



**The US, Japan, and China:
Focus on the Long Term**

By Joseph S. Nye, Jr.

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L.W. "Bill" and Jean Lane Lecture in Diplomacy
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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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The US, Japan, and China: Focus on the Long Term

Keynote Speech by Dr. Joseph S. Nye, Jr.
Pacific Forum CSIS Board of Governors Dinner
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It's also a pleasure to be back at a board meeting of the Pacific Forum.

It's really quite extraordinary what this organization has been able to do. I was talking at lunch with Adm. Joe Vasey and he said that when he started this organization in 1975, it was a period when there was a general belief that the United States was leaving Asia. This was in the aftermath of Vietnam, and there was a feeling that we were drawing back. He had a feeling that there was a need to knit together people to bring Americans and Asians together to indicate that that was not the case. And if you would look at what's happened with his idea, and take it forward to today, it is an extraordinary organization that we see. It has had something like 28 meetings or conferences in 8 different countries over the past year; it publishes first-rate materials, two *PacNets* every week. I was saying to Ralph Cossa that unlike a lot of things that come across my screen and I push delete, I always read these because I learn from them. This organization has developed a network of Young Leaders which is really truly impressive; having talked to them at various meetings and breakfasts over the years, it is encouraging. It makes you feel that there is something there in the future. And they do all this on about \$1.8 million budget a year, which is unbelievable.

And so in that sense to come back to Hawaii is a pleasure, but to come back to the Pacific Forum doubles the pleasure. I'm really proud to be a part of this organization.

But I'm going to talk to you tonight about something that's a little bit more difficult than praising the Pacific Forum and that's the relationship between China, the US, and Japan. Quite clearly, we're going through a different and difficult spell now. We've seen in the last six months or so difficulty in this triangle of relationships. This triangle is essential if you want to realize the vision that Joe Vasey was trying to create and establish when the Forum was started. If you think about China and the US right now, you'll see that we're in a bit of a rough spell – Taiwan arms sales, questions of how we're going to deal with issues of sanctions on Iran, monetary issues – there's a long, large list. The most recent of course is the issue of the arms sales to Taiwan. There's a good article on this in the recent *PacNet* by Bonnie Glaser on this, but to some extent we have to realize that the way the Chinese see it is a little different than the way we see it. I was reading a statement by Jin Canrong who I've always regarded as reasonable. He says, "The real purpose is to make Taiwan a long-term geopolitical card to constrain China's development and in order to realize this purpose the United States has to ensure Taiwan is in a state of neither unification nor independence so as to maintain its ability to intervene in Taiwan's political affairs in cross-Strait relations. On the one hand the United States actively seeks cooperation with China in some fields while on the other it is adopting a containment strategy against China in fields including human rights, the Taiwan question arms sales and trade." Whether that's right or wrong, that is a perception which indicates that we have considerable difficulties.

That's interesting because if you compare this with, say, a year ago, Hillary Clinton was talking about the fact that we're all in the same boat together. That China and the US would in her words, "rise or fall together." Notice that Tim Geithner, the Secretary of the Treasury, was saying he spent more time consulting with his Chinese counterparts than with any other country. There was an expression – I think a dumb expression – called the G-2, which said that US and China were going to solve the world problems. It was dumb because it ignored the importance of Japan and Europe. After all Europe is a larger economy than the US, much less China and Japan. But nonetheless there was a feeling that things were suppose to be going in the right direction. But notice that even before the visit of the Dalai Lama or the Taiwan arms sales, things had turned in a different direction.

At Copenhagen, not only was China not cooperative, but it was deliberately insulting. For Wen Jibao to be sitting in his hotel room and send a underling to meet with the heads of state, including President Obama, is not just a slight or an inadvertent missing of a meeting; it's insulting. To have a Chinese underling point his finger and shout at the US president in a meeting is very insulting behavior. And these things don't necessarily happen by accident. In addition, when the Americans are trying to develop sanctions against Iran to persuade Iran not to develop a nuclear weapon and you have the Russians cooperating and you have high-level meetings of every country in the P-5 plus one – permanent 5 members of the Security Council plus Germany – and the Chinese send somebody who has no instructions because he's so low in rank, that's also insulting. There's something odd about the behavior that we've seen recently.

