



U.S.-Japan-China Relations:
Reducing Frictions and
Improving Cooperation

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Synopsis of Conference Discussion

by Jane Skanderup

Introduction

On August 21-23, 2002, the Pacific Forum CSIS jointly sponsored a conference in Washington, D.C. entitled “U.S., Japan, and China: Developing Stable Trilateral Relations” with the Research Institute for Peace and Security (RIPS) in Tokyo and the China Institute for Contemporary International Relations (CICIR) in Beijing. This was the third and final year of a very productive collaboration among the Pacific Forum, RIPS, and CICIR, which began with a meeting in Tokyo in 2000, continued with a meeting in Beijing in 2001, and concluded with this meeting. A majority of the participants in Washington had attended the two previous meetings, so there was a strong rapport and collective memory from discussions in previous years on which to build the dialogue. (See Appendix A for the agenda and participants list).

This *Issue and Insights* is a collection of the nine papers presented during the two-day conference, with this introductory Synopsis, which summarizes the highlights of the dialogue. Readers are encouraged to further explore the rich mix of viewpoints expressed in the individual papers. The conference elicited a frank and honest exchange of views, addressing difficult topics in an atmosphere of mutual respect. Perhaps Ralph Cossa, President of the Pacific Forum, captured the mood best when he observed, “We didn’t always agree, but we discovered that we could disagree without being disagreeable by having candor and respect for one another’s views.”

In addition to the conference, the three institutes organized a public panel session to convey the outcomes of the discussion to a broad audience of about 80 scholars, policy analysts, the media, and diplomatic representatives from a number of countries. The session was moderated by Pacific Forum President Ralph Cossa, and included Wang Zaibang, Vice President of CICIR; Seiichiro Takagi, Research Director of the National Institute for Defense Studies in Tokyo; and Bonnie Glaser, Consultant on Asian Affairs based in Washington, D.C. A full transcript of the presentations and the subsequent question and answer period is in Appendix B.

During a day and a half of discussions, conferees exchanged views on three principal topics. The first was “third eye perspectives on bilateral relations,” which elicited views from one “leg” of the triangle toward the relationship between the other two “legs.” The three institutes had agreed on this format to bring to the forefront how bilateral relations can advance or hinder trilateral cooperation from the perspective of the third “eye,” or third party in the triangular relationship. This session included views from China about the U.S.-Japan alliance and Japan’s becoming a “normal” country; perspectives from the U.S. on how China and Japan might address the divisive history issue; and perspectives from Japan on U.S.-China relations on differing regional and global priorities.

A second session focused on “trilateral priorities in regional and global economic relations,” which evaluated the roles of the Asia Pacific Economic Cooperation forum, World Trade Organization, ASEAN Plus Three, and China’s liberalization progress. The possibility of Taiwan’s inclusion in regional economic dialogues was debated as well as Taiwan’s desire to conclude free trade agreements. Naturally, this topic brought lively debate and conferees did not all agree.

A third session focused on “seeking common objectives for developing stable trilateral relations.” Participants noted the strong cooperation between the U.S. and China and between the U.S. and Japan on the war on terrorism, and it was often noted how U.S.-China relations have particularly improved as a consequence of September 11. The Japan-China relationship, on the other hand, did not experience a similar boost as a result of 9/11, with traditional issues holding sway.

Third Country Perspectives on Bilateral Relations: Views of the Other

What is the third party’s perspective on how the “other” bilateral relationship has evolved since our last meeting, especially in light of greater bilateral and international cooperation in the war on terrorism? Do bilateral developments enhance or inhibit trilateral cooperation or bilateral relations between the third party and each of the other two? More specifically, does U.S. encouragement of greater Japanese involvement in international security affairs threaten Chinese interests or China’s relations with Japan or the U.S.? Likewise, how does Japan view the implications of the U.S. and China building toward a more “cooperative, constructive” relationship? What are U.S. views of greater Japanese-Chinese cooperation in forums such as ASEAN Plus Three and separate “Plus Three” initiatives?

With these questions in mind, participants assessed the development of bilateral relations during 2001 through the summer of 2002, noting in particular the impact of September 11 on trilateral relations. There was general agreement that both U.S.-Japan and U.S.-China relations had generally improved through cooperation on the war on terrorism, in marked contrast to little change in Japan-China relations.

In providing a Japanese view of U.S.-China relations, Seiichiro Takagi characterizes the post-Cold War bilateral relationship as one of “constant instability,” fluctuating within a narrow range, as “serious confrontation and close cooperation are both short lived.” As he spells out in the first section in Chapter I, both states pursue cooperation for both security and economic interests, even while each side’s behavior also poses problems for the other, such as U.S. concerns about China’s proliferation of weapons of mass destruction (WMD) or U.S. “hegemonism” which runs counter to China’s preferred world order based on multipolarity. Tagaki points out that this problematic behavior does not always lead to conflict, such as when the U.S. took a corrective, instead of a punitive, approach to China’s WMD proliferation by seeking to improve China’s export control system, for example. For China, resistance to U.S. “hegemonism” has not often proven successful, and “even the Taiwan question has an aspect that counsels prudence to the Chinese,” as too much bilateral conflict may

reinforce the “China threat” arguments in the U.S., thereby strengthening Taiwan’s strategic significance to the U.S.

What has changed in this dynamic after September 11? Takagi believes U.S. policy toward China did not really undergo a fundamental shift as much as it has become “bifurcated,” combining measures of cooperation with a watchful U.S. eye on Chinese behavior, particularly on military developments. He characterizes this as “diplomatic accommodation with strategic vigilance.” On the cooperative front, for example, when the United States pulled out of the Anti-Ballistic Missile (ABM) treaty in late 2001, President George Bush called President Jiang Zemin just hours before the announcement and offered to hold high-level strategic dialogues. Although the State Department’s May 2002 report on patterns of global terrorism used a full page to detail China’s contributions to the war on terrorism, including a sympathetic view of China’s own problems with terrorism, other documents issued by the Bush administration have pointed to current and potential risks to U.S. interests posed by China’s current strategic direction. These included the Defense Department’s Nuclear Posture Review, a separate Defense Department report in July on Chinese military power, and the U.S.-China Security Review Commission’s first annual report in July – all pointed to security concerns about China’s military modernization.

Providing a Chinese view on Japan-U.S. relations, Yang Bojiang, in the second section in Chapter I, articulates Chinese concerns about a “mini-NATO” developing out of a strengthened U.S.-Japan alliance in the post 9/11 era. Yang’s views reflect Chinese thinking that a strengthened U.S.-Japan alliance comes at the “expense of more ideal relations with China.” The most effective way to address terrorism and nontraditional security threats is through multilateral dialogue and international cooperation, he argues. Traditional military alliances are not sufficient, given the increasing importance of non-state actors where security issues are in continuous flux, and there are no fixed alliances or enemies. There are new threats and it is difficult to identify clear targets. Anti-terrorism and stability are common needs of all states, and Yang emphasizes that international cooperation is the appropriate response to deal with these threats.

Sino-Japan relations seem as difficult as ever, James Pryzstup argues in the third section in Chapter I. This is a very difficult relationship to manage for both governments, for reasons of geography, history, and politics, and it is a relationship where “the past is always present,” he observes. With the advent of the 30th anniversary of the normalization of Sino-Japanese relations in September 2002, it is striking how many times the past continues to resurface. Trade and investment have grown from “a trickle to a broad and deep river of commerce,” but this has not eased the calculus of power between the two neighbors. The U.S. continues to exert extraordinary influence on this bilateral relationship, Pryzstup contends.

Over the past three years, U.S.-related issues – the Defense Guidelines, Taiwan, and missile defense cooperation – have been intrinsic to the Japan-China security dialogue. After September 11, this has continued to be the case, with both China and Japan watching each other’s security postures carefully.

Despite Prime Minister Koizumi's visit to Beijing in October 2001 to secure Beijing's understanding of the steps Japan had taken to support the U.S. war on terrorism, Chinese diplomats have since argued that the deployment of the Self Defense Forces (SDF) to the Indian Ocean provided Japan an opportunity it has always sought to "break out of the sacred zone" that bans Japan's dispatch of the SDF overseas. To assuage Chinese concerns, Pryzstup reports, Japan initiated a security dialogue involving both Foreign Ministry and Defense officials. These talks also served Japan's interests. Japan has paid increased attention to China's on-going military modernization, including new specificity in China's 2001 Defense White Paper about missile capabilities. Japan has responded with a greater willingness to use Japan's Overseas Development Assistance (ODA) to leverage favorable outcomes on security concerns – a trend that will only increase as Japan's younger generation comes to power. In fact, history as an irritant seems only likely to increase, particularly if anti-Japanese sentiment becomes an important ingredient for Chinese nationalism, at the same time that the young generation in Japan, with no war experience, tends to view China's "war guilt" and fixation on history as mere foreign policy tools. Although some of China's younger Japan analysts see Japan as having experienced a postwar transformation, they are by no means the mainstream, he observes.

Japan's heightened security concerns about China, and China's fixation on history, have served to strengthen Japan's relations with the United States over the last decade, Pryzstup believes. This has gone hand in hand, however, with a broad recognition in the U.S. of Japan's desire for greater diplomatic self-identity and autonomy within the alliance structure, and has also paralleled a discomfort in Japan about U.S. policy toward China. Japan's ideal for U.S.-China relations is a "Goldilocks" policy: not too hard, not too soft, but just right.

Participants debated just how much of a shift has occurred in U.S.-Sino relations. Some participants stressed that post 9/11, both sides missed a chance to create a new broad-based framework for cooperation, while others believed that it is naïve to think that the post-9/11 Sino-U.S. relationship can go beyond where it is today. There was also a view expressed that in the immediate wake of 9/11, U.S. officials did not believe China was willing to go as far as Russia in cooperating against terrorism and did not expect active support, yet now China is viewed as making a very substantial contribution to the war on terrorism – on intelligence sharing, for example – which some U.S. officials privately describe as "unprecedented." Little public credit is being given because the U.S. sees no need to single out China, it was argued, and the nature of information sharing is politically sensitive, such as on the Uigur prisoners in Guantanamo Bay.

U.S.-Japan relations clearly received a boost after September 11 with unprecedented cooperation from Tokyo on U.S. requests for military cooperation, in a total reversal of the previous "Gulf War syndrome" it was agreed. Tokyo's actions also demonstrated Japan's interest in and capacity to play a new international security role beyond the regional context. Other participants argued that concerns about a new "mini-Nato" are overblown. Japan has not taken every opportunity to extend the scope of

military action, evidenced by constitutional limitations still very much intact and by the government's hesitation to dispatch Aegis ships to the Indian Ocean in support of U.S. action in Afghanistan. Yet the war on terrorism shifted the strategic environment. Complaints about "unipolar tendencies" and missile defense which previously characterized the Shanghai Cooperation Organization meetings, in some participants' view, have become muted as Russia and China have accepted the new presence of U.S. troops in Central Asia.

There was considerable discussion of Sino-Japanese relations, regarding the divisive history issue as well as whether China's views of Japan becoming a "normal" country and whether this trend means Japan is returning to a militarized state. Some Chinese analysts believe that Japan has truly changed and is not going "back to the future." They agree that Japan has a major role to play in international system, but these analysts also noted that this is not a mainstream view in China. Some Japan participants noted the distinctive views within the Japanese government and Diet that are not recognized by Chinese analysts, such as the fact that the Japan Defense Agency is more cautious about sending peacekeeping operations (PKO) than the Ministry of Foreign Affairs.

There was resonance around the table of Japan's ideal "Goldilocks" relationship between the U.S. and China. In Japan's view, the Sino-U.S. relationship is uniquely different: they are not allies, not avowed enemies, and not friends, largely because of Taiwan. Until Taiwan is off the table, there will be an inherent tension between the U.S. and China. Japan is also acutely aware that a "just right" policy is difficult to achieve because of the divisive role that domestic politics plays in both the U.S. and China, which tends to make this bilateral relationship more conflictive.

In its foreign policy approach, Japan pursues a number of multilateral forums, using a kind of replication of the European model, where the Council for Security Cooperation in Europe (CSCE) is not only a cooperative mechanism, but suggests a variety of options, such as NATO and the Western European Union. In this approach, the strategic options China retains toward Taiwan are worrisome; its strategic arsenal and lack of transparency are problematic. If China renounces the use of force against Taiwan it would go a long way toward easing suspicions, several Japanese and Americans opined.

Participants stressed that the younger generation in Japan is fatigued with being lectured about history, and they feel it is interference in Japan's internal affairs. Chinese warnings to Japan about history tend to drive the Japanese toward the United States, and it was stressed that anti-Chinese sentiment is becoming a core component of Japanese nationalism.

Some participants expressed the view that China and Japan can enjoy a relationship of peaceful co-existence, because there is no geographic imperative for the two states to compete in the region or the globe. The two countries are not competitive "tigers" like existed among states in 19th century Europe, and the United States cannot

play a balancer as the UK did in that era. In the contemporary security environment, Japan has no desire to be a “tiger” in continental Asia, but rather wants to be a “dolphin” – not even a “whale” – in maritime Asia. The role of the Japanese military is based on interdependence and ensuring regional security, rather than the balance of power approach that many Japanese ascribe to the U.S. and China. This distinct way Japan views its security role has an important bearing on the trilateral relationship, and demonstrates the difference in U.S. and Japan security approaches.

A comprehensive approach to U.S.-China-Japan relations is needed. Trilateral improvement based on bilateral relations and internal factors cannot be ignored. The key for moving beyond a zero-sum calculus in the trilateral relationship is to understand that although it is not equilateral, no one nation or bilateral relationship should profit at the expense of the third country.

Trilateral Priorities in Economic Relations

Participants were asked to consider what the overlapping and distinct goals are of Japan, the U.S., and China in regional and global economic integration. At the bilateral level, free trade agreements (FTAs) have become increasingly viewed as an important ingredient of a nation’s economic policy, but to what degree are these really driven by political goals? At the regional level, China and Japan are involved in ASEAN Plus Three, which has fostered both a “Plus Three” dialogue and separate trade initiatives by both countries with ASEAN. Are Japan’s and China’s goals in these initiatives compatible? Have these dialogues altered the role of APEC, and how are U.S. interests affected? At the global level, there are two distinct challenges: China’s WTO implementation and the new Doha round negotiations. What are each country’s key concerns and strategies regarding these two issues, and what are the common interests among the three?

All three paper presenters in this session stressed the role of China in the economic dynamics of trilateral relations, as well as in the broader regional and global economies. Zhang Li, in the first section of Chapter II, outlines China’s achievements and challenges in implementing its WTO commitments. Zhang stresses the tremendous evolution of thinking within China since debate began in 1982 about joining the WTO’s predecessor, the General Agreement on Tariffs and Trade (GATT). He points out that a further transformation of society will need to parallel China’s opening up under the WTO, and he outlines some of the internal debates and uncertainties expressed within Chinese society about what the affects of liberalization will be. There is no expectation that these changes will occur overnight, and he identifies industries and sectors that are less well prepared to compete without the state interfering “to save the day.” The agricultural sector and farmers’ incomes in particular worry the leadership, and Zhang provides a concise list of the “one center and four strategies” approach that the government has adopted to improve China’s international competitiveness in agriculture.

The regional economic dialogues are a positive step forward, Zhang argues, and he views ASEAN Plus Three, ASEAN Plus One, and APEC as complementary

“platforms” for China’s economic engagement – and he does not view Japan’s initiatives with ASEAN as at all conflictive with China’s goals. Zhang believes that APEC has reached an “adjustment stage,” and the challenge for APEC now is “seeking a new motive force for development.” Although Zhang is supportive of East Asia economic cooperation, he also believes “it is difficult for East Asian countries to make substantive compromises to create an East Asian community...nor will East Asia cooperation go smoothly.” He points to strong nationalism, ethnic conflicts, mistrust, corruption, internal economic difficulties, and competition for leadership among all of the players as reasons for difficulties ahead. Finally, Zhang seems to believe the main common interest among the U.S., China, and Japan is for China to implement its WTO commitments, and in this he urges increased inter-governmental contacts to assist China’s learning curve in foreign economic cooperation.

In section two of Chapter II by Jane Skanderup (the author of this Synopsis), I argue that in the past several years economic relations have become more divisive than in the past, and the mantra of “economic cooperation” as a basis for improved bilateral or, as a long distant goal, trilateral relations needs greater attention. The fundamental facet of commerce and investment that binds our three countries should not be taken for granted, and more needs to be done to develop a common economic agenda.

I also argue that China’s emergence as a regional and global manufacturing center is a natural and positive development for trilateral relations and the region. Contrary to the widespread nervousness about China’s new comparative advantage displacing the traditional export powerhouses in East Asia, this is a “win-win” situation as long as China continues to liberalize and open up. China’s economic development is actually very young, and the first twenty-five or so years of economic development – from 1978-2002 – probably involved easier tasks than those that lie ahead. If China is successful, it will put more pressure on Japan, the U.S., and other economies to more vigorously pursue their own restructuring which entails moving away from manufacturing and strengthening competitiveness in the services and high-end technology sectors.

The development of regional economic dialogues is positive, I note, but is only a partial dialogue as long as Hong Kong and Taiwan are excluded from the ASEAN Plus Three and the “Plus Three” dialogues. These two economies are key to the region’s economic prosperity, and it is in China’s interest to involve them in efforts at regional integration; excluding them on political grounds will end up hurting China economically, particularly should these dialogues result in meaningful economic agreements. Although China is typically concerned that Taiwan might use economic fora to try to gain political stature, China might find that Taiwan’s inclusion might strengthen the economic relationship that has eluded the two sides at the inter-governmental level. China’s own economic development hinges on Taiwan’s continued economic success, including Taiwan’s initiatives in e-commerce issues in APEC, for example.

In the third section of Chapter II, Hideo Ohashi recognizes that China’s demand for intermediate inputs is “indispensable” for sustained growth in the Asia-Pacific, alerting us to an economist’s view that counters the “China as economic threat” school of thought. Ohashi also provides a useful perspective of the changes in the “flying geese”

economic model in the thirty-year period from the 1970s to the turn of the century. China joined this process of division of labor and comparative advantage in the late 1980s and, he notes, “It is a very big goose, with a head approaching the front geese [U.S. and Japan] while its tail is still at the very back, and it is flying very high and fast.” Ohashi argues that the flying geese model is no longer the determinant of trade and foreign direct investment (FDI) patterns in the Asia-Pacific region due to a number of factors, but the end result is that less industrialized economies are able to produce more advanced products than the traditional comparative advantage models suggest.

Japan needs to revitalize its economy, Ohashi argues, and points out that the problems are more complex than resolving the non-performing loan problem at the banks. There is also a dire need to revitalize industry. The manufacturing industry – the mainstay of Japan’s economy – shrank by six percent during the 1990s, while that of the U.S. increased by 50 percent. Yet Japan is constrained in creating new industries, Ohashi argues, because Japan’s capital markets are ineffective in supporting new entrepreneurs.

Ohashi provides an objective assessment of the positive and negative aspects of free trade agreements (FTAs). One view is that FTAs promote structural reform and liberalization, FDI expansion, and help to create domestic demand and reduce reliance on export markets – particularly the U.S. Yet it is not clear that FTAs will actually lead to greater global trade liberalization – they are “neither a stumbling block nor a building block” – and Ohashi calls for a strong commitment to multilateral trade liberalization. While he argues for the U.S. to take the lead in the WTO, he also expresses serious concern about its falling back on unilateral trade measures, such as imposing steel safeguards.

Participants from across the spectrum expressed diverse viewpoints about perceptions of China’s rise in self-confidence and Japan’s loss of economic self-confidence. There were many strains in this discussion. One point of view challenged this conventional wisdom, and argued that Japan’s so-called loss of “economic” confidence is reflective of fundamental political changes in society, driven by institutional changes such as in lifetime employment and, in Japanese society’s eyes, a loss of credibility in political institutions. This is part of a natural transformation, although a wrenching and lengthy one, that is remaking the political, social, and economic systems. In this view, Japan is becoming a “normal economy,” a mature economy that is well past the heady growth days of the economic miracle. Japan may only need to grow at one to two percent a year, less than the OECD average but still on a par with the United Kingdom, for example.

It was equally argued that China’s economic self-confidence might be overstated. Looking at China through the prism of economic figures alone does not tell the full story: according to purchasing power parity (PPP) analysis, China’s economy is larger than that of Japan. But this creates a confused public image; perceptions of China’s economic importance are often greater than the reality. Concern was expressed that expectations for a smooth economic trajectory of China’s ongoing economic success may be misplaced. There are serious weak points that can constrain China’s transformation -- including reform of state-owned enterprises, the urban-rural income gap, and the internal

migration system, for example – that can pose serious challenges to social and political stability. It was stressed that the “China threat” that the U.S. worries about – of military might and missiles – is very different from the “China threat” than Japan worries about, which is a confused and unstable China. This highlights that U.S. and Japan officials see a different part of the Chinese “elephant” because of the neighborhood they inhabit.

Participants debated whether Japanese society would come to think that their economic future lies more with China than with the United States. The trade numbers tell part of the story: in the first half of 2002, total Japan-China trade rose 3.4 percent to a record \$45.12 billion, with about 17.8 percent of Japan’s imported goods coming from China compared to 18.2 percent from the United States. The overall trade gap is also narrowing, as China’s share is increasing and the U.S. share is declining, setting the stage for China to overtake the U.S. as Japan’s largest trading partner in the second half of 2002, according to the Japan External Trade Organization.

Yet rather than create a closer economic relationship, there could be a backlash from Japanese public opinion. There is anxiety in Japan about the economic future, and the problem is psychological, especially when it comes to China. Participants cautioned that China’s size may prove disadvantageous; as noted above, perceptions about China’s economic strength are often warped by its sheer size, and it will be a challenge to resolve trade frictions without them becoming politicized.

There was considerable discussion about the significance of the ASEAN Plus Three process. East Asian integration is occurring without institutions, but it is still making a contribution toward globalization, some argued. There is a “sense in the neighborhood” that this contribution is very important, according to several views. Participants were curious about changes in attitudes that “allowed” the ASEAN Plus Three to be established in 1999, when in 1992 the East Asian Economic Caucus proposed by Malaysian Prime Minister Mahathir was promptly denounced by the U.S., politely ignored by China, and met with indifference by Japan. The explanation from the U.S. side was that in 1992 it worried that the EAEC was an exclusive economic bloc, all too reminiscent of the 1930s that witnessed how competing blocs drove the world economy into a depression spiral. By 1999, the view was that economic globalization was so pervasive that protectionist economic blocs, if attempted, could not survive. For China, the experience of the 1997-98 financial crisis was a watershed and fundamentally altered attitudes towards multilateral economic forums. A new consensus was forged, particularly around the necessity of joining the WTO, but also around the desirability of APEC as well as ASEAN Plus Three. For Japan, support for ASEAN Plus Three also stemmed from the 1997-98 financial crisis and the new consensus that argued for active bilateral and regional economic engagement rather than sole reliance on global economic institutions. In fact, the first ASEAN Plus Three agreement – the Chiang Mai Initiative – involved currency swaps, an idea that was originally rooted in Japan’s “Asian IMF” proposal eschewed in 1998 by the U.S. and international financial institutions. Japan was well positioned for internal political reasons to enter into a regional framework like ASEAN Plus Three quite separate from whatever the U.S. thought, challenging the view

that Japan was only able to join in a regional dialogue because the U.S. no longer objected.

The suggestion that the regional integration process would be better served by including Hong Kong and Taiwan was particularly divisive. The concern was expressed that Taiwan uses economic “space” for political purposes and therefore it would “take advantage” of a role in ASEAN Plus Three to politicize economic dialogue. Various participants refuted the notion that Taiwan’s membership in APEC could provide a model for Taiwan’s participation in other inter-governmental dialogues. Taiwan joined APEC, with China and Hong Kong, in 1991. Some participants pointed to the stable cross-Strait political context – given the 1991 “consensus” – as the determinant factor in Taiwan’s original involvement in APEC, noting that this stability does not prevail today. Another point of view was that China’s relative weak economy at the time of its 1991 entry into APEC did not allow it to exercise the political weight it would have desired in order to veto or constrain Taiwan’s role in APEC. Others pointed out that China’s inability to exercise political weight was also due to its political isolation and weak international standing due to the 1989 Tiananmen tragedy. A parallel point of view was that China’s membership in APEC in 1991-92 was a foreign policy priority and it was not worth sacrificing scant bargaining chips to try to exclude Taiwan at the expense of gaining its own entry. Allowing Chinese Taipei (and Hong Kong) to enter the APEC “gathering of economies” was the price China had to pay for its own admission. For all of these reasons, the conclusion was that the motivations for including Taiwan in ASEAN Plus Three would necessarily be different than those that brought Taiwan into APEC at its formative stage a full decade ago.

