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NEW DIMENSIONS OF CHINA-JAPAN-U.S. RELATIONS

CHAPTER I

Introduction: Prospects for a
China-Japan-U.S. Trilateral Dialogue

Scott Snyder

THE EXCHANGE OF SUMMITS between China and the United States, the Asian financial crisis, and the decisions by India and Pakistan to engage in nuclear testing redirected the security agenda of the Asia Pacific region in 1998. These developments underscored the difficulties inherent in the transition from the traditional approaches to security as defined by the cold war to a post-cold war structure of international relations in the Asia Pacific region. To varying degrees, China, Japan, and the United States are all being forced to address a new agenda based on the emerging priorities of the post-cold war era. However, each of these countries is unwilling to abandon the familiar and comfortable old structure, including the historical grievances, dependencies, and nationalist rivalries that defined relations in the past.

The major challenge is management of the positive transition to a stable and cooperative set of regional relationships while not inflaming the tensions of the past. One vehicle for addressing the problems of the future while simultaneously confronting past legacies would be a three-way dialogue among China, Japan, and the United States—the three countries with the greatest influence in the Asia Pacific region.

A sense of rapid change resulting from the Asian financial crisis and other unexpected events has resulted in a difficult environment in which to develop long-term strategy. However, the failure to articulate a strategy increases ambivalence among specialists and policymakers in China, Japan, and the United States, creating greater potential for misperceptions that might lead to miscalculation or misunderstanding.

For example, Chinese leaders recognize the importance of improving relations with the United States with an eye to avoiding the policy failures of Indonesia's political leadership while also looking over their shoulders at a Japan adrift: Beijing contends that leadership in Tokyo is desperately needed but worries that real leadership in Japan could lead to greater political and security independence that might challenge China's own future aspirations to regional leadership. Japan's economic muddle draws its political leaders inward just as its neighbors are calling for decisive leadership to pull Asia's economies out of stagnation. U.S. analysts weigh images of a China rising against the current formidable difficulties of economic reform with that country's limited space for political expression. To the extent that the respective political leaderships can shape policies rather than allowing their choices to be dictated by external circumstances, uncertainty regarding intentions and aspirations may be decreased.

CHALLENGES OF POST-COLD WAR LEADERSHIP

The state faces unprecedented challenges to its ability to provide leadership in the modern era. A widening array of nonstate actors have gained influence that can be used either to support or to challenge the central government's leadership. The understanding and careful cultivation of these new constituencies have become prerequisites for successful leadership, even in countries with relatively controlled political environments. As coercion is neither a viable nor a desirable option, state leaders must master the art of persuasion in both domestic and international affairs, wooing "coalitions of the willing" both to gain domestic support and to broaden support at the international level.

The exponential increase in the global flow of information and

capital has given increased prominence to new international constituencies—for example, the market and the media—as groups that must be cultivated to sustain political power. And the influence of perceptions may overwhelm substance as pressure increases to make significant policy decisions quickly and usually without all of the facts in hand. Ironically, these newly emerging constituencies must be both courted and resisted as part of a strategy for effective leadership. Consistency and vision are particularly prized because they appear to be in such short supply. Interestingly, newly emerging shared challenges to political leadership may provide a pretext for enhanced policy coordination among state leaders in China, Japan, and the United States.

The remarkable reversal of capital flows that occurred in conjunction with the Asian financial crisis constituted a major shock to the Asian economic infrastructure, unveiling secretive backroom business deals and putting a premium on transparency and the timely provision of accurate information as the new requirements necessary to build and maintain the confidence of global financial markets. Policymakers in Beijing must recognize that opening markets and eliminating corruption are necessary and inevitable; the issue is how to manage such a process orderly and efficiently. To the extent that policymakers in Tokyo or elsewhere have been unwilling to come clean regarding the extent of the crisis, it has only delayed prospects for economic recovery. And, despite some conspiracy theories targeting the U.S. Treasury as the evil manipulator of the global economic order, U.S. policymakers find themselves captive to market forces and are well aware of the dangers of recklessly exposing the limitations of their own leadership in cases where the market may be unwilling to follow.

