *Dr. Leif Rosenberger, Economic Advisor to the Commander in Chief, U.S. Pacific Command*
Discussants:
Mr. Douglas Paal, President, Asia Pacific Policy Center
The Hon. Paul Dibb, Australian National University
Dr. Richmond Lloyd, Naval War College

PANEL III: AN ASSESSMENT OF THE "OBJECTIVE" MILITARY CONDITIONS THAT PERTAIN IN THE ASIA-PACIFIC REGION

Chairperson: *Dr. Thomas Mahnken, Naval War College*

Paper: *Maj. Gen. John Landry, U.S. Army (Ret.), National Intelligence Officer for General Purpose Forces*

Discussants:
Rear Adm. David P. Polatty III, U.S. Navy, Commander, Carrier Group 1
Dr. Bernard Cole, National War College

ROUNDTABLE: OBJECTIVE CONDITIONS VERSUS THE U.S. STRATEGIC TRADITION:

Dr. Robert Sutter, National Intelligence Officer for East Asia
Rear Adm. Michael McDevitt, U.S. Navy (Ret..), CNA Corporation
Dr. Jonathan Pollack, RAND Corporation

CONTRIBUTORS, AND THE EDITOR

PAUL DIBB is head of the Strategic and Defence Studies Centre in the Research School of Pacific and Asian Studies, The Australian National University. He was previously Deputy Secretary for Strategic Policy and Intelligence in the Australian Department of Defence and director of the Joint Intelligence Organisation. Previously he had been head of the National Assessments Staff for the National Intelligence Committee. An earlier version of this paper appeared in the *Naval War College Review,* Winter 2001.

JOHN R. LANDRY, Major General, U.S. Army (Ret.), is National Intelligence Officer for General Purpose Forces on the National Intelligence Council. During more than thirty years with the Army, General Landry served in numerous command assignments as well as in positions formulating Army and joint military policy and strategy. Before joining the NIC he was Deputy Assistant Secretary of Defense for Guard/Reserve Affairs.

MICHAEL MCDEVITT, Rear Admiral, U.S. Navy (Ret.), is a Senior Fellow at the CNA Corporation, where he directs a multiyear initiative known as Project Asia that focuses on policy issues. During his Navy career, he commanded an aircraft carrier battle group; was Director for Strategy, War Plans, and Policy for the commander of the U.S. Pacific Command; and was Commandant of the National War College.

JONATHAN D. POLLACK was Senior Advisor for International Policy at RAND, Santa Monica, California, at the time of the Asia-Pacific Forum. In October 2000 he assumed duties as chairman of the Strategic Research Department of the Naval War College, with collateral duties as chair of the Asia-Pacific Studies Group.

STEPHEN PETER ROSEN is the Beton Michael Kaneb Professor of National Security and Military Affairs at Harvard University and the Director of the Olin Institute for Security Studies, also at Harvard University. He was the civilian assistant to the Director, Net Assessment in the Office of the Secretary of Defense, the Director of

Political-Military Affairs on the staff of the National Security Council, and a professor in the Strategy Department of the Naval War College. An earlier version of this paper appeared in the *Naval War College Review,* Winter 2001.

LEIF ROSENBERGER is the Economic Advisor to the commander in chief of the U.S. Pacific Command. He was a Visiting Scholar on the Economics Faculty at Harvard University until 1998. Dr. Rosenberger spent most of his career as the professor of economics at the U.S. Army War College, where he held the General Douglas MacArthur Academic Chair of Research. He has also worked in the Strategic Studies Institute at the U.S. Army War College, as well as at the Central Intelligence Agency and Defense Intelligence Agency.

ABRAM N. SHULSKY is a consultant on national security affairs to the RAND Corporation and to the Office of Net Assessment in the Office of the Secretary of Defense (OSD). He has served as the director of Strategic Arms Control Policy in OSD, as Acting Representative of the Secretary of Defense to the Nuclear and Space Talks (Defense and Space Group) with the former Soviet Union, and as Minority Staff Director of the Senate Select Committee on Intelligence.

ROBERT SUTTER is the National Intelligence Officer for East Asia on the National Intelligence Council. In his government service of over thirty years he has held a variety of analytical and supervisory positions, with the Congressional Research Service of the Library of Congress, the Central Intelligence Agency, the Department of State, and the Senate Foreign Relations Committee.

PAUL D. TAYLOR chaired the Asia-Pacific Studies Group of the U.S. Naval War College in 1999 and 2000. A retired Foreign Service Officer, he works with the Naval War College's Decision Strategies Department, where he has directed studies on South Asian proliferation and Korean futures. While in the Foreign Service, he held a variety of assignments, including Deputy Assistant Secretary of State and chief of mission.

Naval War College Press

The Naval War College Press publishes a variety of works, including the quarterly *Naval War College Review,* the Newport Papers monograph series, the Historical Monograph book series, and book-length studies and collections on subjects of interest to the Naval War College community. For information about the Naval War College, its Center for Naval Warfare Studies, or the Press—or to obtain a catalog, subscription, or offprints—write President, Code 32, Naval War College, 686 Cushing Road, Newport, R.I., 02841-1207; telephone (401) 841-2236; fax (401) 841-1071; or e-mail press@nwc.navy.mil. Visit the College's Website at http://www.nwc.navy.mil, or the Press site at nwc.navy.mil/press.

Cover design by Joan Mikosh, Naval War College Graphics Art Division