It was agreed, however, that a significant strategic issue for China is the question of Taiwan’s role in the emerging framework of East Asian cooperation. Even if China wants to give Taiwan some room to shape its future and to fix a place for itself in regional dialogues, Beijing does not yet have the confidence that Taipei will play a purely economic role in these dialogues. The question was asked if China could agree to Taiwan negotiating FTAs within the APEC context? If China could agree to a formula of “FTAs within APEC,” this might well take away the political impetus for Taiwan to pursue its own FTAs. In response, some participants suggested the alternative of Taiwan negotiating a FTA with Hong Kong and Macao. Yet Taiwan’s pursuit of other FTAs, such as with the U.S., Japan, or Singapore, are subject to China’s approval in the same vein as Taiwan joining the WTO, some argued. Other participants stressed that Taiwan’s objective should be to negotiate FTAs that make economic sense, and not just driven by a political need to balance China or seek international space.

On U.S.-China economic relations, participants questioned the views expressed in the Congressional Study Research Commission (CSRC) report and the impact of the mood in Congress on U.S.-China economic ties. The concern was expressed that some of these views have a serious impact on the growth of U.S.-China economic ties that, if adopted, would affect the political and security spheres. What is the likelihood of these recommendations being followed or representing the political mainstream? The U.S. side explained that the CSRC group is not representative of Congress; the members are

political appointees and critics of China. Its economic sanctions agenda is not likely to be supported by a majority in Congress, nor in the Bush administration, which views the economic recommendations as potentially dangerous. Even though some analysts would have preferred a strong administration response, the consensus was that a response might have lent more credence to the recommendations; by ignoring them, they hoped it would go away. But these views cannot be ignored, as they represent a vocal minority that could be influential in the future.

Developing Stable Trilateral Relations: Seeking Common Objectives

The goal in this session was to develop specific recommendations on how all three nations should proceed – unilaterally, bilaterally, and together – to enhance regional security in the future. Participants were asked to consider three questions: What are the common objectives to develop a framework for future trilateral cooperation? What measures can be taken to minimize differences, and mitigate both current and historic suspicions that create roadblocks to closer cooperation? What are the best paths to follow in pursuing closer political, economic, and security cooperation among all three nations?

In the first section in Chapter III, Masayuki Tadokoro details Japan's view of its security role vis-à-vis the U.S. and China. Japan is not an independent strategic actor like the U.S. and China, he argues, but a self-imposed "incomplete power" with reduced limitations in its security posture, compared to its wealth of resources, due to its "historical liabilities." The existing alliance structure with the U.S. serves Japan's interests for many reasons, he argues, but Japan's security strategy goes beyond the alliance structure to emphasize the institutionalization of regional relations, based on a logic of interdependence rather than a balance of power. Tadokoro calls Japan's priority to build multilateral frameworks an effort to move from a "Cold Peace" that has pertained since the Cold War to a "Warm Peace," where Japan can gain from China's economic rise without this gain being viewed as a threat to Chinese interests. Tadokoro argues that it will be a long time before a Sino-Japan relationship develops as close as the U.S.-Japan relationship, largely due to China's nationalism being the guiding force for foreign policy for the foreseeable future, given China's lack of democratic institutions.

Tadokoro argues that Japan gains from positive Sino-U.S. relations, since this gives Japan more room for cooperative relations with China. The worst scenario for Japan is being forced to choose between the U.S. and China -- this would represent "a major diplomatic disaster whichever way Tokyo might choose," he argues. In the context of Japan's emphasis on multilateral frameworks, Tadokoro notes Japan's disappointment that the U.S. took little interest in multilateralism during the 1990s, yet Japan is hopeful that September 11 has caused the U.S. to realize that even it needs to work through multilateral frameworks to control a variety of transnational problems.

Tadokoro also points out that as economic friction with the U.S. has declined, and China's economic importance has risen, the Japanese public has increasingly come to view China as the major foreign country challenge to manage. In fact, Japanese public attitudes toward China have become increasingly negative throughout the 1990s, but Tadokoro argues against interpreting this as a sign of the public turning toward "the

right” or towards “re-militarization.” The most negative views toward China are among the younger postwar generation, yet these people are also the last people to feel affinity with prewar Japanese militarism. As Tadokoro describes, “This generation of Japanese simply cannot understand why Japan, with a half century of very peaceful and democratic behavior, must be repeatedly criticized for ‘militarism’ – based upon conduct before even their parents were born – by a country that is modernizing its nuclear capabilities that could wipe out the entire Japanese population.”

In the second section of Chapter III, Ouyang Liping argues that September 11 caused a fundamental shift in international relations, with nontraditional security threats now becoming a center focus. Although terrorism is not new, it has now been heightened to the strategic level; no country recognized, before September 11, that a threat from the nontraditional security arena could be so dangerous. China, the United States, and Japan shared the same predicament of how to face the uncertain threat from terrorism, yet when September 11 occurred, there was no mechanism for trilateral cooperation, only two sets of bilateral cooperative relationships: China and the U.S., and the U.S. and Japan. Although China tried to cooperate with the U.S. as best it could, there were some in China that did not trust U.S. or Japanese motives. Although this view was not the mainstream, Ouyang believes that there is “strategic distrust deeply rooted in the minds of some Chinese, some Americans, and some Japanese.” She argues that this distrust originates from the traditional security arena but has been superimposed onto nontraditional security cooperation.

There are three significant barriers to future trilateral cooperation, Ouyang observes. One is the “China threat theory” in the U.S. and Japan that, while it may not be the mainstream view, still seeks to counter China’s rise. The second is missile defense, which is potentially conflictive because of Taiwan. The third barrier is Taiwan itself, which Ouyang argues is at the core of the U.S.-China relationship. For the U.S., “Taiwan is a means to contain and check China,” Ouyang asserts, and for China, Taiwan “has consumed too much energy and brain power.” Yet Ouyang is hopeful that step-by-step measures can be taken by China, Japan, and the U.S. in the nontraditional security arena. She particularly stresses common interests between China and Japan in safeguarding energy supplies and free passage of the sea-lanes, as well as combating organized crime and counterterrorism as a priority among all three countries. China is all too cognizant of the security challenges in hosting a safe Olympics in 2008, and starting now on counter-terror cooperative mechanisms would not be too soon. Ouyang cautions against attempting cooperation on too much at once, however, opting for a gradual approach and building on easier tasks on a bilateral basis first.

In the third section of Chapter III, Michael McDevitt brings history to bear on answering the question of “how trilateralism in the 21st century can contribute to stability in a way that is different from today’s geostrategic balancing act,” noting in particular the U.S.-Japan alliance that has sought to “balance” China, resulting in a “two balancing one” rather than “one for all.” McDevitt reminds us that stability in East Asia for the last 110 years has always been about getting the U.S.-Japan-China balance right, and he observes that the past is not very encouraging. A century ago, the hegemon was Japan, and in the early part of the century U.S. appeasement failed to check Japan’s ambitions. At the end of World War I, the U.S. embarked on creating a strong Navy with legitimate “two ocean” capabilities, and at the same time implemented the

“Washington Treaty system” with, among other signatories, Japan and China, which aimed at creating a multilateral security system. It was the strategic leverage of the U.S. naval buildup that “convinced Japan to curtail its hegemonic role and give multilateralism a try.” McDevitt argues, “In effect, power underwrote the experiment with multilateralism in East Asia” in the 1920s. Yet this experiment was abruptly brought to a halt as the U.S., UK, Japan, France, and Italy agreed to limit the size of their navies and other defense spending due to budget limitations, giving away the military leverage that would preserve the status quo, thus “allowing” Japan to exercise its hegemonic ambitions.

The lesson McDevitt draws from this failed experiment in multilateralism is that “the dominant military power in East Asia was the nation that wanted to alter the status quo, not preserve it.” In contrast, today the U.S. and Japan form the dominant military alignment on the periphery of East Asia, and they are committed to preserving the status quo. Unlike the situation 80 years ago, today it is the rising power of China that wants to change the status quo, and “change it in a way that could limit the ability of the status-quo powers to maintain stability.” China is very clear that it is against alliances and views U.S. attempts to strengthen the alliance system as adding to instability rather than preserving peace. Rather, China prefers a multilateral approach, yet the vision it articulates is non-binding, which absent consensus, does not commit the parties to a specific course of action. This is all too similar to the earlier failure of multilateralism in the “Washington Treaty system,” McDevitt argues, and for “real” trilateralism to work – to deal with the big issues – the rising power needs to commit itself to the status quo.

McDevitt concludes with three prescriptions for future trilateral cooperation. One is to establish an expert commission to produce authoritative studies of the 1895-1945 period of East Asian history. The commission should be well-funded, with respected historians from Japan, China, the U.S., and South Korea as well – McDevitt notes that Chinese textbook portrayals of the Korean war either produce laughter or outrage, and all East Asian countries are susceptible to politicization of history. Although the past is not indicative of the future, how the past is interpreted has a powerful influence on public perceptions. In fact, so much has changed in East Asia’s geostrategic realities that even if Japan were to fulfill its neighbors’ worries and return to militarism – which could only occur in the extreme unlikelihood of a failure of Japanese democracy – it could not threaten its neighbors “in any meaningful way.” McDevitt’s second prescription is to understand that globalization is neither self-perpetuating nor self-managing, and all three countries – particularly Japan and China – need to improve their commitment to international flows of capital, goods, and ideas, which builds on pathways of mutual interests that already exist.

McDevitt’s third prescription is to have organized discussions about what will make China a status-quo power to its east, on its maritime frontier. In signing the Shanghai Cooperation Organization (SCO) agreement, China demonstrated that it is willing to be signatory to a pact that involves mutually enhancing cooperative measures. Yet in the SCO, China is the status-quo power and the military hegemon on the continent of Asia. If trilateralism necessitates agreement to the status quo by all three countries, then we need to know more about whether China is committed to peace and stability only after the status quo has been altered to its satisfaction, or to peace and stability, as it exists today.

In the ensuing discussion, participants focused on questions about ballistic missile defense (BMD), Taiwan, resolving the history question, the role of the U.S.-Japan alliance in helping or hurting regional stability, the status-quo power vs. the rising power that seeks to change it, as well as future cooperation in the nontraditional security arena.

On the question of dealing with the history issue, participants generally supported the recommendation of an official “historiography” that can provide objectivity about the past for Japan and China, as well as for South Korea. There was a worry expressed, however, that China is not ready for a historiography that gives the utmost importance to objectivity. In this view, China’s purpose in studying history is to prove that Japan is guilty and against China. Yet a true objective history project needs to begin without a predetermined conclusion, and China needs to be prepared to accept the facts even if this challenges popular or rhetorical claims by China of Japan’s past actions. Still others agreed that the goal for such a history project should be not who to blame for past acts, but to learn about what went wrong to apply to the future. Others pointed out the most influential interpreters of the past are the generation involved in the war, and as this aging population dies, mutually-agreed interpretations of the past will become increasingly necessary if divisiveness is not to become worse. Such an official history can be a powerful starting point for debate, and can provide a basis for political leaders to respond to public opinion about history questions, rather than letting emotional public opinion about the past determine how political leaders respond.

There was lively debate about McDevitt’s interpretation of status quo powers. Is there even agreement on what constitutes the status quo, who benefits, and who wants to change it? For example, Japan and China have tended to agree that bilateral relations need to be augmented by multilateralism to deal with nontraditional security threats, so they do not agree with the status quo. China argues that the bilateral security structure is ill adapted for dealing with transnational issues and should be scrapped. Japan argues that bilateral structures are not sufficient and need a complementary structure. Meanwhile, the U.S. posture seems more laissez faire with a position of “make better what we’re already doing.” Participants debated these questions and how to reconcile whether the status quo is adequate for dealing with transnational issues.

Some Chinese argue that it is the U.S. who is changing the status quo. U.S.-Taiwan relations, for example, are not the “status-quo” of 20-30 years ago, and the U.S.-Japan alliance is changing and growing to check China, it can be argued, changing the status quo. And while China is the dominant military power on the continent in Asia, is the recent U.S. presence in Central Asia altering that status quo? Regarding Taiwan, it was countered that the largest status quo change is democracy in Taiwan. That has changed everything, and affected how all parties deal with it. This was not a status quo change instigated by the U.S. – it was very homegrown, although the U.S. supported it and hoped it would happen. The second status quo change is Taipei’s acknowledgement that Taiwan no longer claims to represent all of China, just Taiwan and the Pescadores. China’s February 2000 White Paper also seemed to suddenly change the status quo, given the statement that if Taiwan doesn’t agree to reunification, then China in a fit of impatience may attack Taiwan, according to one participant. This is the third status-quo

change, that China's military action is no longer predicated on Taiwan policy or U.S. policy, but on China being tired of waiting. None of these changes to the status quo originated from the U.S., yet all have consequences, because the change to the status quo has resulted in an increase in the potential for conflict.

Further discussion clarified interpretations of the history of multilateralism. The Washington Treaty system failed because the regional hegemon, Japan, was not satisfied with the status quo, and there was no power strong enough to stop it from challenging the status quo in a destabilizing way. The difference today is that the U.S. as hegemon has no strategic ambitions and is content with the status quo, whereas China seemingly wants it changed. The 1921 treaty called for "conference and consultation" when there was a problem, which is similar to the 1998 China White paper, which calls for "dialogue and cooperation" to settle disputes. In contrast, the current security system calls for the patient acceptance of the status quo by all interested parties, the U.S.-Japan alliance using military power to dampen or dissuade impatient behavior whenever it is manifest, while waiting for political developments to provide a peaceful non-destabilizing solution. The two possible flashpoints are Korea and Taiwan, but these have been successfully managed for 50 years. It is therefore not a good idea to tinker with existing structures, some argued, because it risks creating a problem where none existed.

Lively debate also ensued about the U.S.-Japan alliance and the parallel debate about Japan becoming a "normal" country. Some Chinese participants suggested that most Chinese are still not convinced that the U.S.-Japan alliance is good for regional stability, and there is still concern that it is aimed at China. There is a strongly held view that post 9/11, the U.S.-Japan alliance has been widened and gone far beyond Japan's homeland security. So what does China need from Japan as far as reassurance is concerned? What is China's policy toward Japan, or do attitudes govern policy? If China is worried about Japan's military reach, what is China's view of a proper Japanese role in the region, as in peacekeeping, for example? There cannot be a positive trilateral relationship without clarifying this.

Several participants stressed the positive role of the U.S.-Japan alliance in China's economic development. As long as the U.S.-Japan alliance is strong, China has prospered and grown strong. Some participants suggested that it would be positive to hear stronger statements from more senior levels in China supporting the U.S.-Japan alliance; increasingly senior officials have issued statements more openly, but it would help support regional stability to hear these statements more consistently. Moreover, if China wants to dispel the notion of a "China threat," then China's open acceptance of the U.S.-Japan alliance would be an effective way to deter those views, as would greater Chinese military transparency.

As far as Japan becoming a "normal" country, some participants expressed the view that if "normal" means that a country pursues its national interests, then Japan has been normal for the last 50 years. It was strongly suggested that Japanese students have no link to Japanese foreign policy in the 1930s, and a rise in nationalism among younger Japanese people is inevitable and normal. China needs to be prepared for the growth of a healthy, normal nationalism in Japan, it was argued, or there will be a backlash in Japan.

Some Chinese participants expressed an understanding that as a democracy, the probability of Japan's militarization is small, but there is still a concern that the Constitution will be changed and militarization could become mainstream. Whether Japan regrets the past, deeply or not, does not matter; current attitudes are the issue, it was asserted by one participant.

On the question of BMD, Chinese participants voiced a confused view in China about what the motivation is for BMD. Although U.S. and Japanese governments have stated the official view that BMD is aimed at North Korea, not at China, Chinese analysts also hear privately from scholars who suggest that BMD is against China, so there is confusion about who to believe. The issue of BMD is widely discussed in China, even among taxi drivers, and BMD is widely believed to be motivated by Taiwan. Other participants challenged the Chinese notion that Japan's pursuit of BMD is "against" North Korea or China; it is not against anyone because it is not designed to attack but to protect and defend against a missile attack. North Korea has stated on numerous occasions that it intends to attack Japan. If China perceives it is the reason for Japan's pursuit of BMD, it is because of Japan's nervousness that China has missiles capable of attacking Japan. China always asks for assurances that the U.S.-Japan alliance is not against China, but China's reassurances are also necessary that its missiles are not aimed at Japan. In other words, the Chinese are not only in a position to be reassured, but also to reassure others. Some Chinese participants expressed doubt, combined with surprise, that Japan really thinks that China's missiles are against it.

What of the Chinese notion that BMD is motivated by Taiwan? If U.S. and Chinese assurances of commitment to a peaceful resolution are true, then the only problem of missile defense is if Taiwan declares independence and the U.S. supports it, which will result in war, or if China unilaterally, pre-emptively, or coercively acts on Taiwan, then U.S. would defend Taiwan, and the result is war. In these two scenarios, missile defense would for sure complicate China's efforts, and even then, China has a decisive advantage with missiles versus missile defense.

Some participants pointedly challenged the assertion that Taiwan is a means for the U.S. to "check or contain China." The observation was made that since the U.S. established relations with China, and "denormalized" relations with Taiwan in January 1979, China has grown at double digit rates, it has the largest foreign reserves in world, it has become more pluralized and opened up, and it has a strong voice on the United Nations National Security Council – in short, China is more prosperous than ever in its history, so how has U.S. policy toward Taiwan "contained" China?

Other participants disagreed that China had consumed a lot of "brain power" on the Taiwan issue; in fact, China's approach has used less "brain" than "brawn." China has insisted on reserving the military option, but the problem is that China has failed to provide incentives for unification; it only provides disincentives for declaring independence. China needs to be more creative and use more imagination to pursue peaceful means toward its goal of reunification, in other words, China must give Taiwan

people a reason to want reunification rather than threaten them should they fail to choose this road.

Some Chinese participants countered that Taiwan is like a “spoiled child” with the U.S. “parent” behind it, protecting it. This view leads many in China to believe that neither China nor Taiwan is in the driver’s seat on cross-Strait relations, but the United States is, particularly the U.S. Congress. Taiwan just goes too far; former President Lee’s state-to-state speech and President Chen’s August 3 speech of “taking our own road” were referenced as evidence that Taiwan just likes to be a trouble maker. This is why China will never give up the option of using force and building up missiles. This is a problem all of us are facing, one Chinese participant noted, and expressed the hope that the United States “one China” policy is credible not only in words but in action: no arms sales and no Taiwan in BMD. The view was expressed that China has serious domestic problems to deal with and it is frustrated that Taiwan consumes so much energy, but Taiwan “will always be there.”

Japan’s interests are to not allow the Taiwan issue to put Tokyo in the situation of needing to choose China or the U.S., so it discourages Taiwan and China from taking unilateral actions. Should the United States decide to support Taiwan, Japan as an ally would also have to agree. In the meantime, Japan wants to avoid letting Taiwan complicate its relations with the United States as well as China. On an optimistic note, some participants noted that China-Japan dialogue on Taiwan is proceeding among think tank analysts, and CICIR at least has plans to continue this bilateral dialogue in 2003.

Questions were raised about what the U.S. would do if Taiwan declared independence, and the consensus view was that it would depend on the situation. If tomorrow, Taiwan declared that the Republic of China (ROC) no longer exists, and replaced it with the Republic of Taiwan, the United States would not recognize it, and the ROC would likely find that of the 23 governments that currently recognize the ROC, zero would recognize the “ROT,” so the government would end up with less international recognition than it has now. With that response, China would have to decide whether it is smarter to respond militarily, or just ignore the situation.

Conclusion: Potential Areas for Trilateral Cooperation

Participants spent less time on discussing ways the three countries could cooperate on regional and global security issues, although some of these had been hot media topics in the months preceding the conference, such as the Korean Peninsula, South Asia, and Iraq. Perhaps it was a positive development and a sign of the maturity of the dialogue that addressing media-driven topical issues were less important than getting to the root of how the three countries perceive each other and can better cooperate.

- Participants agreed that none of our countries wants nuclear weapons or long-range missiles on the Korean Peninsula and we are all committed to a Peninsula free of war. To achieve this, informal cooperation could involve pressure on North Korea not to proliferate or develop nuclear weapons. Formal cooperation could entail China’s contribution to the Korea Peninsula Energy Development

Organization (KEDO), and assistance to North Korea to develop a peaceful satellite program.

- In South Asia, one participant argued that there is a remarkable coincidence of views on the need to reduce the prospects of conflict between India and Pakistan, including to reduce the potential for nuclear conflict or for nuclear weapons falling into the wrong hands. On Iraq it was argued that Japan and China share mutual interests in resolving concerns about weapons of mass destruction through the UN, and even the United States has stressed the need for Iraqi compliance with the UN inspection regime. In one participant's view, the three countries should issue strong statements on the need for Iraqi compliance on the UN resolution, which would be consistent with policies of the three countries.
- Participants strongly agreed on the need for more emphasis on trilateral cooperation on regional energy security. Japanese and Chinese colleagues particularly stressed that close economic interdependence suggests the possibility of cooperation on invigorating joint planning to develop a strategic reserve stockpile. Currently, Japan has a reserve supply to last 100 days, but China and South Korea have very meager reserves. It was pointed out that fully sixty percent of China's oil comes from Middle East, sharing a common concern with Japan about political stability in those countries. China and Japan clearly have mutual interests in cooperating on energy issues.
- The potential for trilateral cooperation in nontraditional security threats is very promising participants agreed. Issues could include drug trafficking, human trafficking, and maritime piracy, for example. But this is a new area, and questions were raised about the political acceptability of joint action. For example, if cooperative action among the three countries on countering drug trafficking would require a larger Japanese navy presence, could China accept this? Participants noted that CICIR has already begun a dialogue with Japan scholars on issues such as piracy and maritime rescue, and they all look forward to this serving as a good platform for more cooperation.
- A final area that is ripe for collaboration could be in the joint development of police forces for UN peacekeeping. China has not wanted to send forces to assist the UN because it is considered too "interventionist," but China is beginning to look at cooperation on developing domestic police force capabilities. A similar concern pertains for Japan, where development of national police forces would greatly complement its UN PKO activities. The United States agrees with this multi-dimensional approach to UN PKO activities and should encourage trilateral cooperation along these lines.

Chapter I
Third Country Perspectives on Bilateral Relations:
Views of the Other

Essays by
James Przystup, Seiichiro Takagi, and Yang Bojiang

A U.S. Perspective on the Japan-China Relationship
by James Przystup

Introduction

This essay is of necessity highly impressionistic. Foreign Ministry archives are closed to the public in Beijing, and records relating to the recent past are not open in Tokyo. Professional training as well as a long-standing interest in the past and future course of relations between Japan and China are the elements from which this paper will develop.

The starting point for this essay could be anywhere along a long historic continuum. My Ph.D. dissertation dealt with the effects of American expansion in Asia, China in particular, on U.S.-Japan relations in the early part of the last century. Japan's attempt then to carve out an exclusive sphere of commercial and political influence in Manchuria and Northern China served as the springboard for the military expansion of the 1930s and the devastating war that followed.

Until September 1972, Japan followed the United States' lead in recognizing the Kuomintang government of the Republic of China on Taiwan as the government of China. However, on Sept. 22, Japan's Prime Minister Tanaka Kakuei landed in Beijing to effect the postwar normalization of Japan's relations with China. That same day, I landed at Haneda airport in Tokyo to begin almost three years of Japanese language study and research on Japan's relations with China. Thirty years have now passed, and both countries are planning to celebrate the 30th anniversary of normalization with ceremonies next month.

1972-2002

Much has changed over the years. Trade, once a trickle, is now a broad and deep river of commerce. Japanese investment in China, then nonexistent, is moving daily to the mainland. In both countries, new generations are moving into power.

At the same time, bilateral relations are suffused with a calculus of power. In Japan, China is widely seen as a rising power both economically and militarily, and

references to a China threat are not uncommon. In China, Japan's security policies are often portrayed as a resurgence of Japanese militarism. Both governments remain committed to advancing core national interests, each looking to preserve and develop leverage in the bilateral relationship. But this is also a bilateral relationship, which is profoundly influenced by the nature of relations each country has with the United States

What follows is an attempt to study the interplay of these forces in this most complex relationship.

History

In the aftermath of Prime Minister Koizumi Junichiro's visit to the Yasukuni Shrine last Aug. 13, Chinese President Jiang Zemin observed that China's relations with Japan have experienced their up and downs, twists and turns, but that, when real difficulties arise, they are invariably tied to issues of history. Jiang's observation may not be 100 percent accurate, but it is very close. And it applies to both parties with regard to the past.

Looking back over the record of the past three years, it is striking to see the number of times in which the past has resurfaced in the present. Whether driven by domestic imperatives or an attempt to reassert traditional war-guilt leverage, Jiang's visit (read: history lecture tour, to Japan in the autumn of 1998) did little to improve the bilateral relationship. Rather than advancing bilateral relations, the visit proved a setback in Japan. Across Japan's political-media spectrum, responses were uniformly negative with respect to what was perceived as Jiang's attempt to use history as political and diplomatic leverage. Five days after the visit, I had dinner in Tokyo with a senior Foreign Ministry official who remarked that the visit turned out to be the best thing that ever happened for the Japan-U.S. alliance.

