

Panel: Keynote Speech (Orchid Room)

Date/Time: Tuesday, December 11, 2012 / 09:30-10:15

Talking Points for: William H. Overholt, Harvard University

Chinese-American Relations: A Deeper Look¹

On some levels, little has changed in U.S.-China relations. Since the time of Nixon, U.S. policy has remained consistent through Republicans and Democrats of various kinds. The U.S. seeks to welcome China into the post-World War II framework of institutions and institutionalized relationships, while hedging against the possibility that this once revolutionary instigator of violent upheavals all over the world might take a troublesome turn. Likewise, China has joined the institutions it once sought to overthrow, has abandoned revolutionary proselytization, and has settled most of its land borders to the satisfaction of those neighbors. It has managed its economy in a way that has not only enhanced its own prosperity but has also accelerated neighbors' growth, greatly improved the prospects of the poorest raw material producers of Africa and Latin, and, despite some valid complaints, enhanced Americans' prosperity. These continuities testify to wise leadership on both sides of the Pacific.

Today's challenges do not seem particularly formidable compared with those of the past. Today's territorial waters issues are no worse than the earlier acute crises over Taiwan. It takes only a little optimism to foresee today's controversies over currency fading as China rebalances its economy. And yet distrust between China and the U.S. is steadily worsening. The reasons for this cannot be discerned in lists of current controversies. Beneath these controversies are deeper tides.

Historical Perspective

Chinese American relations have taken place within a very special economic and military context that differentiates the post-World War II era from all previous eras. Traditionally, the

¹ This is an edited version of a keynote address for the Asan Institute's conference on "China in Transition: China Forum 2012," Westin Hotel, Seoul, Korea, December 11-12, 2012.

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**

way to become a great power was to build up your military, invade your neighbors, seize their golden temples, and tax their peasants, then do it some more. All the distinguished realist studies of the rise of new powers are based on the generations during which that was the efficient way to rise. Theorists of international relations have found it inconvenient to confront these special post-World War II circumstances because it would cast doubt on the value of the extensive historical studies that have provided the empirical foundation, the source of proof, for their theorizing. At a minimum, confronting the new conditions would require political scientists to reinterpret the implications of the historical patterns; none has been willing to make the effort.

After World War II, the context of international competition was fundamentally transformed by two trends. First, Japan showed that it is possible to grow 10% per year. Previously, the economic foundation of the British empire had been 2% annual growth and of American global leadership 3 to 4% annual growth. After the Meiji Restoration Japan managed to grow 4% for an extended period of time but ultimately was not able to sustain that. After the war, it managed to grow 10% per year for a prolonged period. Because of this, despite a previous Western consensus that it would remain an impoverished agricultural society for the indefinite future, it quickly became recognized as one of the world's three great power centers notwithstanding its diminutive military. The Japanese experience showed that countries could rise to big power status very rapidly through sheer economic growth, even with extremely limited military capabilities. Japan's neighbors took more careful note of this than did the Western powers

The second defining postwar trend was that military technology became so extraordinarily destructive that pursuing geopolitical ambitions through traditional military conquests of territory in the manner of prewar Japan and prewar Germany now was likely to produce only Pyrrhic victories at best. Of course, the most destructive new technology was nuclear weapons, and that has spawned a whole literature of deterrence and other aspects of nuclear strategy. But the heightened destructiveness of modern military technology was not just

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**

confined to nuclear weapons.² Conventional capabilities have also become vastly more destructive, so much so that pursuit of geopolitical objectives through traditional conventional warfare may also lead to Pyrrhic victories or even to outright losses. George W. Bush's foray into Iraq, and the defeat of his colleagues' larger vision that the U.S. could impose democracies by force throughout the Middle East and elsewhere, are in part an example of the new situation (as well as a lesson regarding how proud peoples react to having a political system forced upon them.)