Nonstate actors and nongovernmental organizations have reached across international borders to press their concerns more effectively. The global effort to ban land mines may be the most effective international example, but regionally the campaign for recognition and compensation from the Japanese government led by “comfort women” in China, South Korea, and Southeast Asia has influenced government policy formation in Asia. At the same time, the institutionalization of the World Trade Organization (WTO), even as China continues to negotiate the terms of its own membership, has

limited the freedom of unilateral policy action by governments, including the United States, replacing bilateralism with an international court for the equitable settlement of trade disputes. Although governments may attempt to limit citizen contacts across borders by regulating information flows through the Internet, globalization is "the wave of the future," and no country can resist it without paying the inordinate costs of isolation.

Domestic political constraints have limited effective cooperation at the international level. Political leaders in China, Japan, and the United States have found their freedom of action on the international stage constrained by domestic politics, such as the continuing popular Chinese resentment toward the history of Japanese aggression during World War II, the perplexities of perpetuating local pork projects contrary to necessary financial reforms in Japan, or the ugly politics surrounding sex scandals in Washington.

Ironically, the common challenges to governance may bring national leaders closer as they consider how to broaden the foundations of leadership despite these new challenges. Joint intervention by the Federal Reserve Bank and Japan's Ministry of Finance in June 1998 was stimulated partially by concerns that further devaluation of the yen might also cause China to devalue its currency, unleashing a new round of "beggar-thy-neighbor" currency devaluations that might trigger global deflation. Although China's decision not to devalue the renminbi may have been in its own economic interests, the Chinese leadership gained significant political benefits from stepped-up consultations with its neighbors and its reassurances that it would stand firm despite reduced foreign investment flows to the Chinese mainland. The United States has led a new round of financial consultations among the G-22 in Asia, simultaneously consulting on pressing issues resulting from the crisis and discussing adjustments in the global financial architecture that might stem the recurrence of such a crisis.

ENHANCED TRILATERAL COOPERATION OUT OF THE ASIAN FINANCIAL CRISIS?

The dilemmas posed by the Asian financial crisis have required enhanced coordination efforts involving the U.S. Treasury in dialogue

with its counterparts in China and Japan. Although many of these efforts have involved joint coordination and technical support to manage short-term macroeconomic responses to the challenges posed by the crisis, the United States has engaged in overt and indirect forms of *gaiatsu* to mobilize a response to structural problems of immediate concern, particularly in the case of Japan. Indeed, the crisis has revived the Asian values debate, with critics quick to point out shortcomings in the Japanese economic model.

Although the fundamental task in responding to the Asian financial crisis remains that of restoring confidence through transparency, strong prudential regulation, and the willingness to admit and allow the failure and restructuring of bankrupt institutions, the critical issues posed by the crisis may differ depending on the stage of economic development. For instance, China's long-term difficulties focus on the challenge of making its currency convertible while concurrently reforming inefficient state-owned enterprises; the Asian financial crisis has narrowed the margin of error for successfully managing this task while signaling useful lessons for China to avoid from the Japanese and South Korean experiences. Crisis impels progress in instigating reforms necessary to move to the next stage of development, at which point a country might face different types of crisis and new imperatives for reform, as the Japanese situation suggests.

Although coordination has been the theme of consultations between economic officials in China and the United States, *gaiatsu* has been the byword that describes the much more intertwined and deeper level of consultation between the U.S. Treasury and the Ministry of Finance. External pressure from the United States is partially a result of America's profound interest in having Japan deal with its problems so as to halt the contagion effect on the global economy, including the United States. Thus, pressure in the current crisis is more a feature of the closeness of Japan-U.S. relations than a symbol of fraying or distance. Also, U.S. pressure has become a familiar and expected part of the Japanese policy-making process. Domestic constituencies in Japan that favor reform need external support to overcome the entrenched self-interests of a bureaucratic structure that, although highly successful in the past, has failed to choose correct macroeconomic policies in the 1990s.

Does Japan's current stagnation presage the failure of the Asian

economic model for growth? And are Japan's current economic difficulties insurmountable? Observers are encouraged to look beyond the vagaries of the business cycle. During the 1980s, the United States was in the economic doldrums as a result of its savings-and-loan crisis, whereas Japan and others provided a small measure of reverse *gaiatsu* through criticism of the ballooning U.S. budget deficits. Japan's economic performance in the 1990s may be similar in many respects, but Japan should not be counted out in the future.