It's quite a contrast between the feelings that were present at the beginning of the Obama administration – a sense of how there was going to be cooperation between China and the US – and what we've seen in the last 6 months or so.

What happened? There are people who know the answer to this much better than I, but I speculate that it's a combination of two things which are almost polar opposites. One is a Chinese sense of insecurity. There has been a crackdown in China across the board on bloggers, on human rights activists, even on lawyers who represent such people. And that may have something to do with two transitions that are going on in China. One is a political transition as we approach 2012, and the feeling that, in a period with rising nationalism and uncertainty desire to have more political control, there is a sense of insecurity. The other which has been suggested by Bill Emmott who is the former editor of *The Economist* is that we may be approaching an economic transition: that the Chinese growth model which is export-led growth is coming to end. As the US savings rate rises to approximately 5 percent the amount of consumption of Chinese exports that used to be typical can no longer continue, and that in turn means that China has to do something different. It either has to increase consumption at home or it has to export less abroad in a way in which you will have concerns about the current employment patterns that depend upon state-owned enterprises, which get particular subsidies from the government. If the Chinese elite is being forced to realize that they're going to have to make an economic transition because the growth model they've used so successfully over the last several decades is coming to an end that could also be a reason for insecurity, which could explain some of their behavior.

The other possible cause of what's happened looks like it's almost the opposite phenomenon: its hubris and over-confidence. Because China recovered from the economic crisis

much better than other countries and has a high rate of economic growth and holds so many US dollars in its reserves, there is a feeling that the balance of power has shifted. You can read in a number of Chinese writings a view that the Americans aren't what they were. Indeed you can see a number of statements by Chinese academics and others saying that the United States in decline, and in such a world we can essentially do as we wish. We Chinese don't have to be as differential to the Americans as we have been in the past.

So you have essentially two things at the same time. Though they appear to be opposites, they may reinforce each other or produce the behavior we've seen. One is domestic insecurity and external hubris or over-confidence. Now I happen to think if that's what's happening – and again I emphasize that this is speculation since nobody knows for sure – I think it's a serious miscalculation on China's part.

First, I don't think the United States is in decline. I'm writing a book on this that I'm going to title "Power in the 21st Century" but the gist of it is that the Americans go through cycles every decade or two about thinking we're finished. "We're done. We're in decline." After Sputnik went up, that was the end. After Nixon closed the gold window in the 1970s that was the end. After we had the rustbelt problems in the Reagan period, that was the end. After the financial crisis, this is the end. I don't believe it. But whether that's right or wrong – and you'll have to read my book to get the answer – to predict as the Chinese do that the Americans are in decline I think is a serious miscalculation.

Second, there is the view that because China holds so many US dollars that they then have leverage over us. I think that's also a miscalculation. We are indeed thoroughly interdependent with the Chinese in the economic area. But whether there is power in an interdependent relationship results not from the interdependence, but from the asymmetry or the unevenness in the interdependence. If I depend on you and you depend on me and we depend equally, you don't have power over me, I don't have power over you. But if you depend on me more than I depend you, then I have the power. And in the China-US economic relationship there's tremendous symmetry in the interdependence. Yes, China could sell dollars and bring the US economy to its knees. But in doing so it would bring itself to its ankles. China would not only lose the value of the dollars that its holding but would create a situation where it would lose access to the US markets which are essential to keeping the high employment, which is essential for political stability inside China. So if the Chinese think that because they have so many dollars in reserve that they have power over the Americans, that's a serious miscalculation.

