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CHAPTER III

# Economics, Security, and Asian Stability after the Crash

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PITY THE ANALYST of East Asian security. The collapse of the Soviet Union destroyed much of the conceptual architecture that governed international security analysis from 1945 to 1991. But analysts of Asia Pacific security have had to contend with the demise of not one, but two, distinct cold wars. Each has left its distinct imprint on the shape of the present-day security challenges in the area. And whereas Europeans in the period since the collapse of Soviet power have sought to confront a security situation shaped by four decades of bipolarity, the division of the continent, and alliance patterns between two major blocs, Asia saw two successive phases of cold war–related strategic conflict in which shifting alliance patterns produced distinct security challenges.

The first of these two phases of the cold war in Asia lasted roughly from 1950 to 1960 and pitted the United States and its regional allies against a presumed Sino-Soviet bloc. Legacies of this initial phase include today's Taiwan and Korea problems and the security architecture of the Japan-U.S. alliance. After 1960–1961, in the wake of the Sino-Soviet split, new relationships (and new lines of cleavage) emerged to shape the security problems that confront Asia today.

These legacies include the China-U.S. and Sino-Japanese relationships and two related processes of economic integration—that of the Chinese economy into the region, and that of the Asia Pacific region into an increasingly interdependent and globally connected world of manufacturing, finance, and trade.

Although many security problems from both phases—particularly the Taiwan and Korea problems from the first—are still with us, all have changed fundamentally over the past decade.

For example, China and Taiwan continue to argue about their relationship and routinely trade rhetorical barbs. However, they also trade goods and exchange delegations to discuss common aspects of their economic and political future.

The Korean peninsula remains divided and a formal peace agreement still seems far off. Yet the two Koreas have conducted symbolically significant, if substantively inconclusive, government-to-government negotiations. A former dissident, once condemned to die, rules from the Blue House in Seoul, and a generational transition appears to be under way in Pyongyang. The founder of one of South Korea's leading *chaebol* conglomerates has traveled to North Korea in search of trade agreements. In part because of the failure of inter-Korean dialogue, the four major parties to the Korean War have undertaken several rounds of negotiations (sometimes at cross purposes). The United States and North Korea—antagonists for more than forty years—have negotiated a framework agreement on technical and political aspects of nuclear weapons and energy issues. The Korean Peninsula Energy Development Organization (KEDO), an administrative organization created out of that agreement, has been operational since August 1997.

In Southeast Asia, the United States and Vietnam, antagonists in Asia's last great hot war of global scope, have exchanged ambassadors. The Indochinese states—and even Myanmar—are full-fledged members of the Association of Southeast Asian Nations (ASEAN), with a seat in the region's councils of power and prestige.

Clearly, the conceptual architecture that has long governed the analysis of East Asian security has changed in potentially significant ways. And yet, if specific problem areas such as Taiwan, the Korean peninsula, and theater missile defense (TMD) have gained new

urgency as truly regional, not simply cold war, problems, what once seemed to be purely economic and financial events of recent years have changed the playing field yet again.

## The Promise of a Stable Future

Increasingly, the central problems in regional security dynamics seem connected to the recent economic and financial crises. To scholars of international relations this should come as little surprise. The connection between economics and security is among the oldest and most significant in theorizing about the global order. At various times in history, economic depression has exacerbated existing security tensions, while depression and plunging growth have fed military crises and the redrawing of the strategic balance.

Although narrowly defined security problems, such as TMD, are obviously critical to Asia's future, the region's present economic predicament bears direct consideration by those concerned with security and political relationships, not simply those worried about straightforward economic and financial issues.

This chapter details some analytical connections between economics and security in contemporary Northeast Asia and rejects analogies to earlier periods of global economic turbulence that have produced security tensions and led to international crises. Some recent writings on Northeast Asian security have emphasized potential conflicts and the notion that the region is "ripe for rivalry." If this were true, the economic crisis could be expected to make such tensions worse. History, after all, clearly shows that economic crisis can exacerbate strategic divisions. Indeed, there is a growing pessimism about Asia on this score among specialist and nonspecialist observers alike.