This is particularly true because modern weaponry has become not just more destructive but also more democratized and depersonalized. By "democratized" I mean that individuals and relatively small groups now have access to substantial destructive power, as we have seen in many cases of modern terrorism and modern guerrilla warfare. By "depersonalized" I mean that, from drones to IEDs to cyberwar, the violence of much modern weaponry is now detached from the individual who is deploying it. Greater violence, democratization and depersonalization all increase the costs, particularly to a big power, of seeking geopolitical stature primarily by traditional military means or primarily through territorial acquisition.³

These new developments have given the geopolitical game a new structure. The new developments did not of course mean that geopolitical ambitions were abolished or that

² International relations "realists" have often avoided the implications of more destructive military technology by confining their attention to nuclear weapons. Since nuclear weapons have hitherto been possessed only by a few relatively cautious states, and particularly because in most circumstances nuclear weapons are not usable, confining attention to nuclear weapons means that traditional realist theorists have either ignored the effects of modern weaponry or dismissed them with no more than an extended footnote.

³ This is not the place for an extended analysis of the character of modern weapons or the morality of warfare, but the effects of depersonalization require brief comment, since they are virtually unnoticed in strategic commentary. When fatal force is delivered by a party who is completely removed from personal risk, there is a vital moral component to the reaction of the other party and of important onlookers. Herman Kahn, a conservative strategist and friend of the military, used to note this in speeches. When Nixon started using B-52s to carpet bomb areas in Cambodia and elsewhere during the Vietnam War, Kahn commented that a general who annihilates the enemy at a cost of 25,000 troops rather than an expected 50,000 is a strategic genius. However, he said, a general who reduces that number to zero is immoral. What did Kahn mean? There is an implicit sense of morality, virtually never articulated and impossible to prove unless one can sense it, that killing many others at no risk to oneself removes a threshold of moral seriousness. The reaction to anonymous or riskless slaughter is often wild rage and a conviction that all rules are off, including all the normal rules that regulate wartime violence. This moral reaction explains much of the West's reaction to random acts of terrorism and much of other countries' reaction, for instance, to extensive use of drones. This writer believes that we need much deeper thought about the strategic implications of the use of drones and cyberwar. The important point for this paper is limited: Democratization and depersonalization raise the costs of using warfare in traditional ways.

military conflict would not occur, but it did mean that rational leaders would often invest much more heavily in economic development as compared with military buildups than was appropriate in the old environment. Established powers still become frightened of rising powers, as happened when the rise of Athens seemed to challenge Sparta, and rising powers may take steps that threaten fundamental interests of the established powers, as happened in prewar Japan and Germany, but the rational strategies of both rising and established powers are different when economic growth is so clearly the key to relative power. Economic strategies do not replace military strategies, just as military strategies were never in the past divorced from sound economic management, but the balance has drastically shifted.

Observing that it is now possible to become a big power by focusing on economic development is not a variant of the discredited liberal interdependence theory that economic interdependence will preclude war. That theory holds in effect that strong mutual economic interests will override geopolitical ambitions. What I am arguing, and have been arguing for several decades, is radically different: It is now possible to achieve geopolitical leadership, even dominance, primarily through economic means, and moreover states pursuing great power stature by traditional means of military conquest or intimidation are more likely to fail.⁴

The era of competition through growth

For much of the postwar period in Asia, key powers have focused sufficiently on the economic aspects of geopolitics to fundamentally transform the game. To be sure, the Korea War and the Vietnam War were traditional conflicts fought in traditional ways. But the larger regional and global game was driven by economic strategies.

Japan's focus on rapid growth from 1955 to 1975, and the image of superior management that it sustained (despite obsolescence) through 1989, made Japan one of the world's big powers, even though Japan's military was severely constrained by a peace constitution written under American auspices. Even Americans were frightened by Japan's success. A whole scare

⁴ For a recent analysis of the role of economics in geopolitical strategy, see William H. Overholt, *Asia, America and The Transformation of Geopolitics* (New York & London: Cambridge University Press, 2008)

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**

literature developed, expressing concern that Japanese economic superiority would make him the world's dominant power. Some authors even predicted the America would inevitably fight a war with Japan.⁵

South Korea learned from the Japanese example. Under Syngman Rhee, South Korea gave priority to the military at the expense of economic development and political values. As a result, it fell further and further behind North Korea in both military power and political stability. South Korea then tried to focus on democracy, a priority that under the circumstances of the time led to disorder, inflation and geopolitical weakness. Finally, General Park Chung Hee refocused the nation's priorities on economic development, at the cost of drastically reduced priorities for the military and for democracy. Very quickly in historical terms, South Korea became superior to North Korea in political stability and diplomatic stature, by growing its economy to 20 to 30 times the size of North Korea's. By sticking to a traditional military-dominant strategy North Korea doomed itself to strategic impotence—and that remains true despite its nuclear explosions in the first decade of the 20th century. What Japan had attained due to foreign constraints South Korea achieved by its own volition. No comparable success would have occurred as South Korea had continued, in the manner of Syngman Rhee, to follow the traditional pre-World War II German or Japanese strategies.