At the same time, Japanese actors have demonstrated a remarkable inability to understand the implications of their actions or interpretations of history. A January 2000 conference in Osaka focused on the Nanjing Massacre, an event that the organizers of the conference claimed to be the biggest myth of the 20th century and an exercise in anti-Japanese wartime propaganda. Soon afterward, then Prime Minister Mori Yoshiro publicly questioned whether, in the context of the times, Japan's actions in China should be considered a war of aggression.

During the March 2000 National People's Congress, Chinese Prime Minister Zhu Rongji warned of the existence of extreme rightwing elements in Japan. He made clear that China was not intent on ceaselessly asking Japan for an apology – that was a decision for the Japanese people to make. He only asked for Japanese reflection on the matter.

The year 2001 began with a middle school textbook controversy in which history was again at the heart of the issue. Prime Minister Koizumi's visit to the Yasukuni Shrine on Aug. 13 followed soon thereafter. The visit grew out of a campaign pledge to visit the shrine on Aug. 15, but strong Chinese representations against the visit caused the

prime minister to shift to the earlier date. To put things right, Koizumi traveled to China, visited the Anti-Japanese War Memorial, met with Jiang and for the first time used the word “*owabi*” to express Japan’s apology and regret for the war. Koizumi visited the shrine again in April 2002.

In China, the government has used anti-Japanese sentiment to foster Chinese nationalism. This is a force that the government may find it increasingly difficult to control, particularly among the younger, Internet savvy generations. Beijing has also used war guilt as leverage with respect to Japan. Among many Japanese who experienced the war, war guilt proved to be a powerful force. The vast sums appropriated for official development assistance (ODA) were, tacitly at least, regarded as war reparations. Younger Japanese now coming into power are less inclined to look to the past and more inclined to see China’s fixation on history simply as a foreign policy instrument.

Official Development Assistance (ODA)

In March 2000, following the signing of a new Japan-China ODA commitment, the Japanese ambassador called attention to the problems facing the program. These ranged across Japan’s own economic problems and extended to Beijing’s failure to inform the Chinese people of the sacrifices made by Japan over the 20-year course of the program and to express China’s gratitude to the Japanese people.

Historically, Japanese governments have viewed the ODA program as a policy instrument to promote economic reform and political stability in China. Over the past several years, however, ODA has been caught up in number of China-related policy debates in Japan, ranging from increasing concerns with China’s on-going, double-digit military build-up, People’s Liberation Army (PLA) Navy activities in the seas around Japan, to the presence of Chinese research ships in Japan’s exclusive economic zone (EEZ). Voices in the Diet began to question the wisdom of extending ODA to China when it was involved in activities that challenged Japanese interests.

Looking for leverage, Japanese officials began to hint at an ODA card. During a May 2000 foreign ministers meeting in Tokyo, then-Japanese Foreign Minister Kono Yohei observed that the combination of China’s increased military spending and its high rate of economic growth was causing Japan to consider reviewing its ODA program for China. The *Asahi Shimbun* reported that this was the first time that the Japanese government had linked concerns with China’s military spending to a reconsideration of the China ODA program. China’s Foreign Minister Tang Jiaxuan reportedly told senior Liberal Democratic Party (LDP) officials that the linking of ODA to military spending was truly unexpected. Expressing displeasure with the activities of Chinese research ships and a growing hawkish mood toward China, the Diet withheld approval for a special yen loan package prior to Kono’s scheduled late August visit to Beijing. Beijing apparently got the message or at least parts of it.

Shortly thereafter, Tang told Kono that, with regard to PLA Navy activities, the situation Japan is concerned about no longer exists. The meeting also produced an agreement to establish a bilateral prior-notification mechanism with regard to maritime research activities. The two governments reached a prior-notification agreement in February 2001.

Japan's willingness to use ODA to move China to deal with troublesome issues in the relationship suggests calculations that China's need for continuing development assistance can be exploited to produce outcomes favorable to Japan. This is consistent with a view in Tokyo that sees China as still at a weak and vulnerable stage in its economic development and confronted with problems posed by World Trade Organization (WTO) accession and western development. In this context, ODA offers Tokyo leverage in the bilateral relationship and increasingly Japan's political leadership appears intent on using it.

Safeguards, Trade, and the Evolving Economic Relationship

Views of a weak and vulnerable China can also result in overconfidence. Responding to a continuing surge in Chinese agricultural exports, in particular leeks, shitake mushrooms, and reeds used in the making of tatami mats, and to pressures from Japan's politically influential agricultural sector, the Japanese government imposed temporary import curbs in April 2001. At the same time, it also made clear that it would consider retaliatory actions.

In June, Beijing announced that it would raise tariffs on the import of automobiles, cell phones, and air conditioners from Japan. Initially, the Japanese press viewed Beijing's retaliation as relatively mild and aimed at producing a negotiated settlement. The Japanese Embassy in Beijing judged that the damage to Japan would be mainly psychological in nature. Shortly thereafter, Beijing underscored the extent of its displeasure by imposing a new 100 percent tariff rate on the products. The strong Chinese reaction came as a shock to many in Tokyo, where views of deepening economic relations and China's need for and dependency on good economic relations with Japan would serve to constrain Beijing's policy choices.

In December, after six months of wrangling, negotiators for the two governments reached an agreement on a settlement in which Japan agreed to drop sanctions on the Chinese agricultural imports and China agreed to lift its tariffs on Japanese automobiles, cell phones, and air conditioners. The agreement underscores the ability of the two governments to work through politically sensitive issues.

The trade dispute and its resolution raise interesting questions regarding the evolving nature of the bilateral economic relationship. China's rapidly expanding economy and the shift of Japanese manufacturing jobs to the mainland have combined to raise concerns of a hollowing out of Japanese industry and of an emerging Chinese economic threat. In this regard, it is interesting to note that, at the public level at least,

Japanese concerns with China as an economic threat vary significantly from those in the United States, which revolve around the issue of China as a strategic threat.

However, over the past three years and even as the safeguards dispute simmered, Japanese business continued to move toward the mainland. For example, after announcing layoffs in its domestic work force, Toshiba announced in that it would build a new cell phone factory in China and open a copier plant in Shenzhen capable of producing 75 percent of its global output. Across the board in Japan's manufacturing industries, companies appear to making a wager similar to the one Taiwanese industrialists made over a decade ago; namely, significantly betting their international competitiveness on China's market and its deep pool of skilled as well as cheap labor.

The evolving economic relationship will also raise challenging policy questions, such as whether and to what extent rapidly expanding economic integration will result in an increasing number of trade disputes and attendant friction; and whether and to what extent the growing economic and business ties serve to constrain policy choices in both Beijing and Tokyo.

Security

Given the legacy of the past, security-related issues are among the most politically sensitive in both countries.

During his October 2001 visit to China, Prime Minister Koizumi reported that he had secured Beijing's understanding of the steps Japan had taken to support the United States in the war on terrorism. Later in the autumn, in an interview posted on the *People's Daily* web site, Jin Xide, director of the Japan Office of the Chinese Academy of Social Sciences found that the antiterrorist legislation signified a major change in Japan's postwar security strategy. Jin noted that for over a decade Japan has tried to break out of the sacred zone that bans Japan's dispatch of the Self-Defense Forces (SDF) overseas and asserted that the war on terrorism had provided Japan with an opportunity to make another major stride.

Later in the autumn, Chinese diplomats told . . . Japanese counterparts during consultations in Beijing that the deployment of the SDF to the Indian Ocean failed to comport with the heretofore "defense of Japan only" formulation and thus violated Japan's constitution. And, during the Diet's debate over the unfreezing of restrictions on Japan's participation in UN peacekeeping operations, the Chinese Foreign Ministry commented that from the perspective of history Japan's actions in the military field raise sensitive issues and asked Tokyo to act with prudence.

To attempt to assuage Chinese concerns, Japan has initiated a security dialogue involving both Foreign Ministry and Defense officials. Judging from public reports of the consultations, the exchanges tend to cover well-traveled ground. The Chinese talking points express concerns with what appears to be an expansion of Japan's military role since the end of the Cold War, and with Japan's cooperation in missile defense with the

United States and the implications for Taiwan. The Japanese, meanwhile, focus on China's military spending and the need for greater transparency on the part of Beijing. The Japanese also assure the Chinese that Japan will not become a military superpower, that missile defense is solely a defensive system, and that Japan adheres to the 1972 normalization communiqué.

At the same time, Japan's Defense Agency has paid increasingly detailed attention to China's on-going military modernization. The 2001 White Paper added greater specificity, noting that over the past year, China's medium-range missiles had increased from 70 to 100 and that China's ICBMs previously characterized as about 10 were now approximately 20 in number. The 2001 document also for the first time questioned whether China's defense spending, in the double digits for the past 13 years, could now be judged as going beyond what is necessary for self defense.

A Third-Party Relationship

However important the Japan-China relationship is to both parties, this is a bilateral relationship in which a third party – the United States – continues to exert extraordinary influence.

Among China's leadership, there is a broad understanding that good relations with the United States are essential to the success of China's modernization strategy. At the same time, there are also concerns that the United States is consumed with the strategic challenge posed by China's emergence as a great power and its implications for American interests in East Asia. In this context, the U.S. bilateral alliance structure in the Asia-Pacific region is viewed as a potential constraint on China's development and on its freedom of action in matters of national interest i.e., Taiwan.

For Japan, the alliance with the United States stands as the cornerstone of its security policy. It also stands as a strategic problem for China. Postwar, Beijing found it in China's national interest to acquiesce in Japan's alliance with the U.S. The alliance served Beijing's interest in constraining Japan's security options, while it also served to contain the Soviet Union during the later stages of the Cold War.

However, over the past decade, as Japan moved to strengthen the alliance with the U.S, Beijing began to have second thoughts. The adoption of the New Defense Guidelines committed Japan to rear-area support of the U.S. in contingencies in areas surrounding Japan. Initial Chinese reaction to Japan's decision to cooperate with the U.S. in missile defense research – that it would weaken China's deterrent – came as a shock to many in Japan. And, to many in Japan, the alliance is Japan's hole card in the bilateral relationship with China.

As noted above, over the past three years U.S.-related issues – the new Defense Guidelines, Taiwan, and missile defense cooperation – have been intrinsic to the Japan-China security dialogue.

There is a broad consensus in both Japan and the U.S. that China's emergence will pose the defining strategic challenge for East Asia over the next half century. At the same time, there are concerns in Beijing that the alliance is and will be directed at China. As a result, the third-party relationship with Washington will be a major factor affecting the strategic calculus in Tokyo and Beijing regarding the Japan-China bilateral relationship.

China's early response to Sept. 11, reflected in the telephone call from President Jiang Zemin to President George W. Bush, was well received within the administration. At the same time, administration officials initially regarded China's efforts to tie Sept. 11 to unrest among the Uighur Muslims in Xinjiang as self-serving.

However, over the past year, China's cooperation in the war on terrorism has advanced and is now regarded as substantial and unprecedented. At the end of August, suggesting a trend toward increasing cooperation in the war on terrorism, Deputy Secretary of State Richard Armitage, during a visit to Beijing, disclosed that the United States had listed a small Muslim fighting group in Xinjiang as a terrorist organization. The deputy secretary made clear that the administration is quite intent on building a good, solid relationship with China and went on to say that there's enough mutual trust and confidence that we can disagree without being disagreeable.

From Washington perspective, Japan's response to Sept. 11 was unprecedented. Bush administration officials welcomed, in particular, the early passage by the Diet of the Emergency Legislation as a significant step in strengthening the U.S.-Japan alliance. The law permits the SDF to operate in the Indian Ocean in support of U.S. operations in Afghanistan; it stands in marked contrast to Japan's response to the Persian Gulf War. Japan's strong, pro-active response was viewed as being in line with the recommendations of the special report, issued in October 2000 by the Institute for National Strategic Studies, *Advancing Toward a Mature Partnership* (aka the Armitage Report), which called on Japan to assume larger responsibilities for international stability and security.

Japan's response to Sept. 11-Passage of the Emergency Legislation – came at the end of a decade during which Japan gradually expanded its security role. At the beginning of the decade, the defense of Japan extended 1,000 nautical miles from its national territory. The emergency legislation of 2001, along with amendments to Japan's peacekeeping law, marks the assumption of an international security role.

China's official response to the actions taken by Japan in support of the United States was to express its understanding. This was again underscored by the April visit of Prime Minister Koizumi to the Yasukuni Shrine and Beijing's reaction, which led to the decision not to attend ceremonies in China to mark the 30th anniversary of the normalization of China-Japan relations.

During the conference it was argued that Japan's increasing international security role stands as positive contribution to international society, one that serves to strengthen

an interdependence paradigm of post-Cold War international relations. Further, it was argued that the war on terrorism provides an opportunity to move the international system toward the interdependence paradigm and away from balance of power calculations. In this context, it was noted that Japan's increasing security role is more related to the UN than to the U.S.

Bilateral Developments and their Impact on Relations with the U.S.

Over the past decade, developments in Japan's relations with China have served to strengthen Japan's relations with the United States.

For example, China's response to U.S.-Japan discussions in the early 1990s over missile defense – that it would weaken China's deterrent vis-à-vis Japan – came as shock to many in Japan. That China would be targeting its largest source of development assistance bordered on the incomprehensible. Similarly China's ongoing military modernization program, marked by double-digit increases in military spending and opacity in its defense budgeting, have heightened security concerns in Japan.

China's fixation on history, as exemplified by Jiang Zemin's 1998 visit to Japan, will continue to serve as an irritant in bilateral relations, and irritation is only likely to increase as younger generations, without experience of the war, come to power in Japan. This is particularly the case if, in China, anti-Japanese nationalism becomes a core ingredient of Chinese nationalism. There are, of course, differing views of Japan held by some of China's younger Japan analysts. By no means the mainstream, they see Japan as having experienced a postwar transformation.

In Northeast Asia diplomacy, China has failed to respond positively to a number of Japanese proposals for six-party structures (Japan, the United States, China, South Korea, North Korea, and Russia) to deal with security issues affecting the region. While Tokyo is focused on expanding Japanese influence, in particular toward the Korean Peninsula, China, in rejecting these proposals, would appear to be intent on constraining or at least limiting the expansion of Japanese influence. At this time, China has yet to respond.

The Impact of U.S. Actions

At the macro level, the question is best answered as "it all depends." If China believes Japan has no international security role, the answer has to be yes. These concerns have been expressed with regard to Japan's response to Sept. 11, which is viewed in some quarters as an attempt by Japan to break out of postwar political and constitutional constraints.

More specifically, China is concerned that missile defense cooperation between the United States and Japan would, if extended to cover Taiwan, encourage Taiwanese independence and put at risk Chinese national interests. In terms of bilateral China-Japan

relations, there are concerns in China that missile defense would serve as the shield behind which Japan could develop its own nuclear force.

As for Japan's views of the U.S.-China relationship, Tokyo viewed President Bill Clinton's efforts to effect a strategic partnership with China, along with what were perceived as slights to Japan, as weakening the overall Japan-U.S. relationship and detrimental to the political strength of the alliance. Conversely, Tokyo was concerned with the early hardline approach of the Bush administration toward China. Japan's concerns with developments in U.S.-China relations range from polar opposites of abandonment and entrapment. In brief, Japan is looking for a Goldilocks-like United States policy toward China: one that is not too hard, not too soft, but just right.

U.S. Views of Japanese-Chinese Cooperation in Multilateral Forums

As reflected in the INSS Special Report on U.S.-Japan relations, there is a recognition, shared among Bush administration officials, that Japan is looking for greater diplomatic self-identity and greater diplomatic autonomy within the alliance framework and this, in itself, should not be regarded as being adverse to U.S. interests.

In this context, "Plus Three" cooperation is regarded as beneficial with respect to the evolution of the Korean Peninsula. This Japanese approach to regional affairs stands in marked contrast with earlier particularistic and exclusive initiatives such as the East Asia Economic Caucus (EAEC).

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A Japanese Perspective on the U.S.-China Relationship by Seichiro Takagi

The post-Cold War relationship between the United States and China is characterized by constant instability. Serious confrontation and close cooperation are both short lived and the relationship tends to fluctuate within a rather narrow range. This is because none of the factors of both cooperation and conflict can be consistently dominant and their relative balance can be affected by the domestic politics of both countries as well as unexpected events.

For the United States, cooperation with China is necessary for pursuit of both security and economic interests. For global security issues, the U.S. can not neglect the fact that China is a permanent member of the UN Security Council and a nuclear weapon state. For the pursuit of stability in Asia, China's cooperation is indispensable. China is a critical third party to the Korean Peninsula problem and the party to the Taiwan Strait and the South China Sea problems. China's significance as an enormous market for U.S. exports finally became real in 1992 when Deng Xiaoping's southern tour touched off double-digit economic growth. China was designated as one of the "Big Emerging Markets"(BEM) by the Clinton administration, which was inaugurated in 1993 with the mandate of reviving the U.S. economy. China's rapid economic growth also made it an

increasingly preferred destination for U.S. investment and a major supplier of low-price consumer products to the U.S. market.

For China, cooperation, or at least avoidance of serious confrontation, with the U.S. is critically important for several reasons. First, the United States became the sole superpower after the end of the Cold War, and serious confrontation with it can not be in China's national interest. For economic growth, which came to assume dominant significance for the legitimacy of the current regime, the U.S. is indispensable as the market for its products and the supplier of capital, technology, and opportunities for training personnel in management and research. With its penchant for triangular approach in diplomatic strategy, an amicable relationship with the U.S. tends to be considered to be an asset with which to apply pressure in case of friction with Japan. China also accepts, with increasing openness, the U.S. presence in the Asia-Pacific as a critical factor for regional stability, which China requires for the pursuit of economic development.

The factors affecting the bilateral relationship are not limited to the above. There are factors contributing to conflict and concerns on both sides. For the United States, China's behavior is inimical, or at least problematic, for all three pillars of its national strategy. For security goals, China's proliferation of weapons of mass destruction (WMD), the rapid increase in military expenditure and the continued lack of transparency, and a growing anti-American tendency are all matters of serious concern. The U.S.' enormous trade deficit has become a constant source of concern to China's economic prosperity. Social and administrative practices hampering access to the Chinese market, which have been significantly reduced since its accession to the World Trade Organization late last year, the rampant violation of intellectual property and brand rights, and the overall weakness in the rule of law often lead to angry protests and sanctions by the U.S. For human rights and democracy, China's problematic behavior ranges from persecution of political dissidents and followers of religious movements, which the Chinese government brands detrimental to the national interest and public welfare, to a too-eager pursuit of the one-child policy, which involves forced abortion. Although it rarely leads to actual conflict, China's slow progress in political reform and the perpetuation of Communist Party rule, with continued suppression of freedom of opinion and association, is antithetical to the values Americans hold dear.

As we examine the impact of these factors on U.S. China policy, however, we should not ignore the fact that China's problematic behavior does not always lead to frictions. They can sometimes lead to cooperation, though on a limited scale, to the extent that Americans take a corrective, rather than a punitive, approach. The U.S. concern with proliferation of WMD led to its cooperation to improve China's export control system, for example. Concern with the weakness of the rule of law, which pertains not only to business relations but to human rights protection, led to U.S. assistance to Chinese legal education.

For China, the U.S. unipolar tendency, which it says reinforces U.S. "hegemonism" and "power politics," is fundamentally antithetical to the Chinese preferred world order based on multipolarity. One aspect of this objectionable tendency is

the U.S. attempt to bring about “peaceful evolution,” which aims at transforming Chinese Communist Party rule into democracy. The U.S. missile defense program is considered to be in pursuit of “absolute security” with the effect of solidifying unipolarity. The U.S. is also perceived to be pursuing the policy of “containing” China with the aim of blocking China’s emergence as a great power. The protectionist tendency, which sometimes surfaces in the U.S., often targets China. For China’s effort to re-unify with Taiwan the U.S. is seen as the single most serious stumbling block with its arms sales to and toleration of Taiwan’s independence orientation.

These problems do not always lead to conflict with China. As an obviously weaker power, the extent to which reactions to U.S. “hegemonism” go beyond verbal accusations depends on China’s success in forming a dependable countervailing coalition, which rarely happens. Resistance to “peaceful evolution” is increasingly powerless in light of an ever-expanding pursuit of the open-door policy. Some advocates of political reform even secretly welcome it. Even the Taiwan question has an aspect that counsels prudence to the Chinese. If bilateral conflict becomes serious enough, reinforcing “China threat” arguments in the U.S., it is possible the U.S. side will re-recognize the strategic significance of Taiwan, which would make reunification all but impossible.

The actual manifestation of these factors is often affected by domestic political dynamics of each country. In the United States, conciliatory policies of an administration are often susceptible to the accusation of “kowtowing” to China, especially when the Congress is dominated by the opposition. Powerful interest groups are involved in human rights and economic issues in the bilateral relationship and their activity level and mutual balance often moves China policy either toward more cooperation or conflict. Government agencies often get involved in serious bureaucratic politics over a particular China policy with implications for two or three pillars of the national strategy simultaneously. The media and public opinion often push the policy in a direction critical of China. Although foreign policy usually is not a critical issue in the presidential elections in peacetime, the incumbent’s China policy is one of the preferred objects of attack by the opposition candidate.

Although not much can be known, policy toward the U.S. also seems to be significantly affected by domestic politics in China. At the fundamental level, the post-Tiananmen re-establishment of the pursuit of high economic growth in 1992, which meant Deng Xiaoping’s political victory over the conservatives, was a critical factor for Jiang Zemin’s 16-character policy toward the U.S. On more specific policy issues, it also is politically dangerous for Chinese negotiators to be considered too conciliatory to the U.S. With gradually expanding political freedom, public opinion is gradually increasing its influence on foreign policy. Although Chinese leaders are careful in handling the nationalistic sentiment of the Chinese public because the full play of its anti-foreign nature could disrupt critical foreign relations, they cannot afford to ignore it because it can be directed against them. This was clearly the case when the U.S. mistakenly bombed the Chinese Embassy in Belgrade in 1999. Although it is not an example of Chinese

foreign policy, the failure to control violations of intellectual property rights is due to some extent to the declining power of the center over localities.

Overarching these factors and dynamics is the mutual groping for a workable relationship between the sole superpower and the biggest nation that has been growing at an enormous speed. At an even more fundamental level, the working out of the bilateral relationship constitutes a critical aspect of formation of the emerging new world order.

When the Bush administration was inaugurated in January 2001, U.S.-China relations were commonly predicted to deteriorate because of the new administration's tougher approach to China. Candidate Bush and his advisors had criticized Clinton's pursuit of "strategic partnership" with China and "strategic ambiguity" regarding the Taiwan question. They characterized China as a "strategic competitor" and advocated a clearer commitment to Taiwan's security. This prediction was expected to become real, first in the decision on arms sales to Taiwan in April.

China tried to deal with the situation with flexibility and restraint. In January Vice Premier Qian Qichen criticized the notion of an inevitable U.S.-China confrontation and hinted at flexibility in Beijing's approach to the Taiwan question by suggesting that a loose confederation could be considered and that Taiwan might not be considered a part of the People's Republic of China. Qian visited Washington in March to convey these thoughts and ask for restraint on the Taiwan arms sale. When bilateral relations faced another difficult problem over the EP-3 incident before the arms sale decision was reached, China's accommodating approach was even clearer. Although China's positive response was not quick enough to prevent U.S. hostility, it accepted the U.S. ambassador's ambiguous expression of regret as an apology, which it had demanded prior to the release of the crew.

The Bush administration decision on the Taiwan arms sale announced in late April reflected only a minimum response to the Chinese effort. It provided for the largest sale since 1992 when then-President Bush approved the sale of 150 F16 fighters. The package included destroyers, submarines, and antisubmarine planes, all of which would significantly improve Taiwan's maritime defense capability. The avoidance of the sale of the Aegis destroyer could be seen as a response to Chinese flexibility but it also meant retaining the card to induce further compromise from China. The next day, President Bush further raised Chinese concern with the comment that he would do "whatever it took to help Taiwan defend itself." Although it was quickly followed by his expression of support for the "one China" principle, Chinese apprehensions did not cease. Later that month the U.S. government issued a multiple-entry visa to former Taiwanese President Lee Tung-hui and allowed President Chen Shui-bian to spend a few days in the U.S. on his way to Central America.

Although these U.S. actions were clearly unacceptable to the Chinese, they were not a reflection of open hostility but rather showed the Bush administration's unwillingness to give sufficient consideration to Chinese concerns. This point was demonstrated most clearly by its missile defense policy. In his first major speech on the

missile defense program on May 1, Bush acknowledged the need to consult with allies and countries concerned about the program. He repeatedly referred to consultation with Russia but mentioned China only once. Since Russia is the party to the ABM Treaty frequent mention of it is quite natural but, considering that the missile defense system pursued by the U.S. could neutralize the Chinese – not the Russian – deterrent capability against the U.S., the low level of attention to China meant nothing but a lack of interest in taking Chinese concerns seriously. When the undersecretary of state was sent to Asia to explain the program in May, he first came to Japan and then went to India, not China. The U.S. government sent a lower ranking official, the assistant secretary of state for East Asian and Pacific affairs.