The third miscalculation reflects what a senior Asian statesman said to me recently, the Chinese have forgotten Deng Xiaoping's advice: "hide your light under a bushel." They've taken the basket off too soon, if this is what's happening. That means that you're going to have reactions of other countries to the rise of Chinese power which you might otherwise not have had.

If this is an accurate diagnosis, and as I said it's only speculation since nobody knows for certain, then what should we do? The answer to that has two dimensions. One is a tactical dimension, the other is a strategic dimension. Tactically, I think the fact that the Americans have become somewhat tougher with China in the last few months is correct. Political scientist Robert

Axelrod argues, “if you want to get cooperation, and the person you’re playing with is not always cooperative, the best strategy is a tit-for-tat strategy.” If you cooperate, I cooperate. You defect, I defect. That tit-for-tat eventually produces a situation where both sides see that in the long run it’s better to cooperate. If we simply say I cooperate, you defect, I cooperate, you defect, all you’re doing is encouraging the other side to defect, essentially to not cooperate. So in the tactical sense I think the meeting with the Dalai Lama and the arms sales to Taiwan are correct. To have deferred them, or not gone through them, would have been a serious mistake.

In that way, tactically what we’ve seen recently is a correct response. But it’s also important to distinguish tactics from strategy. Strategy is how you look at the long run. In a strategic sense we have to ask where do we want to be with China in the long run? And that takes me back to how we design the strategy that’s informed US policy toward China for about the last 15 or 16 years.

In 1994 when I was chair of the National Intelligence Council, Ezra Vogel, my colleague, was the national intelligence officer for East Asia. We were asked to do an intelligence estimate about the future of China. We looked at a series of potential futures – remember there is never one future, the world is full of futures and you try to describe a number of them and assign relative probabilities to them. As we looked at them it was pretty clear that on most of them, not all, but on most of them, China was going to continue to grow impressively. With a 10 percent rate of economic growth and 18 percent rate of military expenditure increase it was plausible that as Goldman Sachs speculated that China would have a larger economy than the United States by 2030 – perhaps now it’s 2040. Who knows what the exact point would be but if China was going to rise this way we needed to ask what were we going to do. How are we going to respond? One possibility was to try to contain China, to create an alliance around China which would stop it. Another was to try to slow China’s growth a little bit like we did with the Soviet Union during the Cold War. We regarded both of these as not very plausible.

Instead what we said was we should look for a strategy that can bring China into the international system but hedge our bets in case it misbehaves. So we argued that we needed a strategy which was to integrate but hedge. In that sense what we argued was that the rise of China was likely but not completely certain, it’s never correct to have a linear projection of the future. China could stumble on a variety of things, but the rise of China would probably continue. So how would we respond to it? The Chinese looked like they were very concerned about economic development first. Because legitimacy for the Chinese Communist Party and the elite that runs it depends upon a high rate of economic growth. With the end of a belief in communism except as a official point, the ideology that was pulling the country together was being replaced by two things, ethnic nationalism and high rates of economic growth. In those circumstances it seemed we were likely to see a situation in which China would indeed continue its peaceful rise because an external environment which was disrupted would undercut Chinese economic growth and undercut the legitimacy of the Communist party and be dangerous for them. So it seemed likely that it least until 2030 or whatever, that China would avoid major external disruptions. Now there are always accidents like Taiwan or other sorts of things, but our projection was that they would seek what they used to call “a peaceful rise.”

But the question was what would happen in the future? Hu Jintao told the 17th Party Congress that China needed to increase its soft power. That's smart for China because if your hard power is increasing, you want to disguise it with soft power. That gives us leeway in the short-run but it does leave open the question of what happens when China gets strong and Chinese say we're strong enough, we can essentially take the bushel off our light, we can remove the basket. That was the importance of the hedge. Those tried to integrate China, have them join the WTO, try to make overtures to get them to become what Bob Zoellick called a responsible stakeholder. But if for some reason that future didn't fit, how were we going to deal with that? That led to the feeling that it was very important to reaffirm the US Security Treaty with Japan. If you've thought about a balance of power in East Asia, there were three countries that were major powers: US, China, and Japan. And if you ask in any kind of situation where you have three-party game, is it better to be part of the two or the one? The answer is it's better to be part of the two. In that sense if the US and Japan faced with a rising Chinese power kept their own alliance tight and close, it meant that China would have fewer options to play the US against Japan or Japan against the US. In other words, by reaffirming the US-Japan alliance we could shape the environment into which China was emerging.