In Southeast Asia, Indonesia, troubled by extraordinarily numerous and deep ethnic divisions and by arguably the worst ideological divisions in the world, seemed headed for civil war and likely breakup under Sukarno, who disdained sound economic management and claimed much of Southeast Asia as Indonesian territory. Indonesia under Sukarno had the world's worst ethnic divisions, the world's third largest communist party and more Muslim fundamentalists than the rest of the world combined. As did General Park Chung Hee in South Korea, his successor, General Suharto, changed the focus to the economy; in the process he abandoned vast claims over the territory of Indonesia's neighbors. Very quickly in historical terms Indonesia became the informal but unquestioned leader of ASEAN.

⁵ Most notably George Friedman, *The Coming War With Japan* (New York: St. Martin's Press, 1991)

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**

Most other ASEAN members (among the original six) also quietly abandoned most claims on their neighbors and focused on economic development. (The Philippines became a notable exception, neither making economic growth a priority nor abandoning its extensive claims on Malaysian territory.) Their economic success stabilized the polities of hitherto terribly divided and violent countries and simultaneously made them more capable of defending themselves. Mutual economic success provided the foundation for a grouping that was able to resist communist subversion and also able to resist subordination to any big power or any ideology.

These developments determined the course of the Cold War in Asia. They established a pattern of “peaceful rises” that were the principal reason why the communists were defeated in Asia’s Cold War. They were peaceful rises in multiple senses. Unlike the rise of Athens, their rises did not create risks of war by challenging the vital interests of other powers. They achieved their successes in part by constraining their military and geopolitical ambitions, in order to focus their resources on economic growth. And the priority for growth was addictive; it stabilized domestic politics by providing benefits to everyone, and entrenched the positions of leaders who advocated continued focus on economic growth.

The U.S. contributed to these peaceful rises, protected them, and achieved victory through them. U.S. policy in the Cold War was heavily economic, from the Marshall Plan in Europe to fostering the Japanese miracle to nurturing what became known as the Berkeley Mafia (the key technocrats who guided development) in Indonesia. Throughout what was then known as the third world, the head of the AID mission was nearly as important as the U.S. Ambassador.

By focusing on the importance of economic development and “peaceful rises” I do not mean to denigrate the role of the military. The role of the military was absolutely vital, but it was a supportive role. If Park Chung Hee or Suharto had chosen to rely overwhelmingly on the military to suppress domestic disorder and prevent international subordination, and if the U.S. had supported them almost exclusively with the military as it did decades later in Iraq and Afghanistan, then both would have eventually collapsed in chaos and become pawns of other powers. If Eisenhower, like Park and Chiang and Suharto a former general, had not capped

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**

the U.S. military budget, albeit at a high level, the U.S. position in the Cold War would have been much weaker. The indispensable but supportive role of the U.S. military in America's winning of the Cold War is best conceptualized as having protected the successful core strategy of fostering economic rebirth in Western Europe and Eastern Asia.

Conversely, Mao and Stalin and Stalin's successors lost the Cold War because Stalin prioritized the military to an extent that eventually collapsed the economy and because Mao believed in "Politics in Command" and "Political power grows out of the barrel of a gun" and destroyed China's economy.

Deng Xiaoping's genius and political courage led him to reverse China's priorities, just as Park Chung Hee had reversed Syngman Rhee's and Chang Myon's priorities, and to emulate the peaceful rises of China's neighbors. Deng slashed China's military budget from a peak of 16% of GDP to 3%, accelerated the peaceful compromise of 12 out of China's 14 border disputes, and initiated what became a strategy of friendship diplomacy that for a while had U.S. strategic thinkers wondering whether China had adopted a strategy so sophisticated that the U.S. might not know how to cope with it.⁶

The result of all these developments was an era in which Asian countries, led by Japan and supported by the United States, focused primarily, in some ways obsessively, on peaceful economic development. This was a form of geopolitical competition well adapted to new postwar conditions and one that led to the greatest improvement in livelihoods and human dignity in the history of the human race. Despite local conflicts, it was fundamentally an era of regional peace.