Calm in the bilateral relationship in the first three quarters of 2001 was achieved mainly by Chinese flexibility and restraint. But this does not mean that there was nothing positive on the American side. True to Republican tradition, the Bush administration did not ignore its economic interests in China. It followed the practice of previous administrations by renewing “normal trade relations” with (or most favored nation treatment of) China June 1 and supported China’s accession to the World Trade Organization. It avoided unnecessarily antagonizing China in other ways. It did not oppose Beijing’s bid to host the 2008 Olympic Games and after Bush’s inauguration the use of the expression “strategic competitor” was consciously avoided. However, the level of enthusiasm for a positive relationship with China was markedly lower than in the Clinton administration after 1994.

The question is how much of this has changed after Sept. 11. As the U.S. sought to form a global coalition against al-Qaeda and the Taliban regime in Afghanistan, China clearly saw an opportunity to remind the U.S. of its importance and thus improve bilateral ties in terms more favorable to it. Right after the terrorist attacks on the World Trade Center and the Pentagon, President Jiang Zeming sent a telegram to President Bush expressing China’s support for the U.S. fight against terrorism. At the UN Security Council on Sept. 12 China voted for Resolution 1368, which recognized the “inherent right of individual or collective self-defense” in response to the terrorist attacks.

One thing China counted on to enhance its significance to the U.S. administration was its position as a permanent member of the UN Security Council. In mid-September, when Beijing clarified its position on U.S. military action in Afghanistan, China specifically stated that the UN Security Council should play a proper role. But this calculation did not work as the U.S.-led coalition started military action in early October drawing on Resolution 1368, without another UNSC resolution specifically authorizing such action. Some Chinese actions gave Americans the impression that the Chinese were seeking a *quid pro quo* for its support for U.S. actions in the form of a commitment to reduce arms sale to Taiwan and/or understanding for China’s own fight against Islamic separatists in Xinjiang, some of whom had engaged in terrorism. But there was no positive response from the U.S. side.

Of course, there were some positive developments. The Chinese offer of intelligence assistance led to a counterterrorism dialogue in late September, which was

followed up by a visit by the State Department Coordinator for Counterterrorism to Beijing and China's approval to station FBI personnel in the U.S. Embassy in Beijing. Although President Bush's East Asia tour in October on the occasion of the Asia-Pacific Economic Cooperation (APEC) summit, which included a visit to Beijing, was cancelled, the U.S. government announced that Bush would attend the summit – the event of the year for the Chinese – as scheduled. However, the impact of those moves on the U.S. approach to China was rather limited. The Defense Department Fact Sheet on international contributions to the war against terrorism issued in February 2002 made no mention of China. When President Bush visited Shanghai in mid-October for the APEC summit, he publicly acknowledged that “China is a great power” and expressed his desire for “a constructive relationship,” but he also stated that the war on terrorism must never be an excuse to persecute minorities, showing little sympathy for Chinese problems with Islamic separatism in Xinjiang.

The limits of the effect of China's cooperative behavior was revealed at the most fundamental level by the Defense Department's Quadrennial Defense Review (QDR) issued Sept. 30. Its discussion of Asia as a region where there is a possibility that “a military competitor with a formidable resource base will emerge” clearly expresses concern with a future China. The report argues that the U.S. should identify capabilities to deal with “adversaries who will rely on surprise, deception, and asymmetric warfare” as a requirement of the capability-based defense planning the QDR advocates. Although the capability-based approach did not identify a potential enemy, that the “adversaries” include China was made clear by another recent Defense Department report on China's military power, which argued that surprise, concealment of intentions, and the use of asymmetric methods constitute the current operational doctrine of the People's Liberation Army. China's concern with Taiwan is ignored by its reference to “the East Asian littoral,” which clearly includes Taiwan, as one of critical areas where “hostile domination” should be precluded.

Later last year, the Bush administration began to demonstrate a higher level of diplomatic accommodation toward China. When the U.S. announced its unilateral withdrawal from the ABM Treaty in mid-December, Secretary of State Colin Powell clearly stated that the missile defense system, development of which was to be facilitated by the withdrawal, would not threaten China's strategic deterrent. Bush himself called Jiang a few hours before the announcement and offered to hold high-level strategic dialogues. In February he visited Beijing after stopping in Tokyo and Seoul. He reaffirmed the U.S. commitment to a “constructive, cooperative” relationship with China, though he also used the term “candid” to characterize the relationship and continued to disappoint his host on the Taiwan issue. The Chinese side was quite positive, especially on the agreement to intensify high-level strategic dialogue

Developments since then on the U.S. side, however, suggest that these changes mean bifurcation rather than a fundamental shift. On the one hand, this basically cordial approach was carried on to Vice President Hu Jintao's visit to the U.S. in April. Assistant Secretary of Defense Peter Rodman visited Beijing in June to resume the high-level strategic dialogue. The State Department report on patterns of global terrorism issued in

May used one full page, out of eight and half pages allocated for all of Asia, on a detailed description of China's contribution to the fight against terrorism as well as a sympathetic description of China's own problem with terrorism. On the other hand, Taiwan's defense minister was allowed to attend a "private" conference in Florida in mid-March and was met by the U.S. deputy secretary of defense and the assistant secretary of state. About the same time, part of the Defense Department's Nuclear Posture Review, which identified China as one of seven potential targets of U.S. nuclear weapons, was leaked to the press. In mid-July, the Defense Department issued a report on Chinese military power, which, among other things, cast a serious doubt on China's professed intention to solve the Taiwan question peacefully by referring to Chinese missile deployment across the Strait. The report came out at the same time as the report of the U.S.-China Security Review Commission, established by Congress in 2000, on national security implications of economic relations with China, which argued, in part, that China provides technology and components for weapons of mass destruction and their delivery system to terrorist-sponsoring states such as North Korea, Iran, Iraq, Syria, Libya, and Sudan.

If the above is an adequate characterization of the current state of the U.S. approach to China, it can be summarized as diplomatic accommodation with strategic vigilance. On the other hand, Chinese behavior toward the U.S. can be interpreted as an application of the first half of Mao's famous dictum on guerrilla warfare: "taking the 'enemy' seriously on tactical ground." However, although the U.S. may not be its enemy, China seems to lack a credible long-term vision that can justify the latter half of the dictum, "taking the 'enemy' lightly on strategic ground," which expresses confidence in the ability to defeat the "enemy."

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A Chinese Perspective on the U.S.-Japan Relationship

Yang Bojiang

Unchanged Basics

Looking back at Sino-U.S.-Japan trilateral dialogue from the late 1990s, little has changed in the basics of the relationship and the Chinese perception of it. The U.S.-Japan alliance remains one of the most serious concerns of the Chinese not only for vested reasons, but also because of new movements after Sept. 11. Consider:

1. The so-called "mini-NATO;"
2. Active Japanese military and security policy;
3. The U.S. has further strengthened the U.S.-Japan alliance and supported a more important role for Japan in the Asia-Pacific region, while strengthening forward deployment and capability of force projection in the region.

Changed Environment

In spite of the above-mentioned negative factors, however, there exist new opportunities for all nations in the Asia-Pacific region, as well as for the Sino-U.S.-Japan

triangle, to deepen dialogue and cooperation. Antiterrorism and stability have become a common demand of all countries in the region. As they feel very much the same about terrorism since Sept. 11, they share common views and have concluded that terrorism can be dealt with only through international cooperation. In the meantime, many nations have begun to pay more attention to nontraditional security issues, multilateral dialogue may be further promoted, nations could come to a wider understanding over “common security,” and new energies may be added to regional multilateral mechanisms. After Sept. 11, many profound changes have been taking place in the thinking and behavior pattern of various countries’ decision-makers. To some extent, the Sept. 11 incident is a catalyst, which is making decision-makers around the world reexamine their own modes of thinking and behavior patterns.

The Cold War mode of thinking is under heavy attack. People began to be aware that fundamental changes would take place in world affairs and international relations and came to realize that traditional security threats would be further reduced and nontraditional security threats would increase. Countries must determine their own fundamental national interests and work out corresponding countermeasures within the scope of their sub-region, region and the world. Countries all over the world must have an extensive mechanism and framework to respond to endless challenges.

What is more, all countries are redefining their respective security concepts to conclude:

- a. Security should be comprehensive and many-sided;
- b. Maintenance of security for all countries must also be comprehensive and many-sided;
- c. Traditional military alliances are not enough to deal with new challenges;
- d. New threats characterized by terrorism make it difficult for all countries to find a clear target to attack and difficult to differentiate the rear from the front. Only new thinking and new means can yield effective countermeasures.

In short, since antiterrorism and stability have become a demand of all countries, they share common views and have come to a consensus that terrorism can only be dealt with through international cooperation. Consequently, they pay more attention to nontraditional security, multilateral dialogue and cooperation are being further promoted, and nations could come to a wider understanding over “common security.”

Interaction among big powers has become more active with coordination increasing. Common understanding among big powers, including China, the U.S., and Japan, over anti-terrorism plays a positive role in improving relations among major states. Cooperative factors for the Sino-U.S.-Japan triangle increased while factors contributing to confrontation decreased. In some sense, Sept. 11 provided a special opportunity for both China and U.S. to improve mutual ties, and tensions between Beijing and Tokyo became relaxed to some extent. The consciousness of the need for cooperation, based on new developments in the Asia-Pacific region since Sept. 11, is also being enhanced.

Keep Comprehensive Eyes

From the perspective of promoting relations between China, Japan, and the U.S., two points should be emphasized. First, improvement in trilateral relations can only be established on the basis of three parallel sets of healthy bilateral relations. Second, the impact of internal factors on bilateral relations cannot be ignored.

Chinese economic reform and opening is now undertaking a profound historical and social change, and its quality and scope go far beyond what Chinese people imagined. Many factors, which were not included in foreign policy-making in the early days of the normalization of Sino-Japanese relations 30 years ago, have increasingly played a role in Sino-Japanese relations, and pose new difficulties on how to study and judge China's situation and its strategy and policy toward Japan.

Japan also faces historical challenges, whose depth, scope, and difficulty are not less than those of China. After the collapse of the so-called "1955 system of politics" and the so-called "40-year system" of its economy, there are no replacements. Japan's reforms are so restrained by the current political system, vested interests, and other factors that none of the Cabinets have done a satisfactory job in both promoting reforms and maintaining executive power. From a historical perspective, what Japan needs most now is to speed up the reform process. This will increase the self-confidence of both the government and the public to deal properly with Sino-Japanese relations and development strategy in the 21st century. This will create a depressed and puzzled feeling among Japanese that have appeared in the social trend of thought from bursting into foreign policy and jeopardizing Sino-Japanese relations.

The U.S. no doubt will continue to play a dominant role in relations between China, Japan and the U.S., while "active interaction" from China and Japan cannot be overlooked. I agree that Sino-Japanese bilateral relations ought to play an increasing "subjective initiative" in the trilateral relationship. Actually, as history after the end of the Cold War confirms, to some extent the strengthening of the Japan-U.S. alliance is a result of the unsmooth development in Sino-Japanese relations. The strengthening of the alliance is causing frictions between China and Japan to further accelerate. Sino-Japanese relations so far have always varied with Sino-U.S. and Japan-U.S. relations, but looking at international trends, Japan's "space" has increased a lot, and Tokyo has increased its diplomatic independence from the U.S. The extent to which Sino-Japanese relations are restrained by Sino-U.S. and Japan-U.S. relations has been reduced.

Seeking Common Interests

After some years of hesitation since the end of the Cold War, Japan reconfirmed the Japan-U.S. alliance as the strategic springboard for the new century. But judging from the consequences of the so-called "reconfirmation," deep-seated contradictions have been aggravated instead. In fact, the basic strategic problem has not been solved.

Japan and even the U.S. may not feel relief or safer than before the reaffirmations, because they won something at the expense of more ideal relations with China. Actually, looked at from the perspective of Japanese and U.S. state interests, the so-called China threat would not possess the characteristics of the Soviet threat with its absolute and fixed pattern. For Japan, there now exists both the Japan-U.S. Security Treaty and the Japan-China Treaty of Peace and Friendship. In the event of a real crisis in the Taiwan Strait, Japan would be in a strategic dilemma.

Actually, what is becoming increasingly important is that in spite of the tremendous contradictions and conflicts in interests between China, the U.S., and Japan, important common interests also exist that maintain trilateral relations and cause them to improve. The common interests will become more obvious and important under the influence of globalization. These conflicting and overlapping interests and the overlapping interests in some aspects, make China look like a rival or even an enemy to the U.S. and Japan, while in other aspects, it is a friend of the U.S. and Japan. On the whole, it is a partner of the U.S. and Japan. Whether a partner will be transformed into an enemy, however, depends on diplomatic trends in the three nations and world development

Chapter II

Trilateral Priorities in Regional and Global Economic Relations

Essays by
Zhang Li, Jane Skanderup, and Hideo Ohashi

A View from China by Zhang Li

Introduction

For a long time, the foreign media has reported that China was “compelled” to enter the World Trade Organization (WTO). When we met a delegation from America to discuss “Humanitarian intervention and the UN” early this year, I heard similar statements. In fact, entering the WTO was a decision made by the Chinese government, enterprises, and people, and not the consequence of any outside pressure. The only pressure came from within China, which viewed the move as a necessity after many years of rapid economic growth.

It is unknown to most people that China began internal discussions on entering the General Agreement on Tariffs and Trade (GATT, the predecessor to the WTO) as early as in 1982. This resulted from a joint report by five government departments in charge of economic affairs and submitted to the State Council in December of that year, suggesting restoration of China’s GATT membership. When the report was approved by the State Council in January 1983, preparations for entering the GATT began. After three and a half years’ of preparation, China formally applied for membership. The motivations for joining GATT were:

- Restoring China’s position in GATT is an important symbol for a big country that hopes to be a responsible nation.
- Since 1978, China has embarked on the road to opening up to the outside world. Accession to the GATT will inject new vitality to China’s reform process.
- The need to expand exports. At that time, interstate trade volume among GATT members accounted for 85 percent of the world total while China’s trade with GATT members also accounted for 85 percent of China’s exports. China realized that GATT was essential to expand further exports.
- The overall ideological line of “emancipating the mind and seeking truth from facts” put forward by the Chinese government at that time was conducive to bold attempts in foreign policy making.

Up to now, both the government and the general public have made drastic changes in thinking. They recognized that there is no other better way to bring China’s economic system into the world than joining the WTO. Only in that way can China

become an important part of the world economy and catch up with economic globalization and achieve China's modernization. In this regard, China has no other choice. Besides, with the increase of China's overall national strength and its international competitiveness, China is fully confident that it will cope with the challenges brought about by accession to the WTO. So far no single country's national industry has been ruined by accession to the WTO; at least, no country has taken the initiative to withdraw from the WTO.

Challenges Facing China after Accession to the WTO

Since China's opening to the outside world, its economic development has been the focus of worldwide attention. Currently, China has a clear understanding of its accession to the WTO, believing that the benefits it brings to China will not be instantaneous, but will occur in a step-by-step manner. However, many Chinese enterprises are not fully prepared for accession. Some large state-owned enterprises and monopolized industrial sectors have become addicted to the "happy times" and believe that whenever they have difficulties, the government will save them. This tendency will not die out in the near future. The number of dead and bad accounts in China's state-owned commercial banks will stay high if the situation is not properly handled; it is difficult for them to compete with foreign commercial banks. The owners of township enterprises have not fully understood the importance of accession to the WTO.

The impact of WTO accession on China's economy was debated during 15 years of negotiation. There are five key issues that WTO members care most about and what troubled Chinese negotiators the most: state owned enterprises; price settlement of commodities; tariff levels; foreign exchange controls; and the economic operating mode (at that time China was dominated by a planned economy instead of a market economy). By making dramatic changes in these areas China was able to enter the WTO, and a revolution in the Chinese economy began.

As the economic system has moved toward opening to the outside world with the purpose of merging with the world economy, nontariff barriers have been greatly reduced, the limits on foreign investment are being eliminated, and "national treatment" of foreign investment has been implemented in many fields. Reducing tariff levels will inevitably affect China's financial income. There was a downward trend in China's tariffs in the first quarter of 2002. In 1992, the average tariff rate on import commodities was 43.2 percent, and in 2002 it was reduced to 12 percent. In addition, China's non-competitive products lost protection because of the abolition of import quotas.

Accession to the WTO brings tremendous, all-directional and unbalanced impacts on China's industrial security. To be more specific, the impacts on different industries can be categorized as follows:

- Industries that are relatively competitive and need to be strengthened. This includes textiles, light industry, coal, and building materials.

- Industries mingled with hope and fear. These industries are mostly based on raw materials, such as metallurgy, petrochemical and mechanics.
- Industries facing serious challenges due to lack of competitiveness. Major adjustments have to be made in these industries, especially in the automobile industry which is low in technology and labor while high in cost.

Accession to the WTO has had a huge impact on China's financial sector, yet the biggest risk after WTO accession is in agriculture, particularly farmers' income. Whenever talking about China's agriculture and farmers, Party General Secretary Jiang Zemin has repeatedly said, "I cannot sleep well," and Premier Zhu Rongji has also said "my biggest concern is the agricultural issue."

Another aspect is the influence on Chinese society. Joining the WTO is one of the boldest steps in China's development strategy since it began opening to the outside world. Over recent years, heated debates have been waged in various circles of society, for many people realize that China's entry will ignite a series of changes in China's society. These include promoting the construction of China's legal process; promoting China's political reform on the premise of promoting economic reform; changes in various ways of thinking; the benefits to the party style and construction of a clean and honest administration; and the benefits to trade across the Taiwan Strait, thus conducive to improving relations across the Strait.

Abiding by Promises and Facing Challenges

Various industries have been conducting research on joining the WTO for many years and have worked out relevant measures to adapt to the WTO framework. As this paper is limited in length, I will examine examples in finance and agriculture.

- There have been five major reforms in the financial industry.
- Reform of the property rights system of the state-owned enterprises is being carried out by various stockholding systems.
- Reform of personnel and salary systems, including breaking the official ranking standard; setting up incentive mechanisms; enhancing transparency of and monetizing the incomes of senior managers and ordinary staff; and realigning and downsizing sub-branch staff.
- Construction of a prudent accounting system.
- Realizing full transparency of state-owned commercial banks.
- Reform of the corporate managing structure.

In the agriculture industry, the basic guideline is "one center, four strategies." "One center" refers to strengthening China's agricultural international competitiveness in a comprehensive way. The "four strategies" include:

- Development strategy of structural adjustment, including optimizing product structure, industrial structure, regional layout structure, rural economic structure

and rural labor employment structure, promoting industrial escalation, promoting agriculture to develop further in width and depth, and comprehensively increasing overall agricultural quality and profit.

- Development strategy of relying on science and technology to rejuvenate agriculture, promoting a scientific revolution in agriculture, promoting a combination of traditional and new technologies, speeding up development and popularization of diverse and applicable high-quality technologies, greatly enhancing scientific creativity in agriculture, enhancing the technology content of agricultural products while reducing production costs, and promoting sustainable development.
- Development strategy for competitive products, utilizing two resources based on two markets.
- Attaching equal importance to helping enterprises and encouraging competition. By making rational use of WTO rules, China will strengthen government support and protection of agriculture, strongly support competitive industries and products, encourage competitive processing trade enterprises to expand further, and increase agricultural profits and take part in international competition through developing industrialized operations in agriculture.

At various levels of government, measures have been adopted to achieve these goals. One is changing the administrative style of government to enhance efficiency and govern by law. Government agencies should cooperate with enterprises and social intermediary agencies to jointly supervise implementation and prevent unjust competition by foreign enterprises to protect China's industrial security. Government agencies should also transform their functions and legalize the governmental approval system to achieve more transparency. A second measure undertaken by different levels of government is to assist domestic enterprises, especially dozens of large-scale enterprises, by requiring them to have their own property rights to increase competitiveness. A third measure is to develop the roles of trade associations, and a fourth measure is to escalate construction of a social security mechanism.

Other Issues Worth Mentioning: ASEAN Plus Three and APEC

The common goals of America, China, and Japan in regional and global economic integration have caused the three nations to realize that the optimal approach to realize and preserve their respective national interests is to promote the globalization process, promote free trade, promote reciprocal economic cooperation, and increase trade levels. On the one hand, their attitudes toward economic and technological cooperation are different in degrees; on the other hand, each wants to play a dominant role, which is a major difference among the three nations.

At the regional level, both China and Japan have joined the ASEAN Plus Three mechanism and both are improving trade relations with ASEAN. Can the respective goals of China and Japan be coordinated? What is the influence on the Asia-Pacific Economic Cooperation (APEC) forum, especially on American interests?

In 1995, the ASEAN summit meeting was held in Bangkok, Thailand during which it was proposed that the leaders of ASEAN, China, Japan, and South Korea hold regular meetings. It was not realized because of objections from the U.S. and Japan's indifference. It was not until 1997 that things had changed. In that year, the first summit meeting of ASEAN, China, Japan, and South Korea was held in Kuala Lumpur. The "10 plus three" mechanism was formally launched. (At that time ASEAN had nine member states. Therefore the first summit meeting was nine plus three. Later Cambodia became a full member to make it 10). The cooperation of 10 plus three began to shape a cooperative framework. However, most of the cooperative proposals belonged to 10 plus one, and were implemented by 10 plus one. The 10 plus one cooperation had years of practice implementing proposals. There was not only a mechanism, but there were also guaranteed funds. Since the establishment of the East Asia cooperative mechanism four years ago, comparatively large achievements have occurred due to interaction among the participants.

Future East Asia cooperation can go three ways: (1) admitting China, Japan, and South Korea as full ASEAN members to enlarge the organizations into a big ASEAN; (2) letting ASEAN and Northeast Asia nations (China, Japan, and South Korea) develop separately. When conditions are ripe, these can merged and form an East Asia free trade zone; (3) developing current cooperative mechanisms in a comprehensive way and going all out to promote East Asia economic cooperation.

However, due to different conditions, wide gaps in economic strength, and different interests among the countries, it is not easy for East Asian countries to make substantive compromises to create an East Asia community. Nor will East Asia cooperation go smoothly. On the one hand, disagreements and conflicts exist among ASEAN member states. In addition, other issues like economic difficulties, political instability, corruption of government officials, and ethnic conflicts will slow the progress toward a free trade zone. On the other hand, striving for leadership in ASEAN will hinder the progress of East Asian cooperation. Due to historical reasons and strong nationalism in various East Asian countries, there are ethnic conflicts and mistrust inside East Asia, which will inevitably lead to competition for leadership among China, Japan, South Korea and ASEAN. Some of these signs can be seen, for instance, after China and ASEAN reached agreement on establishing a free trade zone. Japanese Prime Minister Koizumi urgently signed a free trade zone agreement with Singapore and proposed an East Asia common market.

As for APEC, there have been three stages:

- Development stage (1989-1992): setting up a basic framework for a regional multilateral economic organization.
- Rapid development stage (1993-1997): from ministerial meeting to informal summit meeting, which completed a "quintet" in the APEC development process, namely: In 1993, what shouldn't APEC do? In 1994, what should APEC do? In 1995: how should APEC do it? In 1996: a specific cooperative blueprint was agreed. In 1997: accomplishment and escalation.

- Post 1998: adjustment stage. Due to the Asia financial crisis and other reasons, the liberalization process started before 1997 met setbacks. Economic and technological cooperation gained momentum but needed further impetus.

As APEC cooperation enters the adjustment stage, it is inevitable that China and Japan will develop economic and trade relations with ASEAN. Japan's motive is unknown. In my opinion, it does not contradict China's developing economic cooperation with various nations in the APEC framework and it is the embodiment of East Asian cooperation. China regards both APEC and cooperation with ASEAN as different platforms to promote cooperation with neighboring and Asia-Pacific countries. The biggest problem facing APEC is seeking a new motive force for development. Some scholars propose that its function should be extended to political and security fields, yet this is premature. This is because one of the biggest features of APEC is that its member states are so different in politics, economics, and many other dimensions, so seeking common ground while preserving differences is the motivation for nations to join APEC. If cooperative efforts are expanded too quickly, it is difficult to reach consensus. In that way APEC will be an empty forum.

Conclusion

It is sometimes asked whether China will fulfill its promises after accession to WTO and the new Doha negotiation round. What are the biggest concerns and what are the strategies of various countries? What are the common interests of the three countries?

First and foremost, China sticks to its promises. After its entry into the WTO, China has made unremitting efforts in the following aspects:

- On Jan. 1, 2002, China reduced its imports tariff by a great margin. The tariff level decreased from 15.3 percent to 12 percent.
- In keeping with its pledge, in January 2002, China withdrew quota licenses on food, wool, cotton, acrylic fibers, terylene, polyester, and some tire products.
- China revised and abolished some rules and regulations that were not consistent with WTO rules and regulations. New rules and laws have been published.
- In the service and trade sectors, the Chinese government published new rules and laws on approving new foreign investment in these sectors.
- In the field of intellectual property rights, China has already revised some and is revising a large number of rules and regulations. After completing the revisions in the near future, China's protection of intellectual property rights will fully meet the demands of the WTO Agreement on Property Rights Concerning Trade in legislation.
- In the investment field, China's legislature has revised its basic laws and detailed rules regarding implementation of The Law of the People's Republic of China on Chinese-Foreign Joint Ventures, The Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures, and The Law of the People's Republic of China on Enterprises with Foreign Investments and Foreign Enterprises concerning direct investment from foreign entrepreneurs, including articles such

as foreign exchange equalization, proportion of local products, export performance requirements, and records of the enterprise production plan. Through tax reforms, China has set up a unified tax system for domestic and foreign enterprises and abolished higher taxes on foreign enterprises and other dual charging when foreigners use public facilities. A new guideline catalogue on foreign investment industries and automobile industry policy will be published soon.

