

*Asia Outlook for the
Year of the Golden Pig*

By James A. Kelly

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Based in Honolulu, the Pacific Forum CSIS (www.pacforum.org) operates as the autonomous Asia-Pacific arm of the Center for Strategic and International Studies in Washington, DC. The Forum's programs encompass current and emerging political, security, economic, business, and oceans policy issues through analysis and dialogue undertaken with the region's leaders in the academic, government, and corporate areas. Founded in 1975, it collaborates with a broad network of research institutes from around the Pacific Rim, drawing on Asian perspectives and disseminating project findings and recommendations to opinion leaders, governments, and members of the public throughout the region.

Lane Lecture in Diplomacy

The Ambassador L.W. 'Bill' and Jean Lane Lecture in Diplomacy honors the contributions and accomplishments of long-time Pacific Forum CSIS supporter and Board of Governors member Ambassador Bill Lane and his lovely wife, Jean. Bill Lane is former U.S. Ambassador to Australia and Nauru (1985-1989) and former Ambassador at Large and Commissioner General, Japan (1975-1976). A member of the *TIME Magazine* Board of Directors, he served for many years as publisher and chairman of *SUNSET Magazine*. His association with Asia dates back to World War II, when he served in and around the Philippines as a U.S. Navy gunnery officer aboard a troop ship. His interest in East Asia continues to this day. He founded the Pacific Area Travel Association and is a Pacific Basin Economic Council Trustee.



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Asia Outlook for the Year of the Golden Pig
by James A. Kelly

It is a great pleasure and honor for me to be giving this “Lane Lecture in Diplomacy” at the 2007 Pacific Forum CSIS annual Board of Governors dinner, this year commemorating the 90th birthday of the Forum’s founder, Admiral Lloyd R. “Joe” Vasey.

Thanks Joe, for being yourself. And thanks everybody else for coming to this exceptional occasion.

This is the year of the pig. It’s more than that; it’s the year of the golden pig. The last year of the golden pig was 60 years ago, five 12-year cycles ago. That was 1947, the year Joe Vasey was celebrating his 30th birthday – or as we just learned, that was the year of his 4th birthday, because he was born again in a literal sense that not many here have had the occasion to do.

Joe, tonight we watched an outstanding video of your life (available for viewing on the Pacific Forum website www.pacforum.org). Your experience on the *USS Gunnel* convinced you that there had to be a better way for states to solve their problems. Your vision guided you and the actions that you took have shown us how to work toward a better way, and I think the Pacific Forum does that. I’ve been away six years this month and I, along with many other members of the Board of Governors of the Pacific Forum, are so proud of the work of Ralph Cossa and his wonderful team of people. Let me mention a few of them, as they really are unique. For example, there’s the quarterly electronic journal *Comparative Connections*. It is a fresh, intelligent, readable, and relatively brief analysis of key relationships between the U.S. and other countries in Asia and between those countries and others. It brings you up to date with what’s going on, and if you really want to get into the subject, you can look it up on the web. Nobody else is doing this.

Then there is CSCAP, the Council for Security Cooperation in the Asia-Pacific, the track-two security dialogue that was founded by my predecessor Dr. Amos Jordan. Joe Jordan did a lot in getting that going and Ralph has continued this. CSCAP routinely brings experts and officials from throughout the Asia Pacific together for policy-oriented dialogue. The U.S. committee, run by the Pacific Forum, has taken the lead in promoting preventive diplomacy and in countering proliferation of weapons of mass destruction.

When we launched the *PacNet*, we hoped to publish every week and now it appears, well, sometimes it seems every day, now that the internet makes publishing easier. These are interesting pieces about East Asia that you won’t see in your daily paper, and it doesn’t matter whether your daily paper is the *Honolulu Advertiser*, the *Honolulu Star-Bulletin*, or *The New York Times* or the *Wall Street Journal*. These are very interesting and penetrating analyses. And then there is the work on the Vasey Fellows and the Young Leaders, which speaks for itself as you all saw in the video.

I’d also like to thank and to refer to a couple of other people who aren’t here. The late Cliff Forester was a friend to so many people in this room. Cliff was a great guy in so many

ways, in particular for his help to the Pacific Forum, and we're going to miss him for a long time. This dinner is certainly in part a tribute to him. Bill Lane, a long-time member of the Board of Governors of the Pacific Forum, is a key donor who supports this lecture and this dinner. His support allows other contributions this evening to support the work of the Pacific Forum and to bring more Vasey Fellows to work and learn at the Pacific Forum.