The central argument of this chapter, though, is that contemporary East Asia may fare far better than many pessimists expect. The security problems of the economic crisis are manageable in this case, in large part because the configuration of factors that have seemed to produce security tensions out of economic despair in the past do not exist in East Asia today.

HISTORICAL ECONOMIC-SECURITY LINK NOT APPLICABLE

These factors have usually included the following:

- Prior existence of irredentist claims by major states on each other's territory. Irredentist claims exist in contemporary East Asia, but those by major states, such as China and Japan, on each other's territory do not concern core areas.
- Lack of an outside guarantor to encourage coordination and mediate regional tensions. Despite nativist and isolationist sentiment (and a debate about forward deployment of U.S. forces to the region that will likely grow more intense), the United States seems inclined to play the role of outside guarantor in contemporary East Asia in a way that it did not in Europe in the period between the two world wars. This may change over the long term, especially if Korean reunification becomes possible. But as Asia seeks to weather the current phase of economic crisis, the U.S. role as guarantor remains secure, providing a significant difference from earlier periods of economic and security tension in international history.
- States' pursuit of "beggar-thy-neighbor" resource and trade policies as a solution to their problems of economic crisis. East Asian states do not seem likely to adopt beggar-thy-neighbor economic strategies in response to the current financial crisis. Indeed, there appears to be a strong sense among Asian leaders that their national futures are linked to a stable regional and global future. An interwar-style grab for resources, particularly for those under the control of other states, does not seem likely as a solution to current and future problems.
- Absence of open global export markets, encouraging cycles of ever-greater protectionism by states facing economic collapse. Despite protectionist sentiment that may well grow if trade deficits balloon as U.S. exports to Asia taper off, U.S. markets are not likely to be closed to Asian exports. This will provide an important export outlet as the region seeks to weather its current difficulties and should reinforce the tendency to reject beggar-thy-neighbor policies.

Today's connection between economics and security is thus a comparatively hopeful one in many important respects. And when viewed

in the context of changing China-Japan-U.S. relations, the prospect of security risks intensifying due to the current round of economic difficulty and its aftermath seems far less dire than some have predicted. Most important for the trilateral agenda, China-Japan-U.S. coordination on issues directly connected to the economic crisis may in fact yield a measure of coordination that could prove useful for handling security matters down the road.

## U.S. ROLE CRUCIAL TO REGIONAL ORDER

In the short to medium term, the regional challenges for the United States are perhaps greater than for any power in East Asia. The United States must take an active leadership role in the region, and the forces of protectionism must be challenged head-on by advocates of openness in U.S. trade policy. At one level, this is a conventional position among observers of East Asian international relations. But it takes on new meaning and urgency when viewed specifically from the vantage point of historical analogues to today's economic crisis and the potential impact that such crises have had on security tensions throughout history. Asia has many advantages in this regard. However, two of the contemporary structural advantages outlined above depend, first and foremost, on continuing U.S. activism: its willingness to act as an outside guarantor within the region, and its commitment to markets that will remain open to Asian exports. A strategic and politically astute U.S. assertiveness—one that is sensitive to Asian nationalism and pride—is critical to medium-term regional stability. It is precisely the existence of these structural conditions that makes Asia's present economic and security experience so different—and so much more hopeful—than that of more unfortunate periods in international history.

This chapter has five sections. In the next, I consider how the economic crisis has forced a reexamination of several points of debate about the structure of power in East Asia. A third section considers the present against historical analogues along the four dimensions laid out above. The fourth section raises several problem areas related to the management of security relationships in Northeast Asia. The final section of the chapter asks whether the pursuit of realpolitik goals by the trilateral countries might have dangerous effects.

## Reconsidering Assumptions

In the wake of the economic crisis that has hit Asia full force in the last years of the 1990s, narrowly defined security issues of course remain critical throughout the region, especially among the trilateral countries of China, Japan, and the United States. Yet the economic crisis has had a variety of broader political implications that bear directly on some of the underlying assumptions that have long been made about security problems in the region. These implications include what the crisis means for various countries' external roles, their ability (and willingness) to exercise forward-looking leadership, and the ability of their leaders to focus on security problems given the short attention span of political decisionmakers preoccupied with economic matters.