- On transparency, since the day of China's entry, the WTO Notification and Equity Center of the Ministry of Foreign Trade and Economic Cooperation has been providing consultative services for the public on China's laws on relevant goods trade, service trade, property rights concerning trade, and foreign exchange controls, to name just a few laws.

China is a new member of the WTO and inexperienced in foreign economic cooperation. China earnestly hopes to learn from other countries on how to fulfill its commitments. It is said that some countries have set up special departments in their governments to supervise China's implementation of its WTO commitments. If this is true, I hope the function of these departments will be changed to increase contacts with China in order to provide experience, suggestions, and consultation for China's relevant government departments.

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A U.S. Perspective by Jane Skanderup

The Economic Foundation of Trilateral Relations

Compared to the often divisive security interests among the U.S., Japan, and China, on the economic front there have always appeared to be clear common interests among the three countries in ensuring that the trend of economic liberalization remains strong and vital in the national, regional, and global spheres. In this vein, Japan, China, and the United States were for many years committed to China's entry into the World Trade Organization (WTO) to "integrate" China into the international economy and rules-based system of trade. Yet within the first year of that process, it seems clear that China's liberalization is itself transforming the world economy. New trade and investment patterns that integrate China's low-cost structure into global production networks by both local and multinational firms are already altering the economic and political landscape. Yesterday's goal of how to change China to integrate with the world's economies is now coupled with the goal of how the world's economies need to change and restructure to integrate China.

A healthy trilateral relationship among Japan, China, and the U.S. is key to setting the tone and providing a model for making this global economic and political transition

be a success. It is ultimately in China's hands whether its huge economic experiment, with still uncertain political and social consequences, will eventually succeed in creating a prosperous democratic nation. How our three countries – the world's largest two economies and the world's fastest growing one – can pursue their respective economic and political interests in the midst of this transition, and still maintain stability, weighs heavily on the minds not only of our three countries, but of the entire region. Right now, the trilateral relationship is ill-equipped to address this challenge; economic self-interest guides the trilateral relationship with less emphasis on the strategic value providing economic leadership. The fundamental facet of commerce and investment that binds our three countries should not be taken for granted, and more needs to be done to develop a common economic agenda.

New Patterns of Trade and Investment

Mainstream thinking in the region today paints Japan as a former economic power, the lead goose that is now a “dead duck,” perhaps permanently; China as the unstoppable rising dragon, or the flying eagle as one Beijing economist recently described China's economy; and the United States as the hoped for come-back economy that will once again devour Asia's exports. This snapshot picture of a Japan in decline, an unstoppable China, and the U.S. in a holding pattern is misleading, however, if we take into account long term trends.

China's emergence as a regional and global manufacturing center is a natural and positive development for trilateral relations as well for the region. Contrary to the widespread nervousness about China's new cooperative advantage displacing the traditional export powerhouses in East Asia, this is a “win-win” situation as long as China continues to liberalize and open up. China's economic opening up is actually very young, and the first twenty-five or so years of economic development – from 1978-2002 – arguably involved easier tasks than those that lie ahead. The American economist David Hale likens China's opening up process as “the most extraordinary economic transformation to occur in any country since the industrial revolution.” This observation reminds us to recall the dramatic changes that occurred in Europe and the United States during the industrialization process, particularly in the social and political systems, and we should expect no less in China. The U.S. and Japan obviously hope that the discipline of the WTO will help to produce greater political pluralism and social equality, but the changes can also be wrenching and can erode societal consensus about the benefits of economic progress.

China's economic liberalization to date is putting more pressure on Japan, the U.S., as well as other regional economies to more vigorously pursue economic restructuring to reduce reliance on manufacturing and strengthen competitiveness in the services and high-end technology sectors. Japan's decade of stagnation has cost it global economic competitiveness, but China's emergence as a global low-cost manufacturing center would have challenged Japan and other regional economies to restructure in order to develop more value-added sectors, regardless of domestic economic problems. The era of Japan being the only industrialized country in Asia has ended, but a lower relative

position for Japan's economy does not necessarily mean an absolute decline in the living standard of its citizens. Trade and investment are by no means zero-sum games, and it is possible for all economies in the region to benefit by enlarging the size of the pie. The financial crisis demonstrated that it is in Japan's interest to be surrounded by affluent and peaceful countries rather than poor and unstable ones. In a speech to the Boao Forum for Asia in April, Prime Minister Koizumi Junichiro argued against the "China threat" theory, saying that the advancement of Japan-China economic relations does not translate into a hollowing out of Japanese industry but presents opportunities to nurture new industries in Japan.

This recognition is important, but it also needs to be implemented. Japan as well as other economies in the region cannot stand still. As China moves from manufacturing shoes and textiles to color TVs, VCRs, and computers, Japanese industry needs to improve efficiency and specialize on high value-added sectors, such as design and product development. The last decade has witnessed a dramatic shift in trade and investment patterns, and has increased the importance of China to other economies in the region. In 1990, for example, Japan took in about 20 percent of East Asia's exports, while China's share of the region's exports was about 7%. In 2001, Japan's share of regional imports dropped to 10% while China's share grew to 15% of the regional total. China now accounts for 13.5% of East Asia's exports compared to 11.5% for Japan.

Yet Asian countries can benefit from China's new expertise in low-skilled manufacturing as long as they pursue economic development strategies that stress entrepreneurship in more knowledge-intensive sectors. The goals of entrepreneurship, transparency, and the right mix of private sector competition and government oversight and regulation are widely held as objectives throughout Asia. Yet the mode of achieving these goals are bound to be different from the U.S. experience.

The U.S. business and governmental models and methods touted during the Asian financial crisis have been discredited by the corporate malfeasance and it endorses the view that U.S. prescriptions for Asian economic ailments are not readily applicable and may not even be desirable, especially to address the growing gaps between lower, middle, and upper classes. Many Asian economists argue against giving up on the social equality that the state-led industrialization model brought them.

Regional Economic Dialogues

The Asian financial crisis was a watershed event in demonstrating how interdependent the region had become. Throughout the 1990s there was much discussion about economic interdependence, yet there was little awareness that economic policies in neighboring countries could so dramatically affect internal economic affairs. The economic dialogues that have sprouted since 1998 is a response to the need for more transparent dialogue about issues that were once considered strictly internal matters.

Some analysts argue that these dialogues are meaningless to the real work of trade liberalization as embodied in the WTO. These mechanisms amount to no more than

background noise to the principal task of domestic reform to adapt to globalization, as embodied in the WTO, and are a harmful distraction of political gamesmanship to measure influence while domestic economic culture and policies remain entrenched. Some of these dialogues or agreements are politically motivated – the China-ASEAN agreement seems aimed at shoring up China’s influence in Southeast Asia, perhaps at the expense of Japan, for example. But these initiatives do serve an important purpose in national and regional confidence building – at both the economic and political levels – to aid governments and societies in the task of easing into the globalization bargain.

This was, in fact, one of the objectives of APEC, which has tended to become mired in detailed and legalistic trade issues, rather than serve as a building block for the formal WTO negotiations. More than once, APEC member economies have balked at agreeing to difficult APEC liberalization measures. Some analysts have argued that APEC will be forced to shift focus from individual trade liberalization plans to trying to rationalize all of the regional and bilateral deals occurring outside of and separate from APEC. In any case, with ASEAN Plus Three and the other off shoots, it does appear that Asian countries have resorted to what they wanted in APEC in the first place – an informal mechanism to test thinking and policies on a voluntary basis without undo interference and external oversight.

Yet the ASEAN Plus Three is only a partial dialogue as long as Hong Kong and Taiwan are excluded. Both of these economies are vital to the regional and global economies – Hong Kong’s financial sector and Taiwan’s expertise in the high technology sector are central to the economic transformation underway of production networks, trade and investment. It is in the interest of China, Japan, and the United States for Hong Kong and Taiwan to play a role in regional economic dialogues commensurate with their economic weight. In ASEAN Plus Three, for example, it would be desirable for Taiwan’s president to attend the summit meetings, but it is just as important for Taiwan’s trade and finance ministers to attend the ASEAN Plus Three, and the Plus Three, ministerial meetings, just as they do in APEC and APEC working groups. One cannot imagine any of these dialogues being ultimately successful without the input of these two key economies, particularly as more issues are added to the agenda that could result in significant agreements or reforms.

Although China is typically concerned that Taiwan might use economic fora to try to gain political stature, China might find that Taiwan’s inclusion might strengthen the economic relationship that the two sides have been unable to achieve at the inter-governmental level, even through the WTO. China’s own economic development hinges on Taiwan’s continued economic success; Taiwan investment is key to solving the mainland’s unemployment problem, and China also benefits from Taiwan’s technological and management skills. China’s strategy of using Taiwan business linkages to help restrain Taiwan’s political behavior may well backfire, particularly as Taiwan’s economy recovers and business interests pushing for more open linkages with the mainland become less influential in Taipei. Inviting Taiwan and Hong Kong to join ASEAN Plus Three, even as observers, would be a significant confidence building measure, not only for cross-Straits relations, but for regional economic integration as well.

Trilateral Priorities in Regional and Global Economic Relations by Hideo Ohashi

Main Actors in the Asia-Pacific Economy

Throughout the post-war period, the U.S. and Japan have been the main actors in the economic development of the Asia-Pacific region. The U.S. has provided its huge domestic market to the rest of the world, and been a main “absorber” of the manufactured exports made in East Asian economies, including Japan. Under the GATT regime, the huge, open domestic market of the U.S. was a prerequisite for the outward-oriented growth of East Asian economies. Japan, the largest beneficiary of the GATT regime, was successful in reviving its economy by the early 1950s, and achieved remarkable economic growth up to the “oil-shocks” in the 1970s. Since its economic growth was led by heavy chemical industries, Japan became a major supplier of capital and intermediate goods to East Asian economies.

East Asian economies, particularly the Newly Industrializing Economics (Korea, Taiwan, Hong Kong, and Singapore), the ASEAN 4 (Thailand, Malaysia, Indonesia, and Philippines) and China, also recorded very impressive economic growth in the last quarter of the 20th century. Their economic success in outward-oriented growth was largely dependent on the huge demand of the U.S. domestic market and stable supplies from Japanese industries. First, they imported capital and intermediate goods from Japan, which were essential for their industrialization. Then, they inputted ample and excellent labor forces to assemble and process the imported materials, components, and parts. Finally, manufactured goods were exported to the U.S. market. At the same time, both U.S. and Japanese foreign direct investment (FDI) transferred management resources and technology to East Asian economies and made it possible to improve productivity in their industries.

Entering the 21st century, the Asia-Pacific economies have changed shape. First, the prospects of the U.S. economy today do not look as bright as they did in the 1990s. The U.S. economy was unprecedentedly successful in the last decade of the 20th century: it was called a “new economy,” implying that it had already overcome the fluctuations of the business cycle. The U.S. attracted capital from all over the world by maintaining a strong dollar. The vigorous U.S. economy, by importing from East Asian economies, made great contributions to the quick recovery from the financial crises in the late 1990s. Without sustained economic growth in the U.S., East Asian economies could not have enjoyed such a quick export-led recovery. However, the U.S. economy is not as lively at the beginning of the 21st century. Instead it is occupied with winding up the affairs of businesses that went bankrupt after the burst of the information technology bubble in the early 2000.

Second, the Japanese economy has been in trouble since the burst of its bubble economy in the early 1990s. Japan is still struggling to get out of a seemingly bottomless economic quagmire. It manages to produce economic growth by unexpected increases in exports and by changing the method of estimating Gross Domestic Product (GDP). Faced with this prolonged economic slump, Japan increases imports of daily necessities that have reasonable prices from neighboring economies in East Asia, while it expanded imports of luxury goods mainly from Europe during the days of the bubble economy in the late 1980s. In this sense, Japan provides huge opportunities to exporters in East Asia, but its imports are mostly supplied by Japanese retailers and wholesalers manufactured by their subsidiaries in East Asia. This rapid expansion of imports causes severe trade friction with neighboring economies, China in particular. For example, Japan initiated its first anti-dumping and safeguard measures against Chinese metals and agricultural products in 1993 and 2001, respectively.

Third, the Chinese economy is on the rise and maintains a high growth rate. China began hyper-economic growth in the 1980s after a drastic change in its development strategy in the late 1970s. By absorbing a large amount of export-oriented FDI, China became the world largest manufacturer and exporter of consumer goods in the 1990s, and is now called the “factory of the world.” China is likely to become the world’s largest economy by the mid-21st century. China has become another main actor in the Asia-Pacific region.

What is the meaning of China’s rise for the Asia-Pacific economy? Products that are “made in China” are flooding markets throughout the region. In order to spur exports, China has increased imports of natural resources, raw materials, and intermediate goods from neighboring economies in East Asia. The U.S. and Japan export capital goods, and NIEs and ASEAN export intermediate input goods to China. In services trade, Chinese tourists have become the fastest growing business opportunity for ASEAN economies, especially in Thailand, their primary destinations. China’s state-owned oil company also purchased an oil and gas field in Indonesia. Chinese largest manufacturers of consumer electronics have set up production plants in ASEAN economies. It might be an exaggeration to say that “China races to replace U.S. as economic power in Asia” (as *The New York Times* claimed on June 28, 2002), but China’s rise reminds us of the pivotal role that the U.S. has played as an importer, exporter, and investor in the Asia-Pacific region during the postwar period.

While China creates new demand in the Asia-Pacific, it should be noted that China’s exports are also increasingly dependent on the U.S. market. In addition to a rapid increase of Chinese domestic manufacturers’ exports to the U.S., East Asian exporters, which have depended on the U.S. market, set up export-production plants in China and expanded exports to the U.S. As the Chinese economy grows, it has created huge demand for intermediate inputs in the Asia-Pacific region, which is indispensable to sustained economic growth in East Asia.

Changes in Comparative Advantage

Economic development in the Asia-Pacific region is often explained from the viewpoint of the “catch-up” process. Reflecting the changes in comparative advantage among the economies in the region, the most advanced industrialized economy will be caught by less industrialized economies. It is also called a “flying geese” development pattern among Japanese economists, who compare the “catch-up” process in the Asia-Pacific economies to the shape of a flock of geese. The front geese are the U.S and Japan, the second are the NIEs, and the third are ASEAN. China participated in the international division of labor in the late 1970s and seemingly joined the “flying geese” development pattern in the late 1980s. It is a very big goose, with a head approaching the front geese while its tail is still at the very back, and it is flying very high and fast.

The dynamic economic growth in the Asia-Pacific region seems to change this development pattern, which is based on a statistic theory of comparative advantage. Today, a goose flying at the rear sometimes takes the lead in a certain industry in the Asia-Pacific region. For example, a high-tech product, which is developed in the most advanced industrialized economy, can be also manufactured in a less developed economy with a very short production cycle. Some new patterns can be observed in these new development trends in the Asia-Pacific region.

First, dynamic economic growth in the Asia-Pacific region is achieved by the FDI-trade nexus. The traditional theory of comparative advantage, like the Ricardo model, focuses on differences in production technology. FDI is a transfer of a complete set of managerial resources, including production technology. It is getting more difficult for traditional theory, focusing on differences in production technology, to explain the dynamic economic growth in the region. Exports are mainly manufactured by multinational corporations (MNCs) or through international production chains. The ratio of intra-industry trade to total trade in the Asia-Pacific region is on the rise, and has doubled in the past two decades, from 25 percent in 1980 to almost 50 percent in 2000. This intra-industry trade ratio is the most important evidence that FDI dominates trade and capital flows within the region.

After the financial crisis in East Asia in the late 1990s, some less industrialized economies have given up protecting some domestic industries. Before the crisis, certain domestic industries were protected as infant industries at extremely high costs, but these industries were vulnerable to external shocks like a financial crisis. Under the World Trade Organization (WTO) regime, most economies are required to liberalize their import regimes within a definite period of time. If a less industrialized economy is committed to reduce an 80 percent import tariff rate on a given product within 20 years, this industry should continue to improve productivity at a growth rate of 3 percent annually, yet it is almost impossible for an infant industry in a less industrialized economy to maintain this rate of productivity. Therefore, less industrialized economies in the Asia-Pacific region prefer to obtain immediate gains by introducing more FDI rather than to expect long-term but uncertain economic effects by protecting domestic “infant” industries.

Second, MNCs in the Asia-Pacific region are now engaged in an international division of labor through individual processes in production. The “flying geese” development pattern is based on an international division of labor by industry. The revolution in information and transportation technologies has reduced transaction costs between production plants and made possible the fragmentation of production processes around the region. Since MNCs are most active in assembling electric and electronics machinery in the Asia-Pacific region, MNCs seek the most favorable location for individual production processes and disperse their production plants around the region.

Third, the agglomeration of industry attracts new FDI in the Asia-Pacific region. The traditional theories of comparative advantage focus on the differences in production technology (Ricardo model) and endowment of production factors (Heckscher-Ohlin model), but pay little attention to the agglomeration of industry. Agglomeration of FDI is good evidence that there is little volatility and uncertainty in FDI policy of the recipient country. It signifies a favorable location for FDI. The Pearl River Delta in the central Guangdong province in China is a typical case of agglomeration of the information technology (IT) industry. Agglomeration of assemblers may be an incentive for components and parts manufacturers to invest, while agglomeration of components and parts manufacturers is likely to attract an assembler’s investment. If an MNC finds a proper agglomeration of FDI or related industries, it could reshuffle its production network without considering restraints on initial conditions such as production technology and endowment of production factors.

Recently, MNCs have started to manufacture new products at plants in both advanced and less industrialized economies without any time lag. As East Asian economies are more receptive to new manufacturing technology, an MNC can transfer know-how to manufacture a new product to plants around the region. As a result, even a less industrialized economy can manufacture the most advanced product. In addition to comparative advantage, a couple of new elements, such as the FDI-trade nexus, the international division of labor by production process, and the agglomeration of FDI or related industries, have become the main determinants of trade and FDI in the Asia-Pacific region.

Free Trade Agreement (FTA) Boom

FTAs are now booming around the world. The effects of FTAs are of great significance in a strategic context in the Asia-Pacific region, although they are generally indirect and incremental in an economic sense. Free trade advocates have repeatedly indicated that regionalism creates discrimination in trade and asserted that multilateral trade liberalization based on a non-discrimination rule is best. In this way, FTAs are always the target of criticism. An FTA certainly has a trade creation effect, but it is likely to have a trade diversion effect and eventually induce inefficient industries to survive. An FTA could also form an exclusive economic body or a trade bloc. Moreover, there is a technical criticism of FTAs. An FTA tends to leave “sensitive” sectors like primary industries unchanged, and rules of origin are more complicated.

However, many government officials as well as economists have recently taken a fresh look at the positive aspects of FTAs because a new round of multilateral trade negotiations has been deadlocked in the WTO.

Proponents of FTAs argue that there are at least six benefits. First, FTAs expand economic activities between and among the economies concerned. It should be stressed, however, that these activities occur not because of multilateral but because of bilateral or “plurilateral” liberalization of import regimes. Second, in addition to the reduction of tariff rates, FTAs provide an opportunity for coordination between different economic institutions and business practices. Third, FTAs promote structural reforms. Mexico’s experience in joining the North American Free Trade Agreement (NAFTA) may be a good example; it could not have made comprehensive economic reforms if it had not set an ambitious goal to participate in NAFTA.

Fourth, FTAs create momentum for trade liberalization; which is particularly important when multilateral trade negotiations are deadlocked. Fifth, FTAs provide the opportunity to create and share common values between the economies concerned. Expansion of the Europe Union is the best instance. In Europe, where not only free trade but also labor migration and capital flows beyond borders are allowed, the only economies that share “European culture and values” are qualified to be a member of the EU.

Finally, FTAs encourage FDI. FDI comes to new sectors whose doors were not open before the FTA. FDI is attracted to a free trade area because it enlarges and combines “domestic” markets of the economies concerned. FDI prefers the hub economy of FTAs such as Mexico and Singapore. Once invested in Mexico, for example, foreign-affiliated firms could export their products to both the North American and EU markets in accordance with the FTA.

NAFTA, in North America and the ASEAN Free Trade Area (AFTA) in Southeast Asia are proceeding with FTAs, but there has been a vacuum in Northeast Asia, which comprises the major trading economies of Japan, China, Korea, Taiwan, and Hong Kong. China and Japan have inaugurated feasibility studies on an FTA with ASEAN. At the annual ASEAN-China dialogue, China’s unofficial proposal for an FTA surprised ASEAN in 2000, but it was accepted by ASEAN in 2001. China’s proposal successfully diminishes the “economic threat” of China that its ASEAN counterparts anticipate. A series of talks between China and ASEAN on an FTA seems to have been initiated by Singapore, which is making efforts to become a hub of the FTA. It is an open question how the FTA talks between China and ASEAN could have been if Indonesia had been politically and economically strong enough to lead the other ASEAN members.

Japan has seemingly failed to keep up with the FTA boom, because multilateralism has taken a priority in its trade policy throughout the postwar period. However, Prime Minister Koizumi Junichiro signed Japan’s first FTA, the “Japan-Singapore Agreement for a New Age Partnership,” in January 2002. His visit to Singapore marked an epoch in Japan’s trade policy, and signifies a changed attitude

toward regionalism. There is no denying the importance of multilateral trade liberalization for increasing welfare in the world economy, but the opportunity cost would be too high if Japan did not also opt for an FTA.

It would be most favorable if the FTA talks between ASEAN and China and ASEAN and Japan could be jointly coordinated in the framework of “ASEAN plus Three” dialogue. Although a China-ASEAN FTA would expand economic activities between them, according to some simulation studies it would have a smaller impact on the economic development of the Asia-Pacific region as a whole than would a Japan-ASEAN FTA. Even if coordination were not successful, from the viewpoint of trade liberalization in the Asia-Pacific region, it would be a good opportunity for the two leading economies in the region to compete with each other to realize an FTA with ASEAN.

Challenges and Opportunities

The main economic actors in the Asia-Pacific region are expected to maintain economic growth to create regional demand for products that export-oriented East Asian economies supply. Economic growth in the three leading economies -- the U.S., Japan, and China -- is of great significance to the prosperity of the Asia-Pacific region as a whole, especially when deflationary pressures prevail around the world.

The U.S. is the market of last resort in the sustained economic growth of the Asia-Pacific region. The recent recessionary mood is mainly caused by the corporate scandals such as Enron and Worldcom. The economic fundamentals are still solid and sound in the U.S. It is necessary for the U.S. to restore business confidence by reinforcing corporate governance.

Japan should continuously tackle unfinished structural reforms to sustain economic growth. Japan has grappled with solving the problems of nonperforming loans of banks for the last decade. However, more fundamentally, it has not found any new leading industry. The manufacturing industry, the mainstay of its economy, shrank by 6 percent in nominal terms in the 1990s, while the equivalent sector in the U.S. increased by 50 percent in the same period. Furthermore, it does not have an effective capital market to support new entrepreneurs. Policy debates over structural reforms are likely to focus on the restoration of the financial sector in Japan. Considering its economic potential, more attention should be paid to the revitalization of the sectors of the real economy, the manufacturing industry in particular.

A high economic growth rate in China is indispensable to sustained economic growth in the Asia-Pacific region, and it is critically important for China to establish and institutionalize macroeconomic management measures and policies. Increasingly, China's economic growth has a significant impact, both positive and negative, on neighboring economies.

Conclusion

Economic activities have increasingly become borderless in the Asia-Pacific region. FTAs are increasing all over the world, but this does not necessarily lead to global trade liberalization. It is impossible to assume that the EU or NAFTA will increase their members and eventually cover all economies in the world. FTA is neither a stumbling block nor a building block. In this context, it is vitally important for countries to take more positive steps toward multilateral trade liberalization to increase welfare in the world economy. The U.S., as the largest trading economy in the world, is expected to take the lead in a new round of trade negotiations at the WTO. It's good news that the U.S. Congress passed the trade promotion authority (TPA), but foreign countries are also concerned that the U.S. government took safeguard measures against imported steel products. Balancing between multilateralism and regionalism, Japan should advocate multilateralism again from its original standpoint of trade policy. China could also make contributions to multilateral trade liberalization by complying with the principles and rules of WTO.

After the financial crisis in East Asia in the late 1990s, unilateral trade liberalization in the Asia Pacific Economic Cooperation (APEC) has made little progress. Needless to say, trade liberalization is just part of the objectives of APEC. Since the FDI-trade nexus accelerates economic growth in the Asia-Pacific region, FDI facilitation, one of the main agenda items for APEC trade liberalization, should take priority over trade liberalization. Economic cooperation among developing members is another of APEC's objectives in order to sustain regional economic development. Moreover, we should not underestimate the significance of the fact that political leaders in the Asia-Pacific region meet annually, even if "unofficially." Therefore, no one can deny the significance of APEC. Official coordination and adjustment are indispensable to economic development as well as trade liberalization in the Asia-Pacific region. APEC is the only official body in the region and it supports multilateral trade talks at WTO.