Bill Lane is a pretty interesting gent. He was a veteran and after World War II, he and his brother took an obscure magazine, *Sunset Magazine*, and used it as a vehicle to set the tone for a region for several generations. Bill was an Okinawa status negotiator in the 1970s, and in the 1980s he was President Reagan's ambassador to Australia. At that time Australia was reasserting its status as a global player and leader in the Asia-Pacific. Bill's outstanding work has since then involved tourism in the Asia Pacific, a direct interest to so many families here in Hawaii, and I want to thank Bill for that too, even though he and Jean are not able to be with us tonight.

Another person who can't be with us is the chairman of the Pacific Forum, Professor Joe Nye. Joe was planning to come in March and when we moved this dinner to coincide with Joe Vasey's birthday it was impossible for Joe Nye to change his travel plans. Joe Nye is the first among American scholars to articulate the role and importance of soft power, and I think the ambitions and the aspirations that Adm. Joe Vasey have typified the kind of soft power that Joe Nye has so well articulated.

I have been asked to touch on some things in Washington and Asia. Unfortunately and sadly, the atmosphere of bitterness and distraction in Washington is all too real and palpable. A few months ago, the only concern seemed to be Iraq, Iraq, and Iraq. That's still mostly true, but there is perhaps a little more attention now being paid to Iran and the broader Middle East. A new element has come in – presidential politics – even though we have two years to go in this campaign. We have countless candidates for president and more seeming to queue up every day.

Trends may suggest that geopolitical unilateralism is on the decline, but economic unilateralism is starting to worry a few people. All of this is causing inattention to the shift of the global center of gravity, which is moving inexorably toward Asia. The United States has to get this right, and at the moment we're mightily distracted.

This is going to be a year of a lot of political gyrations and not just in Washington D.C. There will be even more in Japan and in South Korea and several other countries. Even in China, there may not be elections this year, but there is going to be a very important Party Congress that has got the atmosphere of politics as well.

A few comments about Japan. More and more we're asked about this, and Brad Glosserman of Pacific Forum has written some outstanding pieces on this recently. What do the Japanese want? Do they want to be a normal country? Do they see themselves as a kind of Asian United Kingdom? Or do they see themselves as a kind of an Asian Switzerland? These are open and long-standing questions but people are starting to think more and ask about this sort of thing. All Japanese were offended and shocked by the North Korean nuclear weapons tests and missiles, and of course the abductions of some years ago. In fact, it's possible to note in a wry way that Mr. Abe Shinzo, the prime minister of Japan since last fall, may owe more to Kim Jong-il for his position of prime minister than to any single individual in Japan. When the

abduction admissions were made by North Korea in 2002, Mr. Abe was the quickest to sense that the Japanese people were truly outraged about this. In part his comments were very direct and honest and in part they were very politically clever and they probably moved up his becoming prime minister by 10 or 12 years.

On July 5, 2006 North Korea fired a battery of ballistic missiles of several different kinds. Fortunately, no one was injured but there was in a sense one casualty – Mr. Fukuda Yasuo, who was the only viable competitor to Mr. Abe in the race to become prime minister of Japan. So Kim Jong-il not only gave Abe the platform, but he knocked out his key competitor. After Mr. Abe became prime minister, his first visit – and I think he chose this very wisely – took him first to China and second to South Korea. When he did this, Kim Jong-il set off fireworks –specifically a nuclear weapon – to celebrate the activity and this really greased the way and got Mr. Abe off to a great start.

This is the world that we live in. Of course, political fortunes rise and fall as other issues and events intervene. Mr. Abe now has to contend with domestic issues and his popularity has dropped 25 points in the last four months. He is clearly not the same as his Teflon predecessor, Mr. Koizumi. The question is whether he will meet his goal of being prime minister for six years or will we see a return to a chain of colorless Japanese prime ministers whose names not many people can remember. The July elections in Japan for the Upper House of Parliament (or for half of all the seats in that chamber) is going to be very important.

Many see a greater nationalism in Japan and I think that's not entirely wrong. But there's a myth of rearmament about Japan that is clearly not valid. Richard Halloran has written probably better than anybody on that topic. But the fact is, to rearm itself *ala* the 1930s, Japan would have to multiply its defense budget by four or five, and keep it there for five or six years. There's absolutely no political sentiment for Japan for doing that and for that reason, there's a strong basis for a continued strong U.S. relationship with Japan. The surest way for both countries to lose would be if this somehow became America and Japan standing against China. This would be a lose-lose certainly for Japan and the U.S. Wisely, both countries don't see it that way.