On one level, the crisis thereby shows how much has changed during the past several years as a direct result of economic events in East Asia. First, this is because of the implications for attention to security problems and regional leadership. But most important, it is because—at a minimum—the financial crisis forces us to question some fundamental assumptions that have governed popular discussion of East Asian security and the China-Japan-U.S. relationship.

### CHANGING POWER REALITIES

The first of these assumptions concerns the structure of power in the region and the changing relationship between relative power and the exercise of regional leadership. Prior to the economic crisis and throughout the 1990s, much popular and specialist opinion suggested a strong sense of "drift" in East Asia, particularly in relationships among China, Japan, and the United States. This found resonance in popular discussion, particularly in works by nonspecialists such as James Fallows (1994), but also in the work of some long-time specialists on Asian issues.

At its most essential, this drift was thought to reflect an inevitable time lag as new relative power realities reshaped relationships forged in a period when the structure of power in the region was different.

In this view, Japan, for example, was thought to be in the ascendant. Its economic and financial influence in Asia were gradually becoming

a dominant feature of the regional political economy. A robust debate ensued over the possible evolution of a "yen bloc" in the Asian economies. Over time, some argued, this would require that Japanese political and perhaps even military influence eventually fall into line with new power realities derived from economic influence.

Thus the Japanese commentator Soeya Yoshihide (1998) and others argued that Japan has long possessed a complex dual identity within the Asian security environment. To most Japanese, he has suggested, the postwar experience essentially vitiated the country's role as an independent security actor in the region. However, "the realities of East Asian security . . . have not allowed Japan to enjoy this luxury entirely" (4). Thus, the country must inevitably take up some of the burdens of regional leadership for a series of reasons: geopolitical realities; Japan's latent great power potential; its ability to become a nuclear weapons state in a relatively short period of time; its advanced dual-use technology base; and the discrepancy between Japan's economic power and its weak political role in the region.

As Soeya and others predicted a Japanese political-military resurgence, the United States, though an obviously important economic and military force, seemed increasingly plagued over the 1990s by a distinct lack of political (and budgetary) will that would inevitably affect its leadership role in Asia. China, the third party in the trilateral interaction, was widely considered in pre-economic crisis analysis to be a non–status quo power whose ascendance, unlike Japan's (which was thought by many analysts to be conservative and status quo–preserving), might lead to a direct challenge to the prevailing East Asian order. Much was made, for example, of Chinese saber rattling in the South China Sea and the Taiwan Strait. Thus, despite considerable caution and sometimes out-and-out hostility to this "non–status quo" view from many specialists (see Yahuda 1993; Lampton 1997), many strategic analysts argued that China would prove a difficult partner in regional leadership (e.g., see Milhollin 1997). Even the more optimistic assessments nonetheless worried about the non–status quo aspects of Chinese policy.[1] In these views, much of China's foreign policy seemed based on probes designed to test the limits of others' resolve and to discover the limits of China's flexibility to maneuver in flaunting the status quo (Gregor 1996). One polar argument suggested that China's core strategic goal was simply

to replace the other two regional leaders: an increasingly distracted United States, preoccupied at home and uninterested in the substance (as opposed to the rhetoric) of global leadership; and a Japan on the ascendant within its region but constrained by the United States, by its Peace Constitution, and by its limited resource base.[2]

By the end of 1998, the economic crisis had called into question many of these assumptions about the fundamental strategic balance in East Asia, at least in the short to medium term. The potentially "loose cannon" of Chinese policy and the notions of Japanese "ascendance" and U.S. "retreat" received prominent play in the popular debate, and by Fallows and others, in the period leading up to the crisis. Yet as the Asian financial system tottered on the brink of collapse, the crisis suddenly made the United States again appear robust within the region. Washington, or at least its Treasury and central bankers, took on the look of a leader whose actions were tempered by a certain caution, yet which, at the moment of highest crisis in 1998, seemed aggressive in filling a vacuum left because of limits to the International Monetary Fund (IMF) and the absence of leadership from other countries in the region.