Chapter III
Developing Stable Trilateral Relations:
Seeking Common Objectives

Essays by
Masayuki Tadokoro, Ouyang Liping, and Michael McDevitt

Some Thoughts on Security Cooperation
Among the U.S. Japan and China
by Masayuki Tadokoro

Strategic Environment in East Asia

Maintaining peace and prosperity is a difficult task at any time and place. In East Asia, however, there is a peculiar difficulty in comparison with Europe, where the whole region has practically turned into a security community after the Cold War. East Asia has no historical experience of stable, peaceful, and prosperous relations among sovereign nation-states to which we can return. Before China fell victim to Western imperialism in the 19th century, what had existed were not stable relations among sovereign states in a modern sense of the word but an imperial order with relatively thin interrelations among states in the region. The Middle Kingdom, which boasted its primacy, had imposed the imperial order on the neighboring “barbarian” states ever since history started in the region. The modern history in the region, as is well known, is characterized by Western imperialism followed by a Japanese one, and civil wars. After the defeat of Japanese imperialism, the Cold War – as well as a hot one in Korea – tore the region into two confronting camps. Thus, working out a stable international order in the region based upon modern international norms is an equation that has never been solved in history. The collapse of the Soviet Union, in itself, did not solve the inherent difficulties in creating a lasting regional order based upon shared norms and internationally accepted rules of conduct. There are serious disagreements on the Korean Peninsula and Taiwan as to who legitimately governs where, which could even develop into military conflicts. On the basis of these sharp disagreements, there is a lack of shared values such as democracy and human rights, which are the indispensable foundation for any security community in the world, including in Europe and North America.

Nevertheless, it must be noted that considering the belligerent first half of the 20th century, the second half was far better. While the region was under constant severe tension with Cold War and a hot one in Vietnam, the “Cold Peace” and gradual relaxation of tension in the region allowed Japan and later South Korea and Taiwan to turn into affluent democracies. China also has quickly improved its economic standard as well as its political status in the world thanks to the “Cold Peace”. Our realistic goal is to turn the

“Cold Peace” into “Warm Peace” in the region rather than recklessly attempting to jump toward a security community.

What, then, has contributed and will continue to contribute to the relative stability in the region? One of the stabilizing factors has been the U.S. presence. Shortly after the Cold War, Japan’s ostensible economic boom made Americans uneasy about their primacy. America’s confidence was quickly and perhaps overly regained as America’s economic performance improved in contrast with Japan’s stagnation. Now it seems to be certain that no country will be able to challenge the U.S. militarily in the foreseeable future. In addition, the U.S. will continue to enjoy a strategic detachment in East Asia that no other player in the region has. It has been the least suspicious actor to countries in the region since it has no territorial disputes or ambitions. Its most important interest in the region lies more in general stability, which allows economic prosperity and security in a broader sense of the word, rather than a specific agenda. These two factors, America’s outstanding capabilities and its national interest, have allowed the U.S. to be the most reliable security guarantor, or the closest approximation to a provider of international public goods in the region. Besides, the U.S. presence has been maintained for over the 50 years. It is much more reassuring to rely upon that has been already tested than something completely new.

Since 1979, the Chinese economy has outperformed almost any economic forecast. Now, optimism about China’s economic growth is predominant. Nevertheless, in the foreseeable future, China will remain a huge developing nation given the size of its population. In addition, we have not seen any realistic alternative to the Chinese Communist Party as the effective ruler of the whole China. It means that China will remain a huge and vigorous but authoritarian developing nation. On the other hand, China, unlike Japan, will keep playing an independent strategic role. As a proud traditional empire with 4,000 years of history and the humiliating Western and Japanese invasions since the Opium War, nationalism – rather than the desire for civil values like human rights or democracy – will remain the driving force of China’s foreign policy. It means that it will take a long time to see China-Japan relations turn into the kind of relationship that exists between the U.S. and Japan, which, after all, is based not only upon shared strategic and economic interests but also shared values and closely intermeshed human ties based upon shared values.

Ever since Japan became a major economy, there has been repeated concern about the resurgence of Japanese militarism. While militarism is nearly inconceivable given Japan’s postwar history – which is now longer than its imperial past – it is a completely natural and respectable view to assume that an economic power will never fail to translate its economic resources into military power. Japan, however, is likely to remain an incomplete power despite the abundance of material resources.

It is true that there is of frustration within the minds of Japanese over its inability to behave as a complete power. Hosting foreign troops with generous host nation support is far from easy, particularly when the presence of the foreign forces disrupts the daily life of local citizens. Depending upon foreigners for its critical interests, i.e., national

security, is never healthy for a political community. Being treated like a second-class citizen when it comes to security roles despite the enormous financial contribution to the UN and other development programs, is not satisfactory.

But first and foremost, the Japanese have been generally comfortable over the last half century with limited military capabilities. While Japan's imperialism 60-70 years ago caused great damage to the Chinese and other neighboring countries, it was far from pleasant for Japanese too. It is not surprising that a great majority of Japanese find postwar Japan, with its democracy and prosperity, far more attractive than the prewar Japan, whose militarism oppressed daily life and posed a severe economic burden, and in the end entailed so many casualties including non-combatants like the civilian population in Hiroshima and Nagasaki as well as in all major cities in Japan. Thus, it is not surprising that even after the economic "stagnation" of the last decade, there is no sign that Japan's democratic institutions are being undermined.

Second, the sensitivity of Japan's neighbors to its military power is well acknowledged by the Japanese. Its self-imposed restraint upon its military posture, which is based upon Japan's reflection on its deeds more than a half century ago, has been such that it has even irritated its ally. It has also been widely acknowledged by the Japanese foreign policy community that the security roles currently played by the U.S. will be far better played by Americans than Japanese.

This existing security arrangement, in which Japan maintains self-imposed limitations over its security roles while facilitating the U.S. presence in the region (thereby helping Americans play the role of military hedge), provides Japanese with more reliable security with lower costs and less risk of destabilizing the region. A prosperous Japan with reasonable national pride would not find it sensible to be an independent strategic actor comparable to China. Unless Japanese feel seriously threatened or humiliated, very few would find it attractive to turn Japan into a complete strategic power.

That is why the U.S.-Japan alliance, which has allowed Japan to remain an incomplete power and in which Japan is inevitably a junior partner, is most likely to be maintained. China may continue to be suspicious given the basic societal difference, its independent strategic posture as well as rising nationalism. As long as Japan's historical liabilities handicap Japan's increased security roles in the region and as long as it can enjoy prosperity and avoid humiliation, the Japanese have little incentive to abandon their self-imposed limitations on the country's security posture.

New Trends

America's economic revival and impressive Chinese economic growth, on the one hand, and Japan's poor economic performance, on the other, has created a new strategic landscape. Chinese economic growth not only improved the living standard of a great percentage of the Chinese population but also it brought more freedom to society. In addition, the government in Beijing seems to have become more confident about its

future power and started taking a more positive attitude toward multilateral cooperation. This is particularly true on the economic front: it is already a member of the World Trade Organization and it agreed to set up a regional scheme to stabilize monetary conditions by reversing its earlier objection to a Japanese proposal.

China also increased its presence – not only in politico-military and economic areas but also in a variety of transnational exchanges, including sports, cultural activities, students studying abroad, and tourism. Increased transnational contacts are desirable: they help integrate the huge country into international society. But these newly expanding contacts could pose new challenges. Also, there is a paradox at work in China's socio-economic rise. On one hand, China will remain a huge developing nation given its huge population. But for the same reason, the country as a whole represents a great presence in the world. It is already a great economic power, even larger than Japan if calculated in terms of purchasing power parity. Its highly nationalistic rhetoric encourages alarmist views on China abroad. Thus, its domestic image and international presence are destined to be unbalanced. China, despite the relative backwardness of its economic modernization, is the second largest economy with a nuclear arsenal that can hit even a part of the U.S. (to say nothing of Japan), is now in a position to reassure rather than be reassured.

Second, as the U.S. economic performance improved, U.S.-Japan trade frictions (despite remaining trade “imbalances”) subsided. Now the Japanese public sees relations with China as the most difficult challenge in managing external relations. Japanese public opinion polls clearly show a sharp decline in favorable sentiments toward China in the 1990s. One would fail to understand the sea change in Japanese public sentiment if the trend is interpreted merely as a “right turn” in Japanese public opinion. Those who tend to have negative views on China have increased among the younger generation that grew up in postwar democracy and would be the last people to feel affinity with prewar Japanese militarism. This generation of Japanese simply cannot understand why Japan, with a half century of very peaceful and democratic behavior must be repeatedly criticized for “militarism” – based upon its conduct before even their parents were born – by a country that is modernizing its nuclear capabilities that could wipe out the entire Japanese population. In addition to the generational change, the Tiananmen incident and missile exercises off Taiwan disillusioned Japanese who are committed to democratic values and would be most critical of the revisionist history and prewar Japanese behavior in China and Korea.

Thus, we are seeing Chinese economic growth and the deterioration of Japan's public sentiment toward China, coupled with Japan's (most probably inevitable) relative economic decline. A balance of power paradigm might suggest that Japan would be moving to balance a rising China by strengthening security cooperation with the U.S. The Japanese, however, given the incompleteness of the power structure, find it against their national interest to play such a game based upon the logic of the balance of power, from which Japanese tried to abstain for more than 50 years. Rather, their goal is to transform the still precarious regional security conditions from one based upon a balance of power into one based on interdependence in which Japanese can gain from China's economic

rise and Japan's gain will not be interpreted as a threat to the Chinese. Only if and when such a "Warm Peace" is firmly established will the Japanese be completely reassured by China, and Japan will be able to afford reducing its dependence upon the American military capability.

It is in this context that the Japanese government, despite increasing criticism from the public, keeps providing official development assistance to China and makes increasing efforts for regional multilateral cooperation. Japan's security policy can also be understood in this context. Since Japan learned hard lessons by the humiliating experiences during the Persian Gulf crisis of 1990-91, during which Japan got only criticism and insults by making a \$13 billion financial contribution, a consensus among the public seems to have been formed in the 1990s. That is, Japan can best expand its security roles through multilateral frameworks including the UN and other regional arrangements.

It was disappointing for the Japanese that the U.S. took little interest in multilateralism in the second half of the 1990s. But the Sept. 11 terrorist attacks may be changing American attitudes. They made it clear that even the U.S. has no options other than keeping involved in global stabilization and working through multilateral frameworks to control a variety of transnational problems – not for the sake of its missionary global desires but for the sake of its own security, since the attacks shattered the illusion that the U.S. is invincible.

For Warmer Peace and Security-Community Building

Given these observations, the first conclusion to be drawn is the existing security framework, meaning a lightly-armed Japan allied with the U.S., is the optimal arrangement for the foreseeable future in the sense that it minimizes the likelihood of the use of force to settle disputes among regional states. Given the deeply rooted distrust and the lack of shared values, it is impossible at this stage of history to jump to a regional security community. But existing peace can and should be preserved and by doing so, the cold peace has the best chance to become warmer. For the Chinese, as long as their priority is economic modernization, a peaceful environment is needed. The presence of American troops in the region does not please the Chinese and causes even the hosting Japanese some difficulties; however, it represents a lesser evil than expanded military roles by the Japanese or other actors. Given the level of mistrust among regional countries and the unsettled issues that could cause military conflicts, the American presence is the least provocative guarantor of peace in the region.

For Japan, further institutionalization of regional relations based upon the logic of interdependence rather than that of a balance of power, maintaining the existing fragile peace, and deepening interdependent relations offer the best hope for more stable peace that could develop into communal relations. If and when such communal relations are firmly established through expanding elements of interdependence in Sino-Japanese relations, Japan could reduce its dependence upon the U.S., which would also reduce the burden of playing the role of the ultimate guarantor of regional security.

The worst scenario for the Japanese is to be forced to choose between the U.S. and China. As long as the existing alliance structure is reliable as it is now, Japan gains from the improvement of Sino-U.S. relations since it would give Japan more room for cooperative relations with China. If the two countries sharply confront each other, Tokyo will face enormous difficulties. Being forced to choose between the U.S. and China would represent a major diplomatic disaster whichever way Tokyo might choose. But if Japan is forced to choose between the two on a critical issue like Taiwan, Japan, as an ally of the U.S. – tied not only by politico-strategic interests but also by shared democratic values – cannot help choosing the U.S.

In sum, Japan, as an incomplete power, is pursuing a kind of community building in the region. Great progress has been already made vis-à-vis South Korea. Despite occasional problems, it is nearly unthinkable for South Korea and Japan to resort to military means to settle their differences. As affluent democracies, the two countries, like France and Germany, can negotiate and settle differences through non-military means. It may still take a long time to come up with an inclusive security arrangement with China. Until then, Japan's strategy is to make the regional peace warmer by deepening the cooperative relationship with China while carefully managing precarious inter-state relations in the region so that actual forces would not be used and its relations with the U.S. and China would not become incompatible with each other.

To expand cooperative elements in Sino-Japan security relations, security cooperation is best started in the nontraditional security area. Namely, as transnational exchanges among countries increase, new types of security issues could develop and even destabilize the fragile interstate relations in the region. To name just some examples, transnational organized criminal groups have become active in Japan and possibilities for cooperative action to control them should be explored. As Chinese cities become more open and prosperous, it will not be long before China shares these problems. Related to the above, drug trafficking, and illegal and uncontrolled population flows across borders also deserve more attention from policy makers as possible areas for cooperation with China.

As China is becoming increasingly dependent upon international trade, it is clear that we do share interests in the safety of sea-lines of communication. At the moment, we are dependent upon the U.S. naval presence for safety. As piracy becomes an increasingly serious problem, particularly in Southeast Asian waters, it would be worth discussing what could be done under multilateral frameworks in which the three of us can cooperate without causing mutual suspicion.

Energy security is also an area of possible cooperation as China is becoming increasingly dependent upon imported oil for its energy. Japan, in reaction to the difficulties during the oil crisis in the 1970s, has developed a relatively large oil stock. But as East Asian economics have become far more interdependent, securing Japan's energy supply alone does not make much economic sense. To deal with risks in East Asia, the existing International Energy Agency facilities are insufficient.

On the traditional interstate level, not much can be done other than continuing to carefully manage possible differences under the existing security framework. We should start looking into possibilities of mutually beneficial cooperation in nontraditional security issues like those mentioned above. Even relatively modest functional cooperation in these areas would be beneficial since it could develop into more demanding cooperation as we have seen in Europe.

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Developing a Stable Trilateral Relationship by Ouyang Liping

Introduction

China, the U.S., and Japan are the three major powers in the Asia-Pacific region as well as prominent figures in the international arena. The three countries are of three quite different types, each with its own unique features. China is the largest developing country with a huge population and is now undergoing rapid economic growth, in fashionable words, it is becoming an “emerging power.” The U.S. is now the only superpower and is showing much more tendency toward unilateral behavior. Japan is the world’s economic giant second only to the U.S. and is now striving to become a political power by actively participating in some regional and international affairs. Among the triangle, the U.S. and Japan are the military allies; China and Japan are neighbors and have great interdependence and mutual complementary in economic matters; China and the U.S. are separated by vast oceans but are closely linked not only by huge mutual markets, but also by the Taiwan issue. With the Taiwan issue in between, China, the U.S., and Japan are always involved in troubles, from strong words to diplomatic tension. But no matter how severe the tone of each side, economic ties are seldom afflicted, the money keeps flowing, and business keeps busy. It seems that each country’s politicians and businessmen are doing well their role in the division labor.

To analyze trilateral relations from a long and comprehensive perspective, the study should cover economic, political, military, cultural and social areas, and so on, but here I would like to narrow the scope, focusing only on security matters. Trends in the trilateral relationship would put much emphasis not only on each of the three’s domestic stability but also on regional and even international security and stability. There are opportunities around us. The question is whether we can grasp them, or if we want to grasp them and if we could or want to make use of them to build good relationships. Sept. 11 has provided a platform for mutual cooperation.

Nontraditional Security Issues Pose Greater Threats

The world witnessed the Sept. 11 disaster right after it entered the new century. It dealt a heavy blow to the existing international security situation as well as to current patterns of international relations. Many countries began to ask what is national security and what is the real threat in this new situation. Actually, terrorism is not a new

phenomenon; it has plagued the world for years, but people did not realize the danger it posed at the strategic level. These dangers are coming from the nontraditional security field and have not received enough attention, let alone specific solutions.

In Chinese academic circles, rethinking and discussing the significance of security and threat tend to be more active. Even though they could not, at the outset, get rid of traditional patterns of thinking, they realized the problems and they will certainly adjust and adapt to the situation and try to explore the external and internal linkages between traditional and nontraditional security issues.

Compared with traditional security threats, the world is facing more direct threats from nontraditional security areas. Our three countries share the same predicament. We don't know what the real danger is, we don't know where, when, and how these dangers will attack us. Sept. 11 happened and provided a chance for joint action, but there was no trilateral cooperation, only two sets of bilateral cooperation: Sino-U.S. and U.S.-Japan.

Upon recalling the cooperation, our feelings were somewhat strange and mixed. In order to support the American counterterrorism campaign, China quickly closed the Sino-Afghanistan border and provided the U.S. with as much information as quickly as we could. But some American media criticized China's cooperation, saying it was not enough, merely a symbolic political gesture. When America was about to station troops in Afghanistan and Central Asia, some sensitive Chinese by instinct regarded the move as part of an American geopolitical strategy to surround China; When Japan participated in the U.S.-led counter terror campaign by sending a large-scale support fleet, it also aroused some arguments and suspicion in China, guessing about the real motive. Certainly these opinions, including those of Americans, didn't represent the mainstream, yet they cast shadows. Nobody is to blame. The only thing that should be blamed is the strategic distrust deeply rooted in the minds of some Chinese, some Americans, and some Japanese. This distrust comes from the traditional security arena but has been refracted onto nontraditional security cooperation.

The Barriers Ahead

“China threat theory.” Actually, neither the U.S. nor Japan really takes the “China threat theory” seriously. The U.S. military power and its numerous bilateral and multilateral military alliances mean that no country and no group of countries is qualified to rival the U.S. Yet both countries prefer to use the “China threat,” perhaps for two reasons, according to some Chinese scholars. First is the worry of China's potential future might; second is the political and strategic need to check China's rapid development.

Missile defense. Without Taiwan, we wouldn't care much about missile defense for it is none of our business. But with Taiwan between China and the U.S., things are different. Some American voices calling to safeguard Taiwan create a possible conflict point between China and the U.S.

Taiwan. This is the core of Sino-U.S. relations. To China, Taiwan has consumed too much energy and brain power. To the U.S., it is merely a means to contain and check China. Without Taiwan, there would have been other problems, but things would have been quite different in nature.

Taiwan is good at stirring up trouble. President Chen Shui-bian's provocative remarks on Aug 3 gave rise to tension across the Strait again. That is always the case.

Strengthening Trilateral Cooperation on Nontraditional Security Areas

From a long-term perspective, nontraditional security is a new area with great potential for joint cooperation. We should start such cooperation right now. China and Japan could find common interests in safeguarding energy supplies and in pursuing the security of free passage in the open sea. Japan relies on foreign countries for almost 100 percent of its energy supplies. With rapid economic growth for years, China's demands for energy increased sharply, moving it from a net exporter to a net importer, and it will import 200 billion barrels every year, 60 percent of which will come from the Middle East. Securing smooth and safe maritime passage is also vital to China.

Combating organized crime is a good area for trilateral cooperation. Globalization has enabled the rapid development of cross-border crime, such as human trafficking, illegal immigration, overseas gang activities, money laundering, and tax avoidance, to name just some issues. These are new issues awaiting new solutions. Since some organized crime groups coordinate across borders, it is beyond a single country's power to handle or solve the problem.

Our countries are now working closely together on counterterrorism. It is a good starting point and I believe the cooperation will last. In recent years, China has suffered a lot from terrorist violence and a lot of innocent people lost their lives. We didn't realize that terrorist activities committed in China are part of international terrorism, nor did we know that some terrorists in China had close links or even were members of international terrorist organizations. As a matter of fact, for a long time, some overseas, foreign or terrorist organizations from neighboring countries have been secretly and sometimes openly supporting domestic terrorists. Now we must get into action and cooperate with each other to try to ensure our countries are free from terrorist attacks. China will be hosting the Olympic Games in 2008, and we bear the responsibility to safeguard and guarantee the athletes, officials, travelers and audience from all over the world. Moreover, we still shoulder the duty to secure all foreigners, embassies, enterprises, and schools from any terrorist attack and America and Japan are doing the same thing every day. In this sense, mutual cooperation means mutual security. Cooperation is two sides of the coin, benefitting others, and serving one's own interest.

Conclusion

From a long term perspective, the best way to achieve an "all win" situation among China, the U.S., and Japan is to push forward security cooperation in

nontraditional security areas. Adapting to each other and setting up a mechanism is a good idea, but will take time. At the start, cooperation should be conducted gradually, from easy to difficult, from bilateral to trilateral, proceeding step by step to keep the ball rolling.

While cooperating, each side should give appropriate consideration to try to keep the triangle balanced and cooperation should be on a fair and equal footing.

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Developing Stable Trilateral Relations: Seeking Common Objectives by Michael McDevitt

Introduction

I have been asked to address the U.S. perspective on three major aspects related to stable U.S.-Japan-China relations. Specifically:

- What common objectives exist that form the framework for future trilateral cooperation?
- Is there a way to minimize differences today that are the legacy of both history and mutual suspicion regarding long-term ambitions and objectives?
- What are the best paths to follow in pursuing closer economic, political, and security cooperation?

Historical Context for Considering Trilateral Cooperation

The past is not encouraging. When one examines the historic record it is hard to be optimistic about stable trilateral relations. Arguably, for the last 50 odd years, what has worked tolerably well is a framework based on a strong U.S.-Japan relationship that sought to balance, or check, China. In other words, our most recent geostrategic experience with trilateral relations has been based more on “two balancing one” rather than “one for all.” When looks further to the past, to the first half of the 20th century, other combinations of trilateralism (actually involving more countries than just the U.S.-Japan and China, so multi-lateralism is probably the more correct way to consider them) were involved. They too failed. But perhaps these earlier failures can help illuminate what must be done in the future if trilateralism in the 21st century is to contribute to stability in a way that is different from today’s geostrategic balancing act.

Balancing the Regional Hegemon – the Importance of Power to Stability

To a large degree stability in East Asia for the last 110 years has always been about getting the U.S.-Japan-China balance right. We have little in modern East Asia history that might be considered an encouraging example for managing the U.S.-Japan-China relationship. A century ago the issue was Japan – it was the hegemon that required balancing. Appeasing a regional hegemon did not work for long, nor did constraining a regional hegemon through multilateral treaties. Trying to deter the hegemon without enough real power in the region to make deterrence credible failed disastrously. The United States, in its relationships with Japan and China, tried all of these approaches between 1900 and 1941.

First appeasement. Both Presidents Teddy Roosevelt and William Howard Taft sought to protect U.S. interests in East Asia – access to the China market and sovereign responsibilities for the Philippines – by trusting Japan to be moderate in its aspirations in Northeast Asia. In return for a “free hand” in Korea and China, Japan, in turn, acquiesced in a permanent U.S. military presence and bases in Japan’s “sphere of influence.”

Eventually, Japan overreached. Its hegemonic ambitions became too onerous, the “21 Demands” on China in 1915 being the prime example, and threatened to impinge on important U.S. commercial interests in China. Once World War I was over, the U.S. took the lead in trying to achieve stability in East Asia through multilateralism. What made this course of action achievable was the growth in American power that could be brought to bear in East Asia. In the immediate wake of World War I American military power, especially its navy, grew tremendously. By 1918 the U.S. was embarked on a massive shipbuilding program aimed at creating a “Navy second to none” that had legitimate “two ocean” capabilities. As a result, the U.S. was on the verge of being able to project and maintain dominant naval power into the region. This reality provided the strategic “leverage” necessary to convince Japan to give multilateralism a try. In effect, power underwrote the experiment with multilateralism in East Asia.

The multilateral effort, called the “Washington Treaty system” by historians, involved an interlocking system of three treaties aimed at bringing stability to East Asia. First, the Four Power Non-Aggression Treaty (U.S., UK, France, and Japan) replaced the bilateral Anglo-Japanese Alliance. Then to preserve China’s territorial integrity, and prevent dangerous competition in China, the Nine Power Treaty was signed by – among other countries – the U.S., Japan, and China. (As an interesting side note, it is worth noting that for a brief time China, Japan, and the United States were all treaty partners, so there is some precedent for considering a trilateral relationship in the future.)

The only reason Japan agreed to this curtailment of its hegemonic role, and travel to Washington D.C. for an international conference focused on Asia, was because of the growing power of the U.S. in the wake of WW I. But in a flash the U.S. and the UK gave away the coercive leverage that enabled multilateralism in the first place.