Challenges to the era of peaceful rises

For all the benefits of that era, and for all of its congruence with new post-World War II conditions, to explicate current Sino-American relations one has to understand the challenges to the priority for economic improvement, not just in China and the U.S. but also in Japan. It is impossible to abstract the U.S.-China relationship from the U.S.-Japan-China triangle. Japan, which taught Asia and the world the benefits of an overwhelming priority for

⁶ See for instance Joshua Kurlantzick, *Charm Offensive: How China's Soft Power is Transforming the World* (New Haven: Yale University Press, 2007)

economics, was the first major power to abandon it. Like the other Asian “miracles” Japan achieved its successes through a combination of globalization and marketization. However, after 1975 it became complacent. It turned inward rather than continuing rapid globalization and it allowed a handful of powerful interest groups (most notably its traditional agriculture, construction, property, banking and retail industries) to dominate politics. Economic growth decelerated with amazing rapidity after 1975 and has been nearly stagnant since 1990. The stagnation was not a result of Japan’s financial crisis; on the contrary, the financial crisis was a punctuation point in the process of economic decay. A financial crisis does not cause 22 years of stagnation. Today nearly every Japanese sector is in a crisis of competitiveness.

For many years no national political leader has offered the Japanese people a positive vision for their economic future. Economic revitalization would require reforms that would drastically transform Japanese agriculture, construction, property, banking, and retail, so the power of those interest groups ensures that no candidate for leadership offers such a vision. Any politician who might proffer such leadership is blocked, so any leader who becomes prime minister is someone ineffectual. The Japanese people reject any ineffectual leader, so they fire prime ministers at the rate of one per year. Since forward-looking leadership is impossible, Japan is confined to muddlers and two kinds of backward-looking leaders. The most prominent backward-looking leaders, Abe, Aso, Ishihara, Hashimoto, seek to restore Japanese dignity by re-writing history and revivifying the Japanese military. The Yasukuni Shrine, their central symbol, tells us that the U.S. deliberately caused World War II, that the Japanese invasion of Korea was at the request of the Korean people, that Japanese invasion of China was necessary to save the world from Chinese terrorism, that Gandhi succeeded in India only because of the virtuous Japanese army, and that there were no impressed comfort women in Asia, only women eager to make money through prostitution. This group has deliberately awakened sleeping territorial controversies with Korea and China, and prevented compromise of territorial controversies with Russia. The other backward-looking group, represented by the first DPJ Prime Minister, Hatoyama, conjures images of an idyllic village past to be restored through vast subsidies and reversal of the Koizumi reforms that saved Japan from financial catastrophe. Meanwhile the muddlers fiddle with fiscal and financial

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**

stimuli that just lead Japan further into debt without addressing its structural problems.

However clear it is that, in the modern world, the path to domestic stability, citizens' dignity and national stature lies through a continued priority for economic growth, the Japanese case shows that continuation down the path of national interest still requires wise leadership and a system that will allow wise leaders to percolate to the top. Japan has many brilliant managers who know what the country needs, but none has a chance at political leadership.

Parenthetically, South Korea has, for all its domestic divisions and controversies over policy toward North Korea, confronted the same problems as Japan but remained on the path of reform and development. As a result its international stature continues to rise rapidly even as it provides an example of peaceful relations with China and Japan and of refusal to allow North Korean provocations to knock it off the path.

Since 2001, U.S. policies have also shifted decisively toward primary reliance on the military. In the George W. Bush administration the key policy positions were all held by people with a Defense background—Secretary of State Colin Powell, Deputy Secretary of State Richard Armitage, National Security Advisor Condoleezza Rice, Secretary of Defense Rumsfeld, Vice President Cheney, and many others.⁷ The role of diplomats drastically shrank. AID became an ineffectual appendage. In Iraq and Afghanistan, economic development programs were tiny and administratively subordinated to the military. The absence of any serious plan for what would come after military victory in Iraq was just one aspect of the complete abandonment of the kinds of economically balanced strategies that had led to U.S. victory in the Cold War.