That was the general argument of the 1995 East Asian Strategy Security Report, which is integrate but hedge. I think that has been a successful bipartisan strategy. The Bush administration followed it and I think the Obama administration is following Bush on this. But the question that has risen recently is, has the change in Japan endangered the strategy? Last August 31st we saw for the first time – almost the first time, as there was a brief interregnum, in a half century a replacement of the Liberal Democratic Party by the Democratic Party of Japan and a major shift in Japanese domestic politics. The people who came in with the DPJ did not have a lot of experience in government, to put it somewhat mildly. They also had a rather populous program for election which included slogans like, “developing a new East Asian Community,” “A more equal alliance,” and appealed to folks in Okinawa to change the Futenma Airbase on Okinawa, and the deal that had been reached in 2006 with the LDP.

That has created a fair amount of turmoil in the US-Japan alliance over the last several months. My own feeling is that this is not likely to be a show-stopper. I don't think it's going to derail the strategy. First, and this will not be popular with all my friends who were in the Marine Corps, Futenma while it's important is a second-order issue. I had been chair of the Special Action Committee on Okinawa and that was so long ago we've almost forgotten it, but we've been concerned about what to do about Futenma for a long time. An agreement was made in 2006 which was a reasonable deal, indeed it was a good deal, but when the Democratic Party of Japan came in because they campaigned against it became a salient issue in Japanese domestic politics.

At first we thought that we could push this through and in the process of pushing it through we ran the risk of creating a cause-célèbre in domestic politics. It was the first major political change in Japanese politics and we were saying unless you do things our way Uncle Sam won't help you anymore. That wasn't very good in terms of developing a broad base of support for the alliance. Fortunately that's begun to change and Washington is becoming more patient and not pushing quite so hard. I think the result is that the US-Japan alliance will survive

this change in Japanese domestic politics. And I say that not because there's an easy solution to the Futenma issue. I don't know how Futenma is going to turn out, but I say it for three reasons.

First is the problem of North Korea. The Japanese have to ask how are they going to deal with a nuclear North Korea if they don't have an American alliance. The second is the rise in the power of China. How are the Japanese going to deal with the rise of China if we let the American alliance atrophy? If the Japanese wanted to deal with the problems of Korea and China they have the wealth to support a large military. They could develop nuclear weapons relatively quickly but it would be very expensive, both economically and politically. I doubt that Japan and Japanese public opinion want to spend 3 or 4 percent of its gross domestic product on military investments. And so in that sense Japan can't afford to let the US alliance atrophy.

And third if you look at the idea of an East Asian Community where there's going to be this new relationship with China which is part of the DPJ rhetoric, it's not clear what that means. Closer economic relations, yes, but economics is not security. I once used a phrase when I was in the Pentagon that security is a lot like oxygen; you never notice it until you start to miss it. But once you don't have oxygen you can't think of anything else. In that sense, if the Japanese think that they can live in a relationship within East Asia which we based on a close economic relationship with China while preserving their full political independence, I think they'll run into that problem.

So I think because of the changes that we've seen recently at the tactical level but more fundamentally because of the underlying realities of the structure of power in East Asia, the US-Japan alliance is going to survive. And it will survive in relatively good shape. If that's true, then so too will the longer-term strategy I described of how do you deal with East Asia as a triangle, which is essentially the issue of China, which was to integrate but hedge.