By contrast, Japan's postcrisis turn inward—its preoccupation with domestic problems and the weakness of its government—raised new questions about the evolution of a broader political-military role for Japan in the Asia Pacific region. Indeed, Tokyo was roundly condemned within Asia for its failure to put its own economic house in order. Despite initial enthusiasm for a Japanese proposal to create an Asian IMF (a proposal that failed to receive U.S. support), the perception of comparative inertia remains widespread throughout Asia, and no wonder: market-opening issues remain secondary to budgetary matters; Japan's banking system continues to totter on the verge of insolvency, despite the announcement of measures designed to address elements of the problem;[3] and tax reduction, reflation, and a stimulation of consumer demand that might boost Asian exports to Japanese consumers remain uncertain items on the government's agenda. Indeed, if the Hashimoto government seemed lackluster on these issues, the Obuchi government, too, seems unwilling to tackle these problems through a concerted frontal assault.

Finally within Asia's great power triangle, China's response to the crisis was widely praised, including by the U.S. secretary of state, who

held it up as a beacon of regional leadership (Albright 1998; Albright and Tang 1998). After nearly five years of sustained debate about China's inclination to take down the pillars of the regional status quo, this made China appear to be a somewhat more conservative power than many such arguments had initially implied. In fact, Beijing proved to be particularly active in promoting a regional response to the financial crisis, and raw Chinese self-interest converged with regional interest during 1998 to push Chinese policy in this direction. For example, Chinese efforts included moves to counter Taiwan's attempt to convert cash and comparative prosperity into political capital in Southeast Asia, where Taiwanese business made considerable inroads throughout the 1980s–1990s (e.g., see Feigenbaum 1995, 41–50). But whatever Beijing's motivations, China's response to the crisis was widely welcomed in a region hungry for a concrete demonstration of constructive Chinese leadership. It also bought Beijing considerable political capital. The Chinese government pledged US$1 billion to the Thai bailout. It promised to maintain the Hong Kong dollar peg. For the moment, at least, Beijing also continues to hold the line on the value of the renminbi.

## AGENDA SETTING

A second assumption that governed much popular discussion about Asian security in the period leading up to the economic crisis was that the economic issues of the region were, in some sense, "settled," with security problems now likely to move to the forefront of the regional agenda. Analysis often contrasted Asia with Europe, where economic integration seemed to be promoting a new security order of peace and cooperation. In Asia, by contrast, security problems appeared to some commentators to belie a growing economic interdependence. Thus the breakdown of the cold war order and the evolution of a multipolar power structure could prove destabilizing, as it had throughout much of international history. A multipolar Asia, one important study therefore argued, was "ripe for rivalry," its prospects for peace far dimmer than in Europe, where integration was more intense and could check the distortionary effects of multipolarity. Almost inevitably, security would thus become a key focus of regional leaders and potentially undermine long-range progress

toward cooperation and economic interdependence (see e.g., Friedberg 1993/1994 for an eloquent expression of the multipolar ripe-for-rivalry view). But in effect, the economic crisis had a curious impact here, pushing security problems off the top of the regional agenda as key security problems neither were solved nor disappeared.

## Economic Crises and the Lessons of History[4]

A change of assumptions in these two areas ties directly into the implications of the financial crisis for Asian security: What are the prospects for the regional roles of the trilateral countries? What is the relationship between economics and security on Asia's agenda at a moment of great potential instability?

These questions are lent special appeal and urgency because there can be little doubt that Asia's current economic crisis remains dire. South Korea and Thailand appear well on the road to a recovery down the line. However, many financial analysts remain overwrought over the long-term prospects for Japan's main banking system. Harvard economist John Kenneth Galbraith (1998) has called today's global economic situation "the worst economic crisis of recent time, certainly the worst since World War II." Moreover, Galbraith implicitly suggests that renewed short-term confidence may ultimately prove false. Galbraith has offered explicit analogies to the late 1920s, comparing certain aspects of contemporary U.S. policy in the international economy to the "amiable indifference" of Calvin Coolidge and the false assurances about "sound fundamentals" of his successor, Herbert Hoover.