The effects of military predominance are subtle but important, because the policy of welcoming China into the international community while hedging the risks is a policy of subtle balances. When the right wing nationalists appeared ascendant in Japan, that presented a military opportunity and the Bush administration embraced it while ignoring the abhorrent views of key Japanese counterparts and the effects those views were having on neighboring countries. The U.S. in February 2005 joined Japan in bringing Taiwan explicitly under the

⁷ James Mann has extensively documented the emergence of a foreign policy dominated by Defense professionals in his book, **Rise of the Vulcans** (New York: Penguin, 2004)

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**

purview of the U.S.-Japan alliance, and in the middle of that same decade publicly promised for the first time to defend Japanese control of the Senkakus. Those decisions strengthened the military alliance but more balanced consideration might have judged that the diplomatic costs of doing so were unduly high. The U.S. participated in four power naval exercises and many similar initiatives, denying that they were directed at China while Japan trumpeted how they showed the formation of a coalition of countries with common values—in other words, countries hostile to China’s ideology. Consistently in these decisions small military gains outweigh disproportionate political costs.

One of the most crucial aspects of the U.S.-China relationship is that, in its effort to shore up the alliance with Japan and to enhance its military position, the U.S. has consistently ignored, and in the case of the territorial waters disputes, enabled Japanese behavior that repeatedly triggers gratuitous conflicts with all of its neighbors. While Chinese behavior is far from blameless, the fact that Japanese politicians have triggered such problems with the other neighbors should give pause to the common tendency in Washington to blame everything on China.

Nowhere has the balance between military and other considerations been more striking than in the conduct of U.S. surveillance operations along the China coast. U.S. flotillas regularly act so as to trigger Chinese defenses in order to be able to read them electronically, so that in the event of a conflict we will know in advance how the PLA responds to a crisis. If the Chinese did this in the seas off Washington DC, it would trigger a war mentality. How does this marginal gain of military intelligence, for a war that is very unlikely to happen, balance against the many declarations by presidents and others that we will not treat China as an enemy, because if we treat them as an enemy we will make them one? It is not clear whether the question has ever been deliberated at the proper level.

Given its different values, the Obama administration might have been quite different, but in fact the differences have been in other areas. The first National Security Advisor, James Jones, was a general. The second was an expert on public affairs and domestic mortgage issues. (The era of Bundys, Kissingers, Brzezinskis, Scowcrofts and Bakers seems to be over for the time being. No recent occupant of the role has been able to articulate a coherent strategic

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**

vision that would integrate military, economic and diplomatic perspectives.) The predominant voice behind America's Asian diplomacy in the first Obama administration has been an able Assistant Secretary with a primarily Defense background. The rebalancing of U.S. diplomacy in Asia, which had been distracted by Middle Eastern priorities, was regrettably portrayed primarily as a military re-balancing, because initially it was, despite diplomatic and economic dimensions that could and should have been more important. Because of its strong union base, the Obama administration was very slow to push languishing free trade agreements and has been very slow to move on broader trade and investment liberalization measures. It has done a good job of preventing a descent into protectionism during the financial crisis, but it has not moved decisively forward. Economics and diplomacy have remained firmly subordinate to military considerations, not, so far as an outsider can tell, through any conscious decision but because that is the way U.S. institutions have evolved. Not least of the reasons for this is that the U.S. Congress is willing to fund Defense quite generously while continuously degrading the budgets of those in charge of economic and diplomatic issues. (The extreme of this tendency would have been the Romney proposal to drastically increase the military budget, far beyond what the military actually wanted, while drastically cutting total expenditures, a combination that would imply virtually gutting everything else.)