The U.S., UK, and Japan – along with the French and Italians – agreed to limit the size of their navies and freeze their fortifications in the Western Pacific. This was a classic case of near-term domestic political considerations (in this case reducing the defense budget) being more important than long-term vague concerns about stability in East Asia.

In hindsight this is true, but it is also true that had Japan faithfully lived up to its Four and Nine Power Treaty obligations, stability in Asia would have been assured. In any event, because the Five Power Treaty actually resulted in the scrapping of modern warships, the most well-known outcome of the Washington Treaty system is its precedent-setting attempt at arms control, as opposed to its precedent-setting attempt to achieve stability in East Asia.

While Japan was disappointed with the outcome in terms of its smaller ratio vis-à-vis the UK and U.S., what is frequently forgotten is that Japan's ratio, while smaller, was still large enough to ensure that Japan would remain the dominant naval power in East Asia. Thus, the military leverage that made the regional hegemon a grudging party to the process was essentially given away, ensuring multilateralism would fail *if the military hegemon elected to destabilize the region* by aggressive action.

Trilateral Cooperation – the Common Objective is Peace and Stability

There are many other reasons why this experiment in East Asian multilateralism failed. Internal chaos in China, Japanese imperialism, and the rise of Chinese nationalism that was seen as a threat to Western and Japanese commercial interests, the onset of the Great Depression – all of these played a role. Most important, in my judgment, was that the success of the Washington treaty “system” was hostage to the goodwill of the regional hegemon – Japan. The treaty-mandated token military presence in the region by the other parties guaranteed that the only way to check the regional hegemon was a major introduction of force into East Asia.

The dominant military power in East Asia was the nation that wanted to alter the status quo, not preserve it. This, I think, is a central factor that must be considered when talking about trilateral cooperation today. All three parties must be committed to stability if trilateralism is to work. Otherwise, the two against one formulation of today will persist.

With the record of the past to ponder, it is interesting to contrast today's alliance based, U.S.-centric system for stability with both the multilateralism of the past and China's current vision for preserving stability. In many ways the similarities in concept are striking.

First, the relevant articles of the 1921 Four Power Treaty (U.S., Japan, UK, and France) say:

- The High Contracting Parties agree as between themselves to respect their rights in relation to their insular possessions and insular dominions in the region of the Pacific Ocean.
- If there should develop between any of the High Contracting Parties a controversy arising out of any Pacific question and involving their said rights which is not satisfactorily settled by diplomacy and is likely to affect the harmonious accord now happily subsisting between them, they shall invite the other High Contracting Parties to a joint conference to which the whole subject will be referred for consideration and adjustment.
- If the said rights are threatened by the aggressive action of any other Power, the High Contracting Parties shall communicate with one another fully and frankly in order to arrive at an understanding as to the most efficient measures to be taken, jointly or separately, to meet the exigencies of the particular situation.
- Regarding China, in the Nine Power Treaty, the most relevant articles said:
- The contracting powers agreed, “To respect the sovereignty, the independence, and the territorial and administrative integrity of China.”
- Whenever a situation arises which in the opinion of any one of them involves the application of the stipulations of the present treaty...there shall be full and frank communication between the contracting powers concerned.

Together the two documents created a security system based on talking and consultation – only. In other words, to be successful they depended on the goodwill of all parties, and did not allow for any means to either deter or coerce proper behavior if the nation that wanted to change the status quo was also the hegemon.

In July 1998 China issued a Defense White Paper that authoritatively outlined China’s vision of a post-Cold War Asia security order. They tabled the concept once again at the latest ASEAN Regional Forum (ARF). China calls this a “new concept of security” and it includes the following elements:

- The Five Principles of Peaceful Coexistence: mutual respect for territorial integrity and sovereignty, mutual non-aggression, non-interference in each other’s internal affairs, equality and mutual benefit, and peaceful coexistence.
- In the economic field, all countries should open their markets to one another, eliminate inequalities and discriminatory policies in trade, and strengthen mutually beneficial cooperation.
- In the area of multilateralism China espouses the promotion of mutual trust and understanding through dialogue and cooperation. Settle disputes peacefully, and engage in security dialogues and cooperation that is aimed at promoting trust (read CBMs). Since security is “mutual” these dialogues should not be confrontational or aimed against another country or infringe upon the security interests of any other nation.

China is very clear that it is against military alliances. These alliances are characterized as Cold War relics, and Beijing claims that U.S. initiatives over the past few years to reinvigorate and strengthen bilateral alliances actually added to instability. To cite China's White Paper:

“...Hegemonism and power politics remain the main source of threats to world peace and stability; Cold War mentality and ...the enlargement of military blocs and the strengthening of military alliances have added factors of instability to international security....”

China prefers a multilateral approach that is oriented toward discussion without commitment. This . . . a non-binding approach, in which all participants have the opportunity to air views, but absent consensus, does not bind the participants to a specific course of action. So, we must ask ourselves if this form of trilateralism can be more successful in the future than it was in the past.

Today the United States and Japan prefer the current stability producing system based on bilateral alliances. Together the U.S. and Japan form the dominant military alignment on the periphery of East Asia. They are committed to the preservation of the status quo. So, unlike 80 years ago when the military hegemon was dissatisfied with the status quo, that situation does not pertain today. But the rising power wants to change the status quo, and wants to change it in way that could limit the ability of the status-quo powers to maintain stability.

So in some ways the past is a parable to help us understand how trilateralism could achieve stability. Clearly, for trilateralism to have any hope of success the third party in this relationship, China, the rising power, has to commit itself to the status quo. In fact, discussions regarding this point could easily become the first step in establishing a stable political and security dialogue.

The Legacy of History and Suspicions about Japan

First, let me address the part of the history question that deals with Japan's future ambitions. A central impediment to trilateralism is Japan's 60-year period as a regional hegemon and the oft expressed concerns of Chinese and Koreans that the Japanese are not to be trusted, and that they harbor ambitions to assume that role again. Happily, most of the factors that led to such an unhappy 20th century, and the failure of multilateral cooperation aimed at stability, are not relevant in the 21st century. History really cannot repeat itself because circumstances always change. And in the case of geostrategy they have changed beyond recognition.

Today, Japan does not harbor a desire to return to its militaristic past. And in any case, the geostrategic, demographic, and alliance realities of Northeast Asia today are so different from the 1930s that a remilitarized Japan could not threaten the security of its neighbors in a meaningful way. In other words, even if Japan wanted to it could not become the regional hegemon.

China is not weak; it is unified and strong. Korea is a far cry from a colonial ex-hermit kingdom. Imperialist behavior is a thing of the past. To suggest that Japan could take the imperialist path means implicitly that one believes that democracy could falter in Japan. I find that inconceivable.

A century ago no international institution with the weight and authority of the United Nations existed. Today, the UN, for all its imperfections, is a court of world opinion that has the ability to punish aggressors.

Each of the regional powers either is satisfied with existing frontiers or appears willing to seek a diplomatic solution to unresolved problems related to reunification or competing claims over islands. The case of Taiwan is an obvious exception to this generalization, but even there, China's avowed policy choice is for a peaceful resolution.

In the past it was the political and military weakness of China that created instability. Korea was unable to defend itself, and when its patron China was also militarily enfeebled, Japan was not satisfied with this status quo.

The most significant difference between today and 80 years ago is that the United States is present in a militarily significant way and is unconstrained by Washington Treaty-like limitations. In Asia, but not of Asia, the U.S. has no territorial ambitions and, in the words of Lee Kwan Yew, "as the preeminent global power is interested in the preservation of the status quo." China on the other hand, Lee continues, "...as a rising power, cannot be expected to acquiesce in the status quo *if it is against its interests.*"

Arguably, in a geopolitical sense the past is irrelevant as a predictor for the future. The circumstances are so different that extrapolating old enmities and fears to the future is both misleading and irrelevant to the problems of today.

But, the past is important in terms of political theory because it allows us to understand how attempts to achieve stability failed. It is also important because how the past is interpreted has such a powerful influence on public perceptions. This is important *in any political system* that feels itself obliged to be attuned to public attitudes. That is why the other element of the "history question," – Japan's remorse, or lack thereof, for World War II is so important in East Asia.

While Japan is properly faulted for not adequately coming to grips with all the misery, death, and destruction that it unleashed on the region for many many years, it is also true that both China and Korea have been equally creative in their interpretations of history. An American reading Chinese explanations about the Korean War in Chinese high school history textbooks would be torn between laughing out loud at the gross misrepresentations or being overcome with outrage.

Finding a way to remove the "history question" from the public opinion agenda is central to any sustainable trilateral regime. My recommendation is to form some sort of a commission of expert historians from the U.S., Japan, Korea, and China. They would be selected because of impeccable credentials for objectivity, and empowered with a long-term (a decade?) charter and adequate funding, including a multinational research

secretariat. The mission of this commission would be to produce authoritative studies of the 1895-1945 period of East Asian history. These works would become the “official” histories of each participating nation.

Were such a commission established, its work would make it far more difficult for revisionist interpretations of the past to command the attention they do today. Its work would also provide a basis for political leaders to address and respond to “inflamed” public opinion. Most importantly, as time passes and survivors of this era pass from the scene, these “official” histories will increasingly be the most influential interpretations of the past.

Best Paths to Closer Economic, Political, and Security Cooperation

The process of globalization provides part of the answer to the questions I have been asked to address regarding trilateral cooperation. Globalization has been described as both a system and a process. Commonly it is described as the acceleration of communications and transactions around the world, facilitated by information flows and by the decreasing cost of long distance transportation. It involves a growing proportion of international trade to domestic trade, substantially larger flows of long-term direct investment, and the dispersal of production in many countries through free trade and reductions of trade barriers. The movement of labor, however, remains relatively restricted.

It is not just economic. It includes worldwide media, tourists, the spread of cultures, and the proliferation of technologies. In short, “globalization” is a characterization of the post-Cold War world – one world, a smaller, more connected world.

But “globalization” is neither a self-perpetuating nor self-managing system. It has not eliminated either poverty or conflict from the world. While it has been mostly created by private business, governments still have big roles – in providing hospitable and internally secure climates for investment, in regulating commerce and competition, and lastly for providing and promoting general security around the world.

The United States, Japan and China are all part of the “globalized” world. Most of the connections I have discussed as characterizing the globalized world already exist to one degree or another amongst the three. So the partial answer to the third point I was asked to address, regarding the “best paths” to follow, is quite simply to continue to improve upon the crucial elements of globalization – economic integration, free trade, societal exchanges, and information exchange. Clearly both Japan and China, and to a much lesser degree, the United States, have room for improvement in all, or most, of these areas. But, the main point is that the process is underway in all facets – except for trilateral cooperation in the security area.

Because East Asia is relatively stable at the moment, tinkering with existing structures runs the risk of creating a problem where none existed before. Today the security interests of all three countries intersect at two potential flashpoints – Korea and

Taiwan. Arguably, despite periodic “mini-crises” we have 50 years of successfully managing these potential flashpoints. We have successfully prevented either situation from destabilizing the region. The key in both cases has been a patient acceptance of the status quo by all interested parties, using U.S. military power to dampen or dissuade impatient behavior whenever it manifested itself, while waiting for political developments to provide a peaceful nondestabilizing solution. This has yielded a stability that has allowed Japan, China, Taiwan, and South Korea to prosper.

Concluding Thoughts

The key to future stability rests on all three countries becoming or remaining status-quo powers. The United States and Japan already fit that description. At issue is China. As the rising power, what does China seek or want? Clearly China’s declaratory policy is for peace and stability. What is not known is whether China means peace and stability only after the status quo has been altered to its satisfaction, or peace and stability as it exists today.

Based on China’s February 2000 White Paper on Taiwan, I conclude the answer to that question is today’s status quo is not satisfactory because there is no clear path to an ultimate resolution of the issue of Taiwan. Over the long term it is also not clear whether China would be satisfied with a security-based status quo that incorporates the U.S. alliance system. China’s position paper distributed in early August 2002 at the ARF addressed a vision for regional security that was very different from the “system” in place today.

The Shanghai Cooperation Organization (SCO), led by China, is more than adequate proof that China is willing, for the first time, to be a signatory to a pact that involves confidence building measures, secure border arrangements, and mutual cooperation against the common scourge of terrorism.

But, in this particular arrangement, China is the status-quo power and is the military hegemon on the continent of Asia. This is good evidence that China is willing to actively contribute to stability in certain circumstances. What is needed in the future are organized discussions over what will make China a status-quo power to its east, on its maritime frontier. Until this is understood and reconciled, I do not hold out much hope for serious, i.e., dealing with big issues, U.S.-Japan-China trilateral security cooperation. In the meanwhile, the strains inherent in the current two – one arrangement might be greatly ameliorated by addressing the history question as I have suggested, and through a fuller commitment to globalization by Japan and China.

APPENDIX A

**U.S.-JAPAN-CHINA:
DEVELOPING STABLE TRILATERAL RELATIONS**

*Jointly sponsored by:
Pacific Forum CSIS
China Institute for Contemporary International Relations
Research Institute for Peace and Security*

August 21-23, 2002

Center for Strategic and International Studies
1800 K Street, N.W., B-1 Conference Room
Washington D.C. 20006

Agenda

Wednesday, August 21:

Participants arrive

6:30PM Opening dinner

Thursday, August 22:

9:00AM Opening remarks
 U.S.: Ralph Cossa
 Japan: Tatsumi Okabe
 China: Wang Zaibang

(5-10 minutes of opening remarks from each delegation head, focused on how the new security environment post-September 11th has created new challenges and opportunities for trilateral cooperation.)

9:30AM- Session I: Third Country Perspectives on each Bilateral Relationship
12:00PM

Objective: What is the third party's perspective on how the "other" bilateral relationship has evolved since our last meeting, especially in light of greater bilateral and international cooperation in the war on terrorism? Do bilateral developments enhance or inhibit trilateral cooperation or bilateral relations between the third party and each of the other two? More specifically, does U.S. encouragement of greater Japanese involvement in international security affairs threaten Chinese interests or China's relations with Japan or the U.S.? Likewise, how does Japan view the implications of the U.S. and China building toward a more "cooperative, constructive" relationship? What are U.S. views of greater Japanese-Chinese cooperation in forums such as ASEAN Plus Three and separate "Plus Three" initiatives?

Thursday, August 22 (cont'd):

Chair: Ouyang Liping

Paper Presenters:

U.S. on Japan-China relations:	James Przystup
Japan on U.S.-China relations:	Seiichiro Takagi
China on U.S.-Japan relations:	Yang Bojing

Discussants:

Japan:	Akio Watanabe
China:	Zhang Minqian
U.S.:	Brad Glosserman

12:00PM- Lunch
2:00PM

2:00PM- Session II: Trilateral Priorities in Regional
5:00PM and Global Economics Relations

Objective: What are the overlapping and distinct goals of Japan, the U.S., and China in regional and global economic integration? At the regional level, China and Japan are involved in ASEAN Plus Three, which has fostered both a “Plus Three” dialogue and separate trade initiatives by both countries with ASEAN. Are Japan’s and China’s goals in these initiatives compatible? Have these dialogues altered the role of APEC, and how are U.S. interests affected? Two distinct challenges can be found at the global level China’s WTO implementation and the new Doha round negotiations. What are each country’s key concerns and strategies regarding these two issues, and what are the common interests among the three?

Chair: Yoshinobu Yamamoto

Paper Presenters:

Chinese perspective:	Zhang Li
U.S. perspective:	Jane Skanderup
Japanese perspective:	Hideo Ohashi

Discussants:

China:	Zhang Li
U.S.:	Eng Chuan Ong
Japan:	Masayuki Tadokoro

Friday, August 23:

9:00AM- Session III: Developing Stable Trilateral Relations:

12:00PM Seeking Common Objectives

Objective: What are the common objectives upon which to develop a framework for future trilateral cooperation? What measures can be taken to minimize differences and both current and historic suspicions that create roadblocks to closer cooperation? What are the best paths to follow in pursuing closer political, economic, and security cooperation among all three nations? The goal here is to develop specific recommendations on how all three nations should proceed – unilaterally, bilaterally, and together – to enhance regional security in the future.

Chair: Ralph Cossa

Paper Presenters:

Japanese perspective: Masayuki Tadokoro

Chinese perspective: Ouyang Liping

U.S. perspective: Michael McDevitt

Discussants:

U.S.: Bates Gill

Japan: Tatsumi Okabe

China: Zhang Minqian

12:00PM- Lunch
2:00PM

3:00PM- Public Panel Session
4:30PM

Moderator: Ralph A. Cossa

Panelist:

U.S.: Bonnie Glaser

China: Wang Zaibang

Japan: Seiichiro Takagi

4:30PM Adjourn

**U.S.-JAPAN-CHINA:
DEVELOPING STABLE TRILATERAL RELATIONS**

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August 21-23, 2002

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APPENDIX B

PACIFIC FORUM CSIS

U.S., Japan, and China: Developing Stable Trilateral Relations

A Public Panel Session

August 23, 2002

Moderator

Ralph A. Cossa
President, Pacific Forum CSIS

Panelists

Bonnie Glaser
Consultant on Asian Affairs

Wang Zaibang

Vice President, China Institute for Contemporary International Relations

Seiichiro Takagi

Research Director, National Institute for Defense Studies, Tokyo

On August 23, 2002, the Pacific Forum CSIS jointly sponsored a public panel session on U.S., Japan, and China: Developing Stable Trilateral Relations with the Research Institute for Peace and Security in Tokyo and the China Institute for Contemporary International Relations in Beijing in Washington, D.C. This session followed a two-day conference that brought together security and economic experts from the three countries to explore avenues for enhancing cooperation among the three countries. The public audience was comprised of over 80 individuals representing the media, universities, think tanks, government entities, as well as business, and represented a broad spectrum of countries.

This project was made possible through the generous support of The Japan Foundation Center for Global Partnership and the Japan-U.S. Friendship Commission.

Welcoming Remarks

Mr. Ralph A. Cossa, President, Pacific Forum CSIS

For the last two days we have been in a conference with participants from the Research Institute for Peace and Security in Tokyo and the China Institute for Contemporary International Relations in Beijing. This is the third of a three-year series of dialogues focused on developing and expanding upon common ground for cooperation and areas where we can build a more constructive relationship among the United States,

Japan, and China. It has been an ambitious program of meetings in Beijing, Tokyo, and now here in Washington. By early October we plan to have a report on the meeting, including the nine brief policy papers presented during the conference, which will be available on our web site (www.csis.org/pacfor).

The ground rules for the two-day meeting were that all comments were off-the-record and not for attribution in order to encourage frank dialogue. This public session is on the record, but let me remind you that during the comments made today, should reference be made to a particular view from one of the participants, it does not indicate an official Chinese, Japanese, or American government position. Today, we are speaking as individuals, and not for our organizations and clearly not for any government.

I have asked three members of our group to provide their perceptions of the dialogue over the past two days. This is not a consensus view, but rather their own view of the discussions, and I have also encouraged them to express their personal views on issues that perhaps were not raised during the conference. After they speak, we will open it up for discussion, and I will also ask the other participants in our conference who are in the audience to add their views if they wish.

Let me introduce our speakers. Ms. Bonnie Glaser is a Consultant in Asian Affairs and a Senior Associate at the Pacific Forum CSIS. In introducing Vice President Wang Zaibang of CICIR, I would like to say that we at Pacific Forum have been absolutely delighted to collaborate with CICIR over the course of this project. They have brought a constructive and cooperative attitude to the project; long before our governments decided to adopt that phrase, we had already instituted it at a working level. We didn't always agree, but we discovered that we could disagree without being disagreeable by having candor and respect for one another's views. We have really appreciated the high quality of scholarship of all of the participants, and this is especially true of our CICIR friends. Our third speaker is Mr. Seiichiro Takagi, one of the foremost experts on China in Japan and a veteran of the multiple years of these dialogues. I also want to take this opportunity to express my gratitude to Professor Watanabe, the president of RIPS, for putting together such a wonderful Japanese team, and to Professor Okabe, who has led the Japan delegation during these three years and has provided us with a great deal of his insights.

Ms. Bonnie Glaser, Consultant on Asian Affairs

Our two days of discussion were very valuable and very rich. This is the third round and I have had the opportunity to participate in all three. I have always found that there is a candid exchange of views, opinions, and expressions of concern. There are areas where we have reached understanding, and areas where there are differences, some of them irreconcilable, but even in these areas participants have made their personal opinions and positions clear, and this has value in and of itself.

I would like to outline seven key topics that we discussed, emphasizing areas of commonality as well as of differences.

The first point is that September 11 provided an opportunity for greater cooperation among the U.S., China, and Japan, and this really was an area of consensus among the participants, although emphasized by some more than by others. One participant termed September 11 “a catalyst for re-examination by decision makers from all countries of their modes of thinking and behavior patterns.” There was a common sense that there is a better understanding of the threat posed by non-traditional security issues, and that the war on terror provides an opportunity to promote more interaction and more interdependence among the three countries. Clearly, the September attacks motivated a new focus for U.S.-China relations and assisted in reversing a negative trend that had been taking place, and also provides more opportunities to further strengthen U.S.-Japan relations. I think there was a sense that new opportunities in Sino-Japanese relations had not been taken advantage of to the same extent as in the other two relationships.

Among our Chinese participants, there was some ambivalence, because to some extent this has posed a dilemma for China that the strengthening of the U.S.-Japan relationship has provided an opportunity for Japan to take advantage of the situation to expand its military role, to send the SDF abroad, and further bolster the alliance. There is also recognition among Chinese participants that Japan has a larger role to play, but Beijing clearly hopes that this role will remain more limited to the economic and political spheres. So this is an area I think of greater consensus, with some difference about Japan. I think the U.S. and Japanese participants viewed Japan’s role somewhat differently, noting that part of the Japanese emergency legislation that was tabled wasn’t passed, and some Japanese participants noted that Japan did not send Aegis destroyers to the Indian Ocean, and this reflects a general caution in the Japan Defense Agency (JDA).

The second point is that U.S. and Chinese participants agreed on the need for Japan to revitalize its economy. Several participants voiced the view that only a strong and prosperous Japan will have the self-confidence to deal with bilateral and multilateral relations. A sound Japanese economy will reduce Japan’s sense of a growing economic threat from China; this was a commonly voiced opinion. Southeast Asia, as well, wants an economically healthy Japan.

My third point is the persistent theme, expressed not only in this conference but in the previous two as well, of the lack of trust, particularly in Sino-Japanese and U.S.-China relations. This lack of trust, and suspicion, is obviously a negative factor that has inhibited cooperation bilaterally and in the trilateral relationship. There was discussion about the role of history in relations between China and Japan, with many of the Japanese participants saying that it is time to move on, and Chinese participants saying that Japan needs to understand and resolve historical questions in order to move on. A U.S. participant made a constructive proposal to establish a commission of expert historians, including Americans, Japanese, Chinese, and perhaps Koreans that would study the period of 1895 to 1945 of East Asian history. Such an endeavor would be aimed at developing a generally shared consensus or understanding of this historical period that would make revisionist interpretations of the past more difficult and, in turn, provide a basis for political leaders to respond to public opinion. In the overall spirit of being

constructive, I think every time we encountered differences on various subjects participants did try to offer constructive recommendations, and this was one.

My fourth point concerns ASEAN Plus Three, which particularly came up during our economic session. All of the participants viewed ASEAN Plus Three as a positive development: first, it allows Japan to assert a greater self-identity in the region; secondly it promotes Northeast Asian economic cooperation; and thirdly, it is important with respect to the Korean Peninsula. Participants noted that the U.S. and China are now far more supportive of regional economic fora than they have been in the past; both countries had concerns about their respective roles in such fora, but these concerns have largely been assuaged. For the U.S., earlier concern about the formation of an East Asian bloc that could have resulted in its exclusion from East Asian markets has largely been overridden by the phenomenon of globalization, which makes the formation of such blocs much less likely. There is also the recognition that these regional economic dialogues help countries to grapple with globalization, rather than turn away from it.

My fifth point concerns Taiwan's role in the region, particularly economically, and I think we had a rich exchange of views and a lot of differences of opinion. One of our American participants endorsed the idea that Taiwan should play a larger role in regional economic dialogues, perhaps under APEC or within the ASEAN Plus Three framework. As might be expected, Chinese participants expressed concern about the inclusion of Taiwan in these dialogues in a way that might permit Taiwan to circumvent "one China" or to promote its separateness from the mainland. We also talked about Taiwan's interest in establishing free trade agreements (FTAs) with some states, such as with the United States, Japan, or Singapore, and this was also divisive. There was recognition that Taiwan's interest in FTAs is largely political; I think everyone shared this view to some extent. I emphasized that it is necessary for Taiwan to implement its WTO obligations, but if FTAs make economic sense, then they should be negotiated, and China should not seek to block such agreements. A Chinese participant proposed that Taiwan, Hong Kong, and Macau first negotiate a free trade agreement, and that this might even be a pre-requisite for FTA negotiation between Taiwan and other countries or economies.