The depth of Asia's current crisis thus raises inevitable questions about the connection between economic crisis, resurgent nationalism, and security dilemmas. But it is the central argument of this chapter that the crisis will be unlikely to have negative implications for regional security.

There is, after all, a natural tendency to see in Asia's current crisis, as Galbraith does, analogies to earlier periods of global economic difficulty. This is particularly true of the interwar period when the connection between economic depression, domestic instability, rising nationalism, and security tensions had become particularly

pronounced by the end of the 1930s. Not surprisingly, some have viewed Europe's past as a cautionary tale for contemporary East Asia. And this is especially the case if one accepts (as many do) the main premises of the ripe-for-rivalry argument—namely, that post–cold war East Asia, unlike post–cold war Europe, is fraught with unresolved security problems, old hostilities, latent tensions between China and Japan, rising nationalism, considerable potential for an arms race, an uncertain U.S. role in the region, and thus a drift toward true multipolarity.

In fact, however, the interwar case is instructive as a conceptual analogy *not* because it is analogous to contemporary East Asia but because it offers a useful comparative parallel of precisely what is likely to go right as East Asia weathers its current crisis. This cannot but be helpful as we consider the impact of fragile economies, weak governments, and domestic instability on security tensions in the region.

## NATIONALISM AND IRREDENTISM

There are, first, fundamental differences between the two cases associated with irredentism and nationalism. The notion that economic collapse can feed virulent nationalism, especially when associated with fragile domestic politics, is an old one in international relations. It found special resonance in interwar Germany, where it became closely associated with the attempt to enforce irredentism claims.

It is not surprising, then, that serious analysts of East Asian security should have looked to outstanding territorial conflicts as a source of future tension. Among those analysts who are less subtle, the analogy to Germany is sometimes made directly, particularly the notion of a "rising" Germany hegemony that sought to challenge British, French, and American power in the 1930s–1940s. This has been used as an analytical framework for considering China's role in the emerging Asian future. However, more nuanced analysts, by contrast, tend to frame the problem simply in terms of rising Asian nationalism, particularly that of China, which does have a latent irredentist streak associated with the Senkaku/Diaoyu island chain in the East China Sea and the Spratly Islands in the South China Sea.

But the interwar European and present-day Asian cases are

different in some instructively fundamental ways. In Europe, core security problems not only preceded dire economic crisis but were virtually irreconcilable absent major changes in the security order and the redrawing of key borders. German demands and claims were, in many ways, mutually exclusive of those of France, Poland, and Czechoslovakia. Recent scholarship on interwar Germany has shown that even some of the most liberal voices in the Weimar state echoed National Socialist enthusiasm for irredentist claims on Austria. Meanwhile, German rearmament and a fundamentally altered security order were, for nearly all German political constituencies, the baseline conditions for a renewed German political role on the continent.

Much, then, is now made of China's irredentist claims to Taiwan, the Paracels, the Spratlys, and the Senkaku, and rightly so. Taiwan, in particular, presents perhaps the stickiest problem for future East Asian security. Yet none of the major powers of East Asia insist on core claims to each other's borders. And while the recent economic crisis has arrived on the heels of regional troubles on the Korean peninsula and in the Taiwan Strait, these by no means reflect the kind of fundamental security problems that forced the major powers of Europe to make claims on each other's territory and resources in decades past.

In short, Asian irredentism does exist. Yet it is of a decidedly more benign sort than we have seen in international history. Moreover, current Asian irredentism is on a smaller scale than in the past and seems restricted to more peripheral territorial claims. Only the Taiwan problem qualifies as an outstanding claim on a major chunk of territory. Yet no other great power's *own* territorial claims are affected by the dispute, and, in any case, there are reasons for optimism. After all, the dispute between China and the other major powers over Taiwan is not so much about the substance of China's claim as about the process through which that claim is to be arbitrated and resolved. Japan and the United States officially acknowledge the existence of a single China; even those in both countries who sympathize with the yearnings of some in Taiwan for greater local sovereignty do not deny that China has at least *some* historical basis to make a claim to ultimate sovereignty over the island. For Japan and the United States, then, at least in public and official business, China's threat of force—the

issues of mechanics and process—is the key matter at stake, not the substance of the claim.