Alongside this, the U.S. has become more ideological at home and adopted a policy of ideological proselytization abroad. There was a time when U.S. policy was highly pragmatic and China was seeking to spread its ideology everywhere. Now those positions are reversed. While the U.S. has always had strong democratic values, a very good thing for those of us who live there, during the Cold War ideology was tempered by pragmatism and ideological perspectives on foreign policy were moderated by a dominant center in Congress—names such as Bradley, Lugar, Nunn, Glenn, Solarz, Dirksen, Vandenberg, come to mind. Now the center has been displaced by the left and the right, who share a common Manichean view of China. That Congressional structure severely constrains pragmatic policies toward China. In the executive branch, ideological perspectives show up in many ways. George W. Bush's team came to office believing that it was possible, and a good idea, to use the U.S. military to impose democracies throughout the Middle East, with Iraq as just the first step, and perhaps

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**

elsewhere. While that fantasy has evaporated, other aspects of ideological policy remain crucial in U.S. attitudes, particularly toward China. We bitterly denounced China as hostile to us and to peace and human rights because of its policies toward Sudan and Iran, but India was continually praised despite identical policies. China's territorial waters ambitions are denounced as aggressive, while India's similarly sweeping ambitions, including a desire to dominate the South China Sea, are seen as constructive. The fact that India has far more hostile relations with its neighbors and has been unwilling to compromise land disputes as China has done is virtually never noted. Secretary of State Clinton flies to Mongolia and gives an anti-Chinese speech. Then she goes to Africa and gives anti-Chinese speeches. Then she goes to Beijing and offers to serve as an honest broker in the South China Sea disputes; her aides express surprise when the welcome is somewhat cold. At the presidential level, the U.S. wants China to succeed economically, it is willing to engage China as a fellow great power, and it is emphatically not trying to stifle China's rise, but it is having trouble getting its balances right.

I come to China last, quite deliberately. In the West, it has become common to ascribe all Asian geopolitical problems to China's rise. Thinking that way is a potentially catastrophic error. The problems caused by the decline of Japan are at least as significant. The problems caused by the emergence of a more ideological and military-minded U.S. are substantial. But this effort at balance does not in any way seek to minimize the China issues.

China's reform era was led for two decades by cosmopolitan reformers who were determined to save their country by emulating the lessons of their more successful neighbors. Deng Xiaoping saw that China's neighbors were doing much better than China was, and he insisted on drawing the lessons, regardless of ideology. Deng Xiaoping, like Park Chung Hee and Suharto, was a former general, but he gave first priority to economic development and last priority to the military. His successes were based on policies that emulated the earlier policies of South Korea and Taiwan, and to a lesser extent Japan and Singapore. Likewise, Zhu Rongji knew so much about the development decisions South Korea had made that I don't believe any American expert on Korea has come close. Under both sets of leaders, Beijing eliminated ideological proselytization and subversion, minimized involvement in foreign

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**

conflicts, and settled most of its major territorial disputes, in order to focus resources on economic development.

Under Hu Jintao and Wen Jiabao the situation is very different. They are not experts on foreign economic development strategies. Under them economic and political reforms largely stopped. From their first day of their term, they were under attack from domestic opponents for being weak on national security. They have allowed interest groups to have the kinds of influence over policies that Deng and Zhu were determined to stop. At the beginning of their term they seemed to be elaborating the legacy of friendship diplomacy and peaceful rise in a way that threatened to confound the more hamhanded West. But in the last three years they have sacrificed much of the gains from two decades of friendship diplomacy, they have to some degree alienated most of their seaside neighbors, and they have left the world, rightly or wrongly, with the image of an expansionist, aggressive China.

We need to be very careful in balancing Chinese developments. The Chinese have been growing their military budget more rapidly than GDP, but have been disciplined about reducing it each year as a share of the government budget (which has been rising about twice the rate of GDP). Their claims in the South China Sea are identical to Taiwan's; proportionately no more unreasonable than those of Vietnam, Malaysia, and the Philippines; and based in real national interests, in contrast with the Indian navy's slightly preposterous pretensions there. Chinese officials have argued that some other officials' and officers' labeling of the South China Sea as a "core interest" (hence on a par with Taiwan and Tibet) was not official policy. Other Chinese officials have plausibly asserted that China has honored the 2002 Code of Conduct understanding that any development in disputed areas must be joint development; according to them, China drilled no wells but ASEAN countries drilled more than 1,000, so China had to assert its rights or lose them. In this interpretation, China was just trying to restore the old equilibrium. When I asked a senior retired officer why China was so flexible in compromising on land, but so inflexible at sea, he said that when they were giving away 1.5 million square kilometers to Russia "nobody knew." In that view, Chinese leaders are still willing to compromise, but the netizens won't allow it. Above all, in recent conflicts with Japan, the Chinese have made more reasonable offers regarding drilling

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**

while Japan has sought to stop Chinese drilling even in an area of undisputed Chinese waters, and it is Japan that has broken old agreements and allowed right wing nationalists to kick sleeping dogs.