Likewise, the debate over the role of government planning or public subsidies as a means by which to target or enhance economic performance and efficiency will not likely be settled soon. In some cases, public regulations fetter the efficiencies of the market; however, government must provide regulatory oversight in such a way as to enhance those efficiencies and augment national competitiveness. The debate over how to reform the regulatory architecture for managing global capital flows reflects the same debate over the extent that regulatory mechanisms are necessary or desirable. Would intervention to determine a fixed yen/dollar exchange rate, for instance, resolve the current crisis of confidence, or would the inefficiencies that might result actually limit the potential for additional capital formation needed to escape the crisis? In reality, the Asian and U.S. models are mixed, as are the various contrasting organizational cultures even within the same industrial sectors in the United States; for example, the East Coast high-tech organizational culture is different and less efficient than that of Silicon Valley, which, at first glance, seems to share more Asian characteristics.

To address the long-term economic and financial problems more effectively, coordination mechanisms should be established that include all the right players. China's admission to the WTO might be one step in that direction, if leaders in Beijing can effect the necessary internal economic reforms to meet qualifications for WTO membership. Given China's emerging importance and its responsible, if self-interested, economic behavior in response to the Asian financial crisis, would China's inclusion in the G-8 make that organization more effective? Is the current level of consultation among Asian financial and banking officials sufficient? In addition to China-U.S. consultations over economic matters, should Sino-Japanese

economic consultations be stepped up on a wider variety of issues, or would a trilateral economic discussion of regional trends be of value?

TRILATERAL COOPERATION AND REGIONAL SECURITY ISSUES

In principle, it is in the interest of China, Japan, and the United States to cooperate in efforts to resolve and prevent regional conflicts, for example, on the Korean peninsula and in South Asia, as well as to ensure that cross-strait differences between Beijing and Taipei do not escalate tensions that might draw in external actors such as the United States to keep the peace. In practice, however, uncertainties about the future may limit practical cooperation measures in areas where long-term national interests may conflict. Indeed, major power cooperation might hinder progress if directly concerned parties feel that their own interests are being ignored.

China, Japan, and the United States have a near-term interest in maintaining stability on the Korean peninsula. In fact, neither of the two Koreas seems eager for sudden or destabilizing events that might lead to German-style reunification in the aftermath of the Asian financial crisis and the election of South Korean President Kim Dae Jung. However, major power cooperation in managing policies toward the Korean peninsula currently takes the form of complementary and reinforcing parallel actions rather than direct or institutionalized coordination.

For instance, the Korean Peninsula Energy Development Organization (KEDO) is an international organization formed to provide light-water reactors to North Korea in return for the dismantling of North Korea's nuclear weapons program. Japan, the United States, and South Korea are core members, and the European Union has also joined. China, which also supports a nonnuclear Korean peninsula, claims that its contributions are most effective outside of KEDO. China's major food relief contributions are widely perceived as essential to perpetuating North Korea's survival, but they have been provided independent of international efforts through the UN World

Food Program. Japan, on the other hand, has been a remarkably passive actor—excepting its participation in KEDO—providing virtually no food assistance to North Korea despite its large rice stockpiles. In addition, Japan is excluded from the Four-Party Talks, even though Japan might be expected to provide financing to support a Korean peace process.

The challenge to the global nonproliferation regime posed by nuclear testing in India and Pakistan has also created opportunities for international consultation among China, Japan, and the United States. The “danger and opportunity” inherent in the South Asian nuclear crisis has, however, been poorly exploited, demonstrating the difficulties and potential for missteps that can accompany dialogue from which interested or reluctant parties are excluded.

Some observers have questioned whether the China-U.S. joint statement condemning South Asia’s nuclear tests might have been premature in the absence of a broadly supported international formula accepted by India and Pakistan that effectively addresses proliferation issues. Without such a formula, a constructive process for managing the effects of proliferation in South Asia seems unlikely. Likewise, China’s decision to exclude Japan from the UN-sponsored effort to draw the UN Security Council nuclear “haves” into a dialogue on nonproliferation that would also include India, Pakistan, and Israel constitutes a failure to enhance trilateral dialogue opportunities. Excluding Japan, which has shown responsibility by foregoing nuclear weapons development efforts, from international proliferation dialogue efforts is shortsighted because it punishes Japan for voluntary adherence to the values of the nonproliferation regime and reinforces the notion that nuclear weapons development is indeed a prerequisite for gaining leadership in international conclaves. A coordinated trilateral approach by China, Japan, and the United States that seeks to engage South Asian nuclear powers in confidence-building regimes and otherwise seeks to dampen South Asia’s regional tensions might contribute constructively to international nonproliferation efforts.