So if I ask what is the implication of this, in conclusion I would say there are a few things that we should draw lessons from for policy. One is to be very careful about nationalism. In Japan, we shouldn't stir up a nationalistic reaction against us by tactics that are not productive. And don't stir up nationalism in China which is already strong for reasons I explained earlier. So think about the effects of nationalistic reactions as we design the tactics we use.

Second is make major efforts to reaffirm the US-Japan security treaty in this year its 50th anniversary. We should use this 50th year to get a new declaration of the importance of this US-Japan security relationship. If we don't, it would be a terrible missed opportunity.

Third, we should illustrate that we're not trying to contain China or prevent it from growing. We should see if we can develop ways in which we could have trilateral or perhaps quadrilateral cooperation between China, Japan, the US, and Korea. Energy is a clear area; we should focus on energy efficiency, and energy security. These are areas where there are joint gains in the relationship. We don't have to focus on the negatives; we can also have a positive dimension.

Fourth, we should keep in mind that shaping the environment in which Chinese power grows is going to be the key to what happens. We have no idea what will be in the minds of

Chinese leaders 20 years from now. We now think they care about development more than other things, and they are not going to disrupt the external environment. But who knows what the successors of their successors will be thinking. In that sense what we do know is that we can shape the environment in which the successors of their successors face the world. That's going to require dealing closely with Japan, as I have described, but also with India.

There's a very interesting book by Bill Emmott, the former editor of the *Economist*, who I mentioned earlier, called the "*Rivals*." It says, everybody is focused on the rise of Asia. Asia will rise in the 21st century, but Asia is not one thing. What's most important to realize is that India and Japan are much closer to and much more worried about the rise of Chinese power than we are, and that means that when they look at the rise of Chinese power, who do they want to help them: the United States. That gives the United States an extraordinary power advantage.

So in that sense if we think in terms of shaping the environment, things which include Japan and India in their own working together are very important not to contain China but to shape the environment in which China is emerging.

That then brings me to my final policy conclusion which is the importance of focusing on long-run strategy. Not to let short-run tactics of this or that issue get in our way but to look at the kind of Asia that we want to see in 20 or 30 years. We can live with a stronger China. We can profit from a stronger China. But it depends upon our shaping the environment in which that stronger China emerges. Part of that shaping is to educate a younger generation of leaders to see that there can be a joint gain or a positive sum outcome for the future of Asia, in which you can have security and prosperity together. That's one of the things which I'm so proud about of what the Pacific Forum does – not only holding the conferences and meetings, but training the younger generation of leaders who will see the world this way. Thank you very much.

Questions and Answers

Question 1: *How do you see the regional architecture of Asia evolving?*

Well you now have a ASEAN plus one which essentially is the free trade agreement with China and ASEAN. I was in Hanoi about a month ago and met with the prime minister and talked about this. It's a mixed blessing. The ASEAN nations are pleased to see the opportunities for increased markets. They're also worried about whether the Chinese will take over their markets. So I think there will be a closer relationship here, but I don't think it's going to be a takeover. As one thinks about the larger questions of architecture, what kinds of organizations and institutions there'll be in East Asia what we're going to see is what's sometimes been called in Europe "variable geometry": you're going to have ASEAN plus one, ASEAN plus 3, ASEAN plus 6 with different names to them, East Asian summit, or whatever you want to call it, but that's good – there shouldn't be one organization for all of East Asia. Having several different frameworks is healthy, at least for our interest.

Question 2: *What's Russia's role likely to be in all of this?*

Well the Russian question is something of a puzzle. If you look back, say the period of the late 1980s, there was a general feeling that Russia was a key player in East Asia. Vladivostok was going to be a central power, a focal point, and so forth. Now in fact you find that Russia is preoccupied with Europe and Central Asia and has not really played that much of a role in East Asia. If you look at the number of Russians who live in the Asian part of Russia, it's something like 6 million. It is tiny. And the Russians have a puzzle: they very much want to have good relations with the Chinese because they're concerned about the Americans. They also want to make sure that the Chinese don't control Central Asia through the Shanghai Cooperation Organization, and they want to sell military equipment to China but they don't want it to come back and hurt them in the future. They want the profits now but they don't want the threat later. They also have a concern about selling oil and gas eastward so the Europeans depend on them more because it means that the Russians have another market, but they don't want it to be something where the Chinese have control. They rather have it go to an LNG terminal so that it can go to a variety of different sources.