Having applied all these discounts, much of recent Chinese behavior no longer seems consistent with the policies of peaceful rise and friendship diplomacy. Chinese claims to much of the South China Sea rest on their claim to Scarborough Shoal, near the Philippines, and that claim is very weak given Philippine claims going back to the mid-1930s and exclusive Filipino servicing of the area, for instance rescuing ships in difficulty there, ever since.⁸ China's sending its Coast Guard to patrol an island very near the coast of South Korea, and the alacrity with which Chinese militia-trained fishermen have killed South Korean coast guardsmen, seem very much to be acts of traditional territorial aggrandizement. And the extraordinary efforts to publicize, popularize and institutionalize China's claims belie any interpretation that the government is just compromising with nationalistic public opinion; as it puts controversial maps on its passports, fills airline magazines with articles about the beauty of China's South China Sea Islands and the conservation it is enforcing there, creates a local government and military unit with jurisdiction over the area, and reportedly makes plans to station ships permanently by Scarborough Shoal, the government is clearly fomenting popular nationalism, not just catering minimally to it. Chinese resort to economic warfare, through such measures as cutting off rare earths to Japan and Chinese tourists to the Philippines, and blocking Chinese imports of bananas from the Philippines, is a major and dangerous step.

Conceptually, China seems to conflate access to resources with ownership of resources. As it has discovered, ownership of oil fields in Angola does not convey the right to transport the oil back to China, only the right to a share of the profits. In a market where all oil is sold to the highest bidder, China, with its \$3 trillion of foreign exchange reserves, has the most secure access of anyone as long as the oil is fully produced. By worsening territorial disputes China would seem to be hampering full production and ultimately harming its own interests.

⁸ See Francois-Xavier Bonnet, "Geopolitics of Scarborough Shoal," Les Notes de la IRASEC No. 14, November 2012

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**

Thus, the era of peaceful geo-economic strategies has faded somewhat and, if this trend is allowed to continue, could end abruptly in traditional territorial conflicts. Japan led the region down from the successful postwar strategies. China now has conflicts with more of its neighbors than any other country. The U.S. has abandoned a decisive postwar leadership role. It never articulated its economic strategy clearly, just instinctively did the right thing from the Marshall Plan onward. It later turned away from its successful strategy almost unconsciously; a public no longer scared by Soviet nuclear power refused to support foreign aid and economic globalization, and a Congress awed by the defense complex was happy to give the military more than it requested while starving economic programs that could, at far less cost, have turned defeat or stalemate into victory.

Where do the U.S. and China stand?

Tactically, the U.S.-China relationship remains about where it has been. The specific economic and military issues change, but it is difficult to argue that they are much worse today than they were a decade ago. Changes have occurred at two levels.

First, in quality of leadership. The U.S. has, since the turn of the century, abandoned much of its global leadership role in reforming and unifying economic behavior. That task has become far more difficult than in the past, and neither the Bush 43 administration nor the Obama administration has made it a major priority. Moreover, domestic political polarization and tightening fiscal constraints mean that for the foreseeable future the U.S. will not provide the kinds of global public goods that it has in the past.⁹ The fiscal constraints will in the future inexorably constrain the U.S. military role, although so far neither political party has been willing to confront budget realities. The Republican position that we will buy more and more multi-billion dollar aircraft while drastically curtailing our already sad infrastructure and education investment is cartoonish in view of modern strategic realities, but the Democrats'

⁹ This is very different from the common assertion that the U.S. is in decline, which I do not believe. The U.S. role relative to Europe and Japan is rising rapidly. China's rapid ascent may continue, but that is not assured, and global leadership will be possible only if the domestic political system evolves positively and if the current trend toward more conflicts with neighbors abates. It is doing very well so far at hard power but its soft power is currently declining. India's economy is much smaller, its economic leadership is much weaker, and its appalling social conditions and conflicts with most of its neighbors will counteract its drive for global leadership. Notwithstanding its elections, India lacks both hard power and soft power.