Finally, cross-strait relations remain a sensitive issue in Beijing with ramifications for trilateral dialogue; indeed, Taiwan’s leaders must also be constructively engaged for such consultations to bear fruit. To the extent that cross-strait relations improve, one might

expect the Taiwan question to become less important as a subject of dialogue among Beijing, Tokyo, and Washington. However, it continues to be one of the most sensitive issues in China-U.S. and Sino-Japanese relations because it has been politicized and has taken on significance in political debates in all three capitals. The competition for support in international forums between Beijing and Taipei internationalizes the issue, yet Beijing continuously warns against "outside interference" on cross-strait relations.

Trilateral dialogue on this sensitive issue is valuable precisely because Taiwan represents the unresolved historical legacy of great power conflicts in Asia in the twentieth century, originating from the Sino-Japanese War of 1894-1895 in which Taiwan became a protectorate of Japan. And Taiwan's return to China was in the view of many in Beijing thwarted by U.S. cold war intervention and the heating up of the Korean War, as a result of which Mao Zedong failed to gain absolute and unconditional victory over the Chinese nationalists, leaving China divided. Resolution of such deep differences will take time and can only occur through careful consultations.

SINO-JAPANESE DIALOGUE

As the weakest bilateral link in the triangular relationship, Sino-Japanese cooperation may require special efforts to improve and broaden the agenda. It is particularly important that the recent warming of relations between Beijing and Washington also be reflected in Sino-Japanese relations; otherwise, China might become a controversial issue in Japan-U.S. relations. In fact, President Bill Clinton's sustained attention to China has become an issue requiring reassurance and explanation by U.S. officials visiting Tokyo.

The central task for Chinese and Japanese policymakers will be to define expectations for the future of Sino-Japanese relations in the context of other Chinese relationships. The agenda for such a relationship must be defined more broadly and more strategically than simply returning to the issues of Japan's historical legacy and Taiwan. It also requires the active development and articulation of a clear Japanese diplomatic strategy for overcoming historical legacies and managing more normal relationships in the region. How Beijing and

Tokyo might develop a common agenda that contributes to the perpetuation of peace, prosperity, and stability in the Asia Pacific region could be a key factor in determining the shape of regional relations in the twenty-first century.

CONCLUSION: PSYCHOLOGY OF TRILATERAL RELATIONS

The Asian financial crisis, the South Asian nuclear tests, and President Clinton's June 1998 visit to China appear to have drastically changed the context for discussion of trilateral relations, but these events underscored the fundamental premises behind the need for a three-way dialogue. In particular, concerns regarding the collateral effects of efforts to "demonize" China in Japan and the United States that were of concern in previous trilateral discussions have given way to questions about whether the United States might make a strategic choice to downplay or abandon its close security and economic relations with Japan in favor of a broadened and deepened relationship with a rising China in the next century. The facts suggest that to view U.S. options in these terms is both a false choice and, at best, a premature and unwise consideration under current circumstances. A deeply intertwined Japan-U.S. security relationship is based on decades of economic, security, and political investments, and shared democratic values. Japan-U.S. economic ties dwarf the China-U.S. economic relationship, even if China has caught up with Japan in terms of a bilateral trade surplus with the United States.

Perhaps more significant, manifestations of China's rise, particularly if it is perceived as having come about at Japan's expense, will raise questions regarding whether the ultimate objective of a trilateral dialogue is to develop equidistant tripartite relations or to reinforce current bilateral relationships while maintaining the status quo, in which the Japan-U.S. security relationship would always be shorter than the China-U.S. side of the triangle. Although such long-term direction will likely be influenced by domestic political activity or by the emergence of new regional challenges, trilateral dialogue is an appropriate outlet through which to increase confidence-building measures and enhance transparency among all of the parties precisely to

forestall the suspicions that might develop if only bilateral contacts are fostered. In the case of either the perpetuation of the status quo through continued preeminence of Japan-U.S. security relations or the possible long-term development of an equidistant tripartite relationship in which Japan would become a more independent actor, the development of a sustained trilateral dialogue will be necessary to manage the psychology of trilateral relations so that one party does not feel that developments in bilateral relations are coming at the expense of any third party. The provision of such reassurance is the foremost task of such tripartite cooperation. Clearly, a need exists to further develop a constructive trilateral dialogue among China, Japan, and the United States.