So the Russians are profoundly ambivalent for all these reasons about how they play their hand in East Asia. And I would argue that so far it's not been a skillfully or powerfully played hand.

Question 3: *I have two questions. First, what should US policy be in regard to institution-building in the Asia Pacific region? Second, you have recently made a powerful case for greater policy relevance among academics. I was wondering if you could offer some thoughts on the role of the Pacific Forum Young Leaders program in this regard.*

I think the United States has an interest in keeping APEC going: it's becoming somewhat sleepy in recent years. But APEC signals the American role in the Pacific – that we're a part of it and that we can think in trans-Pacific terms and not just in terms where the Americans are excluded. So I would hope the Americans will continue to focus on APEC. There is an argument that can be made that the Americans should also spend more time on the East Asian Summit, which you might call the plus 6. We've decided not to join that. Having Australia, New Zealand, and India as part of it essentially protects our interests. But it's an open question about whether we might want to become part of that as well. I think the major concern is to make sure that you don't have a situation or architecture in East Asia where China becomes dominant to the point that other countries can't do much about it.

In the second question you asked about Young Leaders and how academic and policy issues interrelate. I've long held that one of the problems is that when academics get too divorced from policy issues or when policy makers don't spend enough time thinking about longer-term questions that academics sometimes raise, both sides suffer. And so the talk that you heard in New Orleans last week was an indication of that. It seems to me that the nice thing about the Pacific Forum Young Leaders is that it includes both.

Question 4: *What is your view of the recent arms sale to Taiwan?*

Well I think our policy toward Taiwan should be, and this is pretty standard, no formal declaration of independence, and no use of force and, within that, no force by the mainland, no independence by Taipei, that you leave the two sides to bargain out the type of relationship they're going to have. I think that means that we have to provide enough arms so that China cannot feel that it can have *a fait accompli* by military force and I think what arms we sell to Taiwan under the Taiwan Relations Act, has to be in terms of that, what's inside that box that I described. That has to be assessed each time you look at the balance across the Strait. You'll see what it would take to make sure that Taiwan couldn't be quickly taken over by military force. I think that is the basis for which we make a decision. Whether in a particular circumstance we need or shouldn't sell *F-16s*, I would leave to an assessment at that particular time. In other words I don't think there ought to be an automatic formula. I think it's going to take judgment of what is necessary to make sure that Taiwan can protect itself from a sudden take over militarily from the mainland so that there is then an incentive for Beijing to negotiate with Taipei.

About the Author

Joseph S. Nye, Jr. is Chairman of Pacific Forum CSIS, and also the Sultan of Oman Professor of International Relations, John F. Kennedy School of Government, and Distinguished Service Professor at Harvard University. Prior to assuming that post, he was Dean of the Kennedy School from December 1995 through June 2004. He has also worked in three government agencies. From 1977 to 1979, Mr. Nye served as Deputy to the Under Secretary of State for Security Assistance, Science and Technology and chaired the National Security Council Group on Nonproliferation of Nuclear Weapons. In recognition of his service, he received the highest Department of State commendation, the Distinguished Honor Award. In 1993 and 1994, he was chairman of the National Intelligence Council, which coordinates intelligence estimates for the President. He was awarded the Intelligence Community's Distinguished Service Medal. In 1994 and 1995, he served as Assistant Secretary of Defense for International Security Affairs, where he also won the Distinguished Service Medal with an Oak Leaf Cluster.