Although we hear so much more about China at this time, the fact is the economy of Japan remains essentially healthy and the second largest in the world. It is three times larger than that of China right now. If we project into the future, and if there are no interruptions, and China grows at 9 percent a year, by 2020, China's income, or its national GDP, will essentially be about the same as Japan. But even with all that, the population differential will continue to make a huge difference. Today every Japanese make 30 times more than the average Chinese. If, and when the economies become equal in size, and this will take almost 10 percent growth for 12 more years, Japanese individuals will only be 10 times wealthier on the average than individual Chinese. This means that this process is going to move a little bit more slowly than many envision.

Let me add a couple of comments about the Republic of Korea which I raise with great hesitancy given the expertise of many of our colleagues here on the Board today. This is one occasion in which President Bush can feel better about his polls, which are somewhat down. He only has to look at the polls of President Roh-Moo Hyun, which are basically at 9 percent popularity in the last year of his presidency, to feel better about himself.

This is going to be a very political year in Korea with numerous candidates contesting an election that will be held next December. South Koreans must answer these questions. Where do they want to be? Are they going to be the major league player that their country already is? Their performance in the 2002 World Cup of soccer; their performance in the 1988 Olympics; their technology; the ROK is the world's most highly penetrated country on the internet, far more than the U.S. with access to broadband and internet. This is today's Korea. But there are still a lot of Koreans who think that this isn't enough, who are really worried, who still see themselves as a "shrimp among whales." People ask and worry about this and there's an emergence of populism in a divided electorate and a lot of questions about where South Korea should go. There are even questions about whether it should continue its close alliance relationship with the U.S., about which I am in general optimistic, if only because of the natural needs of both sides.

There are a lot of divisions among Koreans on many issues and details, but there is no disagreement on one issue: North Korea is viewed in a different way than it was a few years ago. This is very significant for Americans to understand. The good news is that South Korea is playing a role in terms of the eventual outcome of any negotiations with North Korea in ways that it has not played anytime before, and this is very important. But, in the 1970s and before, Koreans tended to think of the North as some kind of a modern Sparta, a powerful army that might invade them at any time. For various reasons, not least of which is the summit meeting of former President Kim Dae-jung and Kim Jong-il in North Korea in 2000, that view has changed. Now I think the feeling is less fear and much more pity. This is a sense of poor relatives who haven't got anything to rub together and are more of a sad case than a danger. That isn't quite right either, but it's a problem.

One thing that's coming up over the next six months, and that people who watch the region will want to keep an eye on, is the U.S.-ROK negotiation for a free trade agreement. I think that this is exceptionally good news for the economies of both countries, and especially for South Korea. But a lot of people in South Korea are starting to have second thoughts about whether this is something they really want. In Washington the new Congress is somewhat more inclined to economic protectionism. So it's entirely possible that we may see the U.S.-Korea free trade agreement fail, and if so, I think that's going to damage more than just the tangible things in the economy; it will hurt our long-term relationship too.

Then there's North Korea. What do they want? And how do nuclear weapons contribute to it? There is no way for anyone to directly assess that, but I think that most would agree that above all its leaders want survival of that particular regime. Second, they would be very happy to have assistance without conditions. There are other things too that they desire – deterrence, security assurances, tangible rewards, recognition, and respect. But, there may also be a need always to be threatened. North Korea has had for about 9-10 years a military first policy in which the first call on every resource – human and monetary – goes to the army. There's no way an economy can recover under such a policy. A corollary of that is you have to have a threat. There has to be something that generates sufficient fear to require this diversion of resources to that military. This becomes a kind of self-fulfilling prophecy.

We do have some new things happening though. Today it was announced by the Chinese that the Six-Party Talks will resume Feb. 8. I think these will be a little bit more significant than their predecessors. The Sept. 19, 2005 Statement of Principles that my successor Ambassador Chris Hill was able to put together remains an important and solid goal. But it's not at all clear

to me that North Korea has made the strategic choice to give up its nuclear weapons. I think that we are going to see some interesting engagement that's likely to go on for quite a while and might have some possibilities. And that is partly because there's some new factors in North Korea.