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**

positions aren't a great deal more realistic.

Conversely China is now a big power behaving in many ways like a small power. Its territorial claims are proportionately no more exaggerated than some of the smaller countries, but such a huge power carries proportionate responsibilities for solving problems. In the economic area, it is the same. China's currency policy, its intellectual property policies, its absurd phytosanitary restrictions on U.S. exports, its extraordinary use of cyber-espionage to gain technological and other trade secrets, its refusal to allow investigative audits of its companies that have listed abroad, and others are typical of small countries, not of countries that can command respect as global leaders. Above all, China's continuing perception of itself as a humiliated underdog needing to defend itself against foreign predators is now an obsolete caricature. These lags in maturity ultimately damage China more than they damage others, as they did Japan a generation earlier, so there is reasonable hope for change.

Japan has simply fallen out of the global leadership. Because it cannot manage itself effectively, others are unwilling to be led by it. Because, unwilling to reform for the future, it increasingly seeks to restore its sense of dignity by reinventing the past and increasingly provokes gratuitous conflicts with its neighbors, its regional leadership role is finished for the time being. Its financial mismanagement poses a threat to the region's economic stability, and U.S. enabling of Japanese right wing nationalists increasingly damages American ability to manage its relationships with China and Korea effectively.

The slow fading of U.S. leadership, the collapse of Japanese leadership, and the prolonged adolescence of Chinese leadership are problematic but not fatal. They are manageable. They do not necessitate violent conflict. At least in the U.S. and Chinese cases, they are not irreversible. The U.S. economy is far more resilient than most others, and a fiscal compromise could lead to very quick revival. China's new leaders understand the need for both economic and political reforms and could also restore Chinese vitality and regional relationships quickly. The operative word, though, for both countries is "could," not "will."

Vision and priorities

The greatest hope for U.S.-China relations and for the world is the reality that the world did change in the past century and continues to change in a way that enhances the successes of

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**

those countries which choose to focus on the opportunities for rapid economic growth and punishes those which rely on traditional military aggrandizement. The benefits of giving priority to economic rather than military competition include greater domestic cohesion, greater international stature, and, not least, an inspiring vision of the future that energizes everyone and rewards cooperative behavior.

The greatest threat to Asia is the trans-Pacific loss of reformist economic vision. Japan has completely lost its ability to project a positive vision of the future, based on sound economic management, that inspires its own people and restores Japan's image as a country worth following. The last team of China's leaders has risked losing sight of the reformist strategies, focused on creating a better life for China's own people, that have made China a big power and could most effectively make it a great power. China has visionary leaders who, if empowered, could make it *the* global leader, but they are currently confined to second-tier roles. The U.S. in turn risks muddling into a self-absorbed, interest group-driven, increasingly militarized view of international relations that could gradually erode both domestic prosperity and global amity. The case of the U.S. is particularly interesting. It never formulated explicitly a policy based on leveraging the Asian economic miracle, but its post-World War II leaders instinctively got the economic-military balance right. The erosion of that balance since 2001 has harmed both American democracy and American global stature.

The realization by the big Pacific powers of the scale of their opportunity, and of the gradual decay of their actual policies, is prerequisite to a revitalization of the Asian miracle and of continuing U.S. benefits from that miracle. The Asian miracle won the Cold War in Asia for the U.S., but Japan, China, South Korea, Indonesia, Thailand and others have been proportionately even bigger winners. The steady rise of South Korea's living standards and international stature as, unlike Japan, it continuously reforms both its economy and its politics, shows that the miracle continues for those who have the will.

Perhaps we could start with a determined economic integration drive, one that, unlike current competing proposals, will have to include the U.S. *and* China *and* Japan *and* South Korea, together with a determined joint environmental drive on a vast scale. That would take leadership that is currently lacking, but perhaps if we focus on the scale of the opportunities

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**

and the scale of the risks, we can jointly summon the required leadership. If we do these things, the rest of the world will follow.

*** The views expressed herein do not necessarily reflect the views of the Asan Institute for Policy Studies.**