My sixth point concerns cross-Straits stability. I would say this is one area where the views of all the participants and all three nations are quite clear and perhaps somewhat irreconcilable, although there are consensus areas. The most important consensus is that all three sides have a strong interest in maintaining peace and avoiding war across the Strait, and there is recognition of that shared interest, the need to not violate the other side's "red lines," and to work hard to manage the differences between the three sides. Both American and Japanese participants voiced the view that China should use "more brains and less brawn" in its policy toward Taiwan; that is, it should show more creativity to persuade the people on Taiwan that it is in their interest to become part of China in some way. It is also important for Taiwan to respond positively to opportunities that are presented by the mainland. My personal view is that both sides should be testing each other, should be exploring opportunities as they come along and taking advantage of them in order to test what each side's intentions are rather than just refuse to talk. A Chinese participant expressed the view that Beijing views the U.S. as in

the driver's seat and responsible for Taiwan's boldness and incremental movement towards independence, and we were reminded that independence means war.

The seventh and final point I want to make is to quickly run down a list of future areas of cooperation that could be engaged in by all three countries. One is on non-traditional security issues, including such issues cross-border crime, illegal immigration, money laundering, human trafficking, and piracy, for example. These issues are more and more important in relations among the three countries and in regional security, and all three countries could take more concrete and active steps to promote our shared interests in maintaining security in the region. The second area is Korea, which includes promoting non-proliferation on the Peninsula, contributing to KEDO, and perhaps helping North Korea develop peaceful launches of satellites and give up its program of launching missiles. We also discussed the need for greater cooperation on energy, a view particularly expressed by Chinese and Japanese participants, and cooperation in South Asia, where the three countries have a strong interest in preventing deployment of nuclear weapons and easing tensions between India and Pakistan. Cooperation on developing the use of police forces in UN peacekeeping operations was another area where national interests seem to naturally converge, particularly between Japan and China.

These are some of the themes, some of the areas of consensus and differences. There were many topics discussed and I have left out quite a bit, but I wanted to hit on the highlights that struck me as being most interesting.

Wang Zaibang, Vice President, CICIR

Good afternoon, Mr. Chairman, ladies and gentlemen. I am pleased to be on this public panel to share with you my impressions from our two days of discussions. What impressed me most was the honest and serious attitude on the part of all participants, and the friendly atmosphere during the meeting.

Every member of the Chinese delegation attaches great importance to the trilateral relationship among the United States, Japan, and China. China's economic development over the past 20 years has benefited from a stable environment, especially in its bilateral economic ties with the U.S. and Japan, China's two largest economic partners. About 60 percent of China's foreign trade is with neighboring countries, and a majority of the rest is with the United States. In the first half of 2002, bilateral trade between China and the U.S. surged 11.7 percent, reaching nearly \$42 billion, including \$29.87 billion in exports. Bilateral trade between China and Japan has reached \$80 billion in recent years, and we are celebrating that 30th anniversary of normalized relations this year. Many Chinese scholars and people know it is Japan that twice in history took the lead in friendship to break through a blockade against China, first prior to normalization of bilateral relations and then after 1989. Of course, close economic ties among the United States, Japan, and China cannot be separated from relatively delicate political relations.

The future of trilateral relations faces new opportunities as well as challenges. In recent years, an increasing number of American scholars and policymakers have become concerned about a rising China, concerns that are obviously reflected in two recent

reports, one by the U.S.-China Commission on Security Relations and the second by the Pentagon. A report by the Japan Defense Agency also advocates the "China threat" theory, reflecting Japan's worry about a rising China. Most remarkably, with Chen Shuibian separating step by step from the one China principle, the Taiwan issue has become more and more challenging.

On the other hand, after September 11 we have a great opportunity to advance trilateral relations. Many experts and policymakers hold that the world after September 11 is not what it was before the events. First and most obviously, the nature and priorities of threats we face changed overnight. Other nation states are no longer the source of major threats faced directly by the U.S. and other great powers. Non-traditional security threats such as terrorism, various kinds of religious fundamentalism, drug trade, climate change, and financial instability began to pose more serious challenges. Triggered by the events of September 11 and the war against terrorism, international relations -- especially among the major powers -- have undergone many adjustments. The fight against terrorism has provided a platform for international security co-operation, just as fascism did before and during World War II.

This means that maintenance of international security requires deeper reflection on the part of policymakers and analysts. During the post-Cold War years, international policymakers and analysts continued to think and behave in ways they had become used to, as if the world was still divided between two conflicting groups. Among some analysts, there was a consensus that management of the post-Cold War world required a broader and higher level of international cooperation, particularly among the major powers. But this viewpoint did not reflect the mainstream. Partly because of the ignorance of new realities in the post-Cold War era, more than 3,000 people suffered from the events of September 11. Maybe we will suffer greater in the future if we continue to neglect the complexity of non-traditional security challenges and continue to focus on traditional great power politics.

To my great satisfaction, participants during this conference reached a new consensus on this issue. I agree with the remarks made by my counterparts from the U.S. and Japan that we need to find ways to handle or manage the complicated issues, such as Taiwan. I also agree with the suggestion posed during the conference by my CICIR colleague, Ouyang Liping, that it is important to examine further how to advance trilateral cooperation in the non-traditional security area. I hope the consensus reached during the meeting will gradually become part of mainstream thinking among scholars in all three countries.

On behalf of the China delegation, I would like to receive constructive suggestions and answer questions from you.

**Professor Seiichiro Takagi, Research Director,
National Institute for Defense Studies, Tokyo**

Before beginning my comments, I would like to make an obligatory disclaimer. Although I work in a research institute that is part of the Japanese government, what I have to say now is strictly my personal opinion.

Bonnie Glaser gave a very skillful summarization of the entire two-day meeting, and I don't need to repeat what she has already said. I would like to focus on one aspect of the conference. On the first day, we examined all three bilateral relationships, and the consensus judgment is that all three bilateral relationships are relatively smooth since the last time we had this meeting in July about a year ago. This relatively good situation is very beneficial to think about the ways of enhancing bilateral cooperation into trilateral cooperation, or of bringing the least strong of the bilateral cooperative relationships to the level of the most productive, which is probably cooperation between the U.S. and Japan. Of course, the present relative calm doesn't mean that the problems which used to poison our relationships are completely solved. In fact, it is my understanding that at least some of the problems in any of the bilateral relationships among the three of us can be handled most productively not by strictly focusing on them, but by pursuing cooperation on other issues. In the course of carrying out cooperative programs, my thought is that we can discuss or examine some of the issues which often divide us.

As a possible focus of such cooperation, the notion of non-traditional security problems was mentioned by all three delegations. This was already mentioned by Bonnie Glaser as one of the focal points of agreement, and clearly the experience from September 11 sensitized us to the importance of dealing with non-traditional security issues, such as cross-border terrorism, trafficking of drugs, human smuggling, piracy, and cross-border organized criminal activities. Although it was not stressed during the conference, I would add cross-border pollution in this category.

In order to pursue cooperation dealing with these issues, we have to overcome several obstacles. One issue mentioned by several participants, including the Chinese, is that the trilateral relationship is structured unevenly. After all, the United States and Japan are allies; China is a very important country for both the U.S. and Japan, but the bilateral relationship between China and the U.S. and between China and Japan are susceptible to fluctuations to a much greater degree than that of the U.S. and Japan. The three-way relationship is not always comfortable for the Chinese because it is often construed as a "two against one" structure. However, I would note that the U.S.-Japan alliance is designed to cover much broader areas than only military issues, and since it is a framework for comprehensive bilateral cooperation, we should understand that two against one is not the inevitable structure of the trilateral relationship. In fact, the 1996 U.S.-Japan Joint Declaration of Security, which reaffirmed the importance of the alliance in the post-Cold War era, explicitly states that the two countries have a shared interest in China's constructive role in the Asia-Pacific region. I understand that this includes China's role in regional security.

One of the questions raised during our discussions was whether China could accept Japan's role in the same area, in other words, Japan's security role in the Asia-pacific region. On this question, I have heard some encouraging thoughts from one Chinese participant that non-traditional security issues might be the area in which China could most readily accept an enhanced role for Japan. As far as Japan is concerned, this is fine, at least as a starting point. Another approach to overcome the "two against one" problem is for the United States and Japan to give a concrete manifestation to the expression of their shared interest in China's constructive role. The two countries should come up with some joint projects which involve and benefit China, as well as benefit Japan and the U.S. Perhaps the control of cross-border pollution can be such a focal project; other non-traditional security issues would provide a useful platform for deepening the cooperative relationship.

Comment from Ralph Cossa: I want to thank each of our speakers for their excellent comments. Let me add a couple of points. One thing that was very obvious to me is that no one in our group believes that a dialogue among U.S., Japanese, and Chinese security specialists is going to solve cross-Strait problems; cross-Strait problems will only be solved by the people on both sides of the Strait. However, we have a responsibility and obligation to create the kind of security environment that makes that dialogue more possible and more fruitful, and at least avoids creating conditions that makes that dialogue less likely or less fruitful. This is where our conversation was aimed, given the common objective of all three sides of a peaceful solution to the problem. That is the approach we took, as opposed to trying to solve the problem itself.

There was also a general belief among all of the participants that while we can't forget history, we need to put it in a proper perspective and that it really is time to move beyond history. There's been a genuine effort to try to find ways to do that in our meeting. Other common goals are promoting stability on the Korean Peninsula, supporting China's continued economic development, and supporting Japan's economic recovery and return to healthy growth. In addition, there is recognition that the United States, through its presence, has played a significant role in this security equation. There is and will continue to be debate about just what the future role might be and just how instrumental that role has been, but again, I think there is common understanding on the need to promote regional stability. The final point I would make is that in previous meetings we seemed to naturally focus on economic cooperation and on the softer security issues – environmental and energy cooperation, for example – yet as the relationships have evolved and as September 11 has changed the geopolitical environment, there is more of a willingness now to discuss the harder security issues, and to talk about cooperation against terrorism, against piracy. I believe this is very positive.

I think we all recognize that there is no substitute for official dialogue among our governments, and we would all like to see greater dialogue among our militaries as well. We will continue at the Track II level, at the non-governmental level, to try to help that dialogue along and make suggestions, which is the best we can hope to influence the process.

Let me open it up for general discussion.

Note from transcriber: As questions were not consistently captured on the recorded tape, the questions are paraphrased.

Question: Was there discussion about Iraq, and any possible reactions from Japan and China discussed should the U.S. engage militarily?

Ralph Cossa: One of the refreshing aspects of this meeting was that Iraq was hardly discussed at all. I was somewhat surprised by that, because almost any meeting I've been in anywhere on earth, regardless of what the subject is, Iraq is the second word mentioned. There were expressions of concern by many around the table, nationalities being almost irrelevant, about making sure that there is greater international consensus before moving forward on Iraq, and recognition that this could present strains, not only in U.S.-China relations but in U.S.-Japan relations as well. I personally argued that Iraq provides an opportunity for cooperation as well. Japan and China particularly have long believed that the best vehicle for dealing with international problems is through the United Nations Security Council, and as I understand the U.S. approach, we have also put a lot of emphasis on trying to get Saddam into compliance and allow the UN inspectors back in. So perhaps this is an area of cooperation, because I think both Japan and China would prefer for the U.S. to put more emphasis on the UN Security Council. I would also point out that when President Jiang meets with President Bush in Crawford, Texas and when Prime Minister Koizumi meets with President Bush in New York at the UN in mid-September, it would send a very powerful message if joint statements were to come out of these meetings. Can you imagine the impact on Saddam Hussein if President Jiang and President Bush would together condemn Iraq for failure to honor the UN Security Council resolutions and jointly demand that he allow inspectors back in? This would be a very concrete measure of cooperation and is an area I believe where our national interests coincide. That was a suggestion of mine at the end of the conference, but as I said, we didn't really get into this issue.

Question: The history issue between Japan and China was raised; the issue seems intractable, especially since the Chinese public seems unaware of Japan's many positive gestures. How to solve it?

Ralph Cossa: Let me ask Mr. Takagi to comment on prospects and suggestions to help put the past behind, and Vice President Wang to comment on prospects for the Chinese government to have a more pro-active campaign to stress the positive aspects of Sino-Japanese relations.

Seiichiro Takagi: Let me try to restate what I said more accurately. I did not mean to say that China and Japan can pass over the history issue. My point was that focusing solely on this issue and just discussing this issue probably will not let us deal with it very effectively. In a sense, this is a chicken and egg question, but if both countries can manage to identify certain cooperative projects, it would help us to focus on common problems for both countries rather than always focusing just on each other. I think that in the course of dealing with common problems, the mistrust rooted in history is bound to come up, but actively cooperating toward a mutual objective – discussing the issue in the context of some cooperative project – provides a context in which to deal with the history

issue, rather than discussing the issue out of context. This is what I was trying to say. Of course, I agree that a more careful, scientific, objective, academic study of history is important; in fact, I think this is exactly how both countries should deal with the history problem. We should try to keep this issue away from politicians and out of the political world, and in this sense I don't even think we should try to put it behind us. I think we should keep reminding ourselves of our historical experiences and keep learning from history, both in the positive and negative sense. But I don't think we can do this effectively by simply identifying which country is to blame, or who should apologize to whom. I think we should examine the history as objectively and scholastically as possible, to figure out what went wrong in the 1945 era, what kind of opportunities were lost, and what kind of miscalculations were made by the parties involved. I think this is important, but at the more popular level, simply focusing on history will not be helpful.

Yang Bojiang, Director, Division of Northeast Asia Studies, CICIR (member of Chinese delegation): I would like to express some of my personal views on Japan's role and future strategic orientation, as well as how to judge the history issue between China and Japan. To be honest with you, I have been a little bit surprised by so many people who don't know the Chinese position. In the past 20 years, Chinese society has changed a lot, and a range of opinions are being expressed. I have been studying Japanese issues for 13 years, and in my viewpoint, I don't think Japan is in the process of so-called returning to militarization; we can call what is happening in Japan conservative, radical, or even right-wing, but I am not of the viewpoint that Japan is returning to militarism. I prefer to say that Japan is in the process of so-called normalization, a process of heading toward being an ordinary nation.

Secondly, regarding Japan's role in Asia as well as in international society, the Chinese government's position has been changing a lot, particularly after September 11. There are two pre-conditions around this issue: it depends on what Sino-Japanese relations are going to be, and how the people of both Japan and China feel about relations with each other. Secondly, personally speaking, I would like to suggest to my Japanese friends to improve the way they debate or argue the history issue. Actually, we are here for tomorrow not yesterday, and we should try to put the past behind us and discuss something more for tomorrow. But to be honest with you, some of my Japanese friends are always reminding me of the past and history, and they take the initiative to bring up this topic. I have two suggestions to our government as well as to the Japanese government for resolving the history issue. One is to enhance cooperation, especially cultural and economic cooperation, which has proven to be very effective in resolving political disputes or even history issues. Second, we both need to continue to improve communication, which I think has been improving in recent years. For example, even on the very sensitive Taiwan issue, China has become more and more open to Japan. Last April, our institute had a joint bilateral meeting with a Japanese institute in Shanghai to discuss the Taiwan issue, and we will have a second one this November in Nagasaki. So I am cautiously optimistic on the future of Sino-Japanese relations.

Question: *Taiwan President Chen Shuih-bian recently made comments supporting a referendum on independence in Taiwan. Is the "watch and listen" policy of the*

mainland government over, and what would be the reaction of the governments of China, the United States, and Japan to a Taiwanese referendum on independence?

Ralph Cossa: I will ask our panelists to respond, but let me remind everyone that none of us can say what the U.S., Japanese, or Chinese governments will do; we can only give you our best guess. Let me ask our Chinese colleagues if you think the watch and listen policy will be continuing, and ask Bonnie and Seiichiro what you think your countries' reactions would be to a referendum.

Wang Zaibang: Thank you for your question. In my own opinion, Chen's remarks are a continuance of Lee Teng-hui's remarks about special state-to-state relations. I agree that Chen's remarks were aimed at testing the mainland's and the U.S. attitudes, and the United States government did what it should do, and the mainland government did what it should do. I don't think Mr. Chen gained anything he wanted. My next point is that there were election considerations in Chen's remark. I don't think most Taiwanese will allow Chen to continue to pursue the policy towards independence. I don't know whether the mainland government will continue to pursue the policy of listen and watch. Personally, I think the policy of the mainland towards Taiwan is for peaceful reunification; of course, it won't give up the option of using force if the Taiwan government is determined to declare independence.

Bonnie Glaser: First I would like to say that I just returned from two weeks in China discussing a range of security issues and Taiwan was one of them. In my discussions at the Taiwan Affairs Office I was told that the policy of "listening to Chen's words and watching his deeds" is over. Whether that has been made clear officially I don't know. But the attitude of the Chinese government is that Chen has shown his true colors, and that if there was any doubt that he was a pro-independence supporter there are no doubts now. China will now not have any illusions, and I believe that was what has now said publicly. I will say that there are other views in China; there are still people that believe that Chen is a pragmatist, and under some circumstances might be somebody that China can deal with. I will add that after Chen's recent set of remarks, I think this view has been silenced for quite some time, although it was expressed to me.

On the referendum question, I would certainly not pretend to guess what my government, – whether this administration or any future administration, – would do if there were a referendum on independence in Taiwan. I believe such a referendum is not in the interests of the Taiwan people. We have seen many polls that have taken place in Taiwan, and the majority of the people seek to preserve the status quo because they recognize that this serves their interests. It preserves an environment in which Taiwan can prosper and allows for a time period in which there can be further change on the mainland, economically and politically, and it does not compel people to make a decision today that is perhaps not in anybody's best interest to make. To respond more directly to your question, if we look at the U.S. response to the recent statement by President Chen, the U.S. said we have a "one China" policy and we want to see the peaceful resolution of differences across the Strait. I think that suggests that if one day there were to be a real declaration of independence by Taiwan, it is questionable whether the United States would endorse that declaration.

Seiichiro Takagi: I am not quite sure if I understand what the questioner asked. I wonder if you're asking what Japan's possible reaction to legislation of a referendum would be or the actual conduct of a referendum. If they just announced that they were going to conduct a referendum, without specifying time, then my guess is that Japan would just watch to see what would happen. The government would also probably quietly try to convince the Taiwanese of the same line that Bonnie laid out, that it would probably not be in the interest of the Taiwanese people. But if they actually conduct a referendum, then the reaction depends on the results. If the results show the majority support independence, then I don't think the Japanese government would take any official position. Part of what constitutes Japan's official position on this issue is the San Francisco Peace Treaty, according to which Japan renounced all rights to Taiwan. That means that we have no right to say anything about what the people in Taiwan should do or not do. That is going to be the official position. Then, the next reaction depends on what the mainland would do. Maybe this is wishful thinking, but my expectation is that the mainland would not resort to the use of armed force and would keep trying to apply peaceful pressure on Taiwan to reverse their course. But again, it is not easy to guess what Japan's reaction will be without knowing what the mainland's reaction will be, and if the mainland reaction involves the use of armed force, then the Japanese reaction hinges in large part on what the American reaction is.

Question: *The issue of Japanese remilitarization as one of China's concerns was raised. Why this should be the case when actually we've seen a Chinese missile build up that could threaten Japan?*

Ralph Cossa: I would preface my colleagues' response with the observation that in addition to being very grateful that Iraq was not discussed in this meeting, there was very little discussion about Japanese remilitarization, and this was also expressed earlier by Yang Bojiang. But let me ask our Chinese colleagues to add to this.

Liping Ouyang (title, member of Chinese delegation): First I would like to say, don't worry about that. I can't see any way that our missiles are a threat to Japan; we don't have any reason for that. We have the capability but this does not mean we are targeting Japan.

Ralph Cossa: Let me add that the attitude that was portrayed by many of our Chinese colleagues today, as well as in my travels – and probably by Bonnie and Seiichiro as well – is that there is much less concern in China about Japan's remilitarization or Japan's desire to press for military power. There is concern for greater transparency and greater understanding of just what a more active Japanese security role might be. But my own perception is a lowering of the volume of the concerns about Japanese remilitarization, and it really was not an issue in this conference. It has been an issue at previous conferences, and when we did a previous set of trilateral meetings with members of the PLA, that is all we heard about for three years, which is why we are dealing with CICIR.

Bonnie Glaser: I would add one comment. I have seen a pattern, not just in this conference but in discussions with Chinese and Japanese over the years, that China wants the U.S. and Japan to take very seriously its concerns about our missile defense program,

and U.S.-Japan cooperation on TMD and research, and concern about future deployment. But the Chinese seem less willing to take seriously Japan's concerns about China's missiles targeted at Japan. I think there is a real imbalance. As an American participant, I certainly encourage both sides to take each other's concerns seriously.

Seiichiro Takagi: In follow up to Bonnie's comments, I want to point out that Chinese interest in being reassured should be respected, but Chinese friends also should understand that they can be on the reassuring side too. They should not only think about being reassured, but think about reassuring others.

Question: The issue of Japanese war crimes as a historical issue was raised, and a suggestion made to reconsider the San Francisco treaty.

Ralph Cossa: I thank you for those suggestions; they are noted. I don't think anyone wants to dismiss the terrible things that have happened in the past, and certainly no one in this group was in the mode of denying the past. Without disagreeing with anything that you said, we also feel that despite the fact that there are historical actions that still need to be resolved, we also need to be looking toward how we can cooperate in the future, understanding that the Japanese government of today is not the Japanese government responsible for those actions. Your points are well taken, but I don't think they negate the need for future-oriented thinking on how our three nations can avoid being in that kind of situation ever again. That is the real focus of what we've tried to do here.

Question: The issue was raised about the growing gap between inland and coastal regions in China, and if there was any discussion of this issue.

Seiichiro Takagi: We did not exactly touch upon this issue. One participant did raise the issue of domestic problems that China faces, and in case China fails to deal successfully with domestic problems, including the growing gap between inland and coastal regions, China might find itself with very serious political instability. This is a very serious concern for countries like Japan, and for all of China's neighboring countries. This point is often lost among American friends who live across the Pacific and are so preoccupied with the notion of the China threat. Of course, if China really grows into a huge military power with a very repressive regime, it might be a threat, to Japan too, but there is another case in which China can be a danger to countries like Japan, and that is a China in confusion and failing in economic development.

Bonnie Glaser: In response to the question about what can be done to create a more positive environment for interaction across the Strait, there is certainly more that the U.S. can do as well as more that China and Taiwan can do. The U.S. could more actively encourage the two sides to re-engage, to talk, and to find common ground and common language that would enable them to temporarily shelve their differences over sovereignty and sit down and talk. But ultimately whether this is successful depends on the political will on both sides, and the U.S. should certainly not be in the position in pressuring either side to come to the table, only to facilitate when the political will exists on both sides. More importantly are the things that China and Taiwan can do to promote more interaction, including in the social, cultural, and economic spheres, to give both sides an

increasingly bigger stake in the preservation of peace. I myself have been an advocate of the implementation of confidence building measures across the Strait, particularly in the military sphere, because I believe that would really serve to strengthen security. If both sides were to reduce the military threat against each other, and to provide the other side with some predictability, this would make a great difference; there is a need for greater transparency on both sides. Certainly in the area of missile build up, I would like to see China make some gesture to Taiwan of freezing the missiles, or pulling them back out of range, and perhaps that would in turn evoke a positive gesture from the Taiwan side, maybe in terms of a limited or diminished interest in purchasing missile defense because they would perceive a less urgent need to do so. That kind of competition – of ratcheting down tensions -- across the Strait would be far more desirable.

Ralph Cossa: Let me end with a few additional comments. One of the points that came out of our conference is the need for a greater understanding of and respect for one another's core concerns, and this needs more work on all sides. I would argue that there is a greater need for economic cooperation, and also a need – as one of our participants pointed out – to find a way to continue to integrate Taiwan into the various economic cooperative agreements that are evolving. Here, we have the precedent with APEC in which Taiwan is a member. One personal thought, not endorsed by the group: when President Jiang is at APEC, what if he announced that China encourages FTAs between member economies of APEC, as long as they are done within the context of APEC. This would completely defuse and depoliticize the idea of a U.S.-Taiwan free trade agreement, and force it to actually be an economic agreement rather than politically motivated. It would open the door for perhaps a free trade agreement between Taiwan and Hong Kong, while depoliticizing it. I had argued previously, to no avail, that while respecting China's core concerns about Taiwan, I think there are other ways to increase Taiwan's international breathing space. When Taiwan agreed to seek involvement in the World Health Organization as a "health entity," this in fact reinforced the mainland's point that Taiwan is not a country. It met all of the "No's" that were involved, and yet the PRC was still not accepting of this politically. This is the kind of creative approach that meets China's concerns and still allows for some flexibility. These are the type of things that are still meant for future debate.

The important point, which this meeting underscored, is that while we won't always find solutions, we can at least understand each other's core concerns if we lower the volume and instead of being in an accusatory tone, try to be in a cooperative tone, seeking the positive rather than reinforcing the negative, as occurs in so many meetings. I have been absolutely delighted that in our series of meetings we have been able to do that.

Once again, I would like to thank my Japanese and Chinese colleagues and the American participants as well. I would like to thank all of you for coming, and for staying well beyond our promised concluding time. I hope that is a symbol of your interest.

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