For example, until four years ago, money was not something that most North Koreans needed to have. Their place of abode was assigned them; their work was given to them to do; their food was distributed in a box at the end of the street. (or if you were in political disrespect maybe you didn't get the box.) But money was entirely incidental to this. North Korea changed, and now we have some very interesting things happening. When a friend not long ago made a legitimate cross of the North Korean border, he ran into a North Korean border guard. And the first questions asked weren't "where and what's your passport?" but "do you have any Chinese money?" The second question is "can I have some?" As near as I can tell, and this is a most unscientific survey, outside of Pyongyang, it isn't North Korean money that is being spent and being used, but Chinese money, and you see lots of not big Chinese businessmen but small Chinese businessmen – maybe even small-time Chinese crooks. They are all making deals with local cadres, providing Chinese money.

North Korea a few years ago allowed mobile phones, cell phones to be used by its people. Ten thousand were allowed in. Then apparently, and I hypothesize, Kim Jong-il decided that the 10,000 cell phones were about 9,999 too many. And he did a recall and they turned them off. That is still true through most of North Korea. But if you are 10 or 15 kilometers from that long, long border with China, you may be able to use a cell phone and people are using mobile phones there.

(By the way, a single Chinese mobile phone company, China Mobile, has 350 million monthly paying cell phone accounts – more accounts than there are people in the United States. All told, the country has over 600 million mobile phone accounts. Now consider that 30 years ago, there were exactly zero mobile phone accounts. This illustrates more than anything that powerful changes are going on. And some of this affects North Korea and may yet cause some change of attitude.)

As for China itself, 2007 as I said is going to be a political year. Audrey and I were there a couple of months ago. What you see, at least in the cities, is a sense of optimism. Not a sense of arrogance that we've got the world licked, but a sense that things are better, that people are having a good time, and they are hard at work at the same time. This is a profound transformation, and the mobile phones are just an example of this. There are many problems too: an aging society, a tattered social safety net, regional disparities, rampant corruption, labor unrest, thousands of demonstrations, a rickety financial system, a regulatory bureaucracy that's stifling, environmental problems that are mind boggling, vulnerability to pathogens, misused and misapplied investment, and overcapacity. All of this bad news is going on and yet the progress is real. And the optimism is real and the growth of China as a stakeholder is also real.

It's all going to be interesting to see, and that's why as we come to this dinner we celebrate Joe Vasey's 90 years, his 36 years in the navy, and we celebrate the 33rd year of the Pacific Forum, which continues to seek and benefit from his insights. Throughout all that time Joe, you have been thinking ahead. You asked us questions about the future and there are yet more questions. Some say that war between countries is over; this may be a little bit premature.

But it is certainly true that we are going to be in a permanent war state as modern weapons are more easily acquired by groups that may be terrorists. Subnational groups will be constantly fighting. That doesn't sound very appealing. Then there's China and its demography question. It will be the first country in the history of the world to grow old before it grows rich. How is it going to continue its economic surge while restraining if not freezing its own political development? How will Southeast Asia balance its own economies and the problems that it has with the new, smiling China and a distracted America?

Then there's the U.S.A. We remain welcome in Asia. But can we play the role that we have to play while we are so severely distracted? We are missing the emerging architecture of international organizations and international structures that is going to be so important. We don't know the answer to these questions but there is plenty to work on and plenty to study. The Vasey Fellows and the Young Leaders are the people that are going to do all these things. Joe Vasey, and me, and all too many of us here in this room, we've had our shot. We didn't do too well, but we're still here, and so with that I want to thank you very much and again offer congratulations from myself and from everyone one of us here to Joe, thank you.

About the Author

James A. Kelly, Pacific Forum president emeritus and Scowcroft Chair in International Security Studies, is a former assistant secretary of state for East Asian and Pacific Affairs (2001-2005). He was also senior U.S. representative at the Six-Party Talks aimed at the denuclearization of the Korean Peninsula. From 1994 to 2001, Mr. Kelly was president of the Pacific Forum CSIS. From 1989 to 1994, Mr. Kelly was president of EAP Associates, Inc. of Honolulu, which provided international business consulting services with an Asia/Pacific focus to private clients. Earlier, he served at the White House as special assistant for national security affairs to President Ronald Reagan and as senior director for Asian affairs for the National Security Council from 1986 to 1989 under Presidents Reagan and George H.W. Bush. From 1983 to 1986, Mr. Kelly was at the Pentagon as deputy assistant secretary of defense for international security affairs (East Asia and Pacific). He earned an M.B.A. from the Harvard School of Business Administration (1968). He is also a graduate of the U.S. Naval Academy (B.S., 1959) and the National War College (1977). He served in the U.S. Navy from 1959 to 1982, concluding his active duty as a captain in the Supply Corps.