In this regard, it seems especially encouraging that the recent visit to China of Koo Chen-fu, chairman of Taiwan's Strait Exchange Foundation, has renewed the cross-strait dialogue. President Jiang Zemin's visit to Japan offers additional hopeful signs, and China and Japan seem disinclined to bring the Senkaku/Diaoyu problem to a head, whatever pressure latent domestic nationalism may exert. Indeed, as Richard Betts (1993/1994) has so aptly pointed out, for the first time in more than a century each bilateral relationship among the five dominant powers in the Asia Pacific region—China, India, Japan, Russia, and the United States—is peaceful.

Thus, while economic crisis has fed fundamental and irreconcilable security tensions between major powers in multipolar settings in the past, this hardly seems the case in contemporary East Asia. Irredentism remains focused at the margins, on peripheral claims. In fact, with the exception of Taiwan (which is, in many ways, sui generis as a territorial problem for Chinese leaders) and the Northern Territories (where Russo-Japanese conflict seems likely to be resolved at the bargaining table rather than by military means), the major powers seem to have found ways to dampen their most important disputes on outstanding territorial claims.

## THE UNITED STATES AS GUARANTOR OF LAST RESORT

The continuing existence of the United States as an ultimate guarantor of security order in the Asia Pacific region is also important when framed in the context of economic and diplomatic history. This does not, in any sense, imply that a specific or particular form of security order must remain in place over the longer term, including the present alliance and security structure in East Asia. But throughout international history, where no outside power has been in a position to interpose itself between regional powers with conflicting nationalist and security goals, tensions have grown.

This, then, provides a second comparative analogue to Europe between the wars, when the international economic system weathered its last great crisis but the United States all but withdrew from

regional affairs, leaving European antagonists to work through fundamentally unworkable security problems without an outside guarantor. Today, despite isolationist sentiment in certain U.S. political circles, U.S. activism on financial and economic issues bridges the two-party divide and seems intact. And when framed in the context of past economic crises and security spirals, this provides much reason for optimism.

In fact, the greatest danger to U.S. input on economic matters seems to be the potential for (and U.S. fear of) a nationalistic backlash within the Asia Pacific region (see e.g. Snyder and Solomon 1998). However, the importance of a high-profile U.S. role seems clear to policy elites in the United States and is accepted—though not always in the same form—in Beijing, Tokyo, and Seoul. Clearly, then, the U.S. role as an outside guarantor lends an atmosphere of stability to regional affairs. Restraints on an independent security role for Japan remain important to China, and perhaps to others in the region. How difficult, then, would a post–Japan-U.S. alliance environment prove to be? Here, one sees the basis for major power accommodation on many security issues, but only so long as the U.S. role as a conventionally benign hegemonic power remains in place. As I have argued elsewhere, a large-scale U.S. military presence on the seas, in particular, keeps rivalries in check by discouraging the expansion of Japan's military power (Feigenbaum 1999a).

Although some regional elites may therefore wish for a reduced U.S. role in Asian security, restrictions on forward deployments, and a change in regional alliance and security relationships, that role seems more important than ever in a region burdened by economic crisis. For the moment, at least, the continued existence of that guarantee also sharply distinguishes present-day East Asia from earlier periods of history that have coupled economic crisis to latent security tension.

## COORDINATION VERSUS BEGGAR-THY-NEIGHBOR MERCANTILISM

There is a third structural reason for optimism about the security implications of Asia's economic crisis. It concerns policy dynamics. One of history's most durable lessons is that when economic crises

are solved through trade policies that seek relative gain at the expense of others, downward spirals of recrimination and political competition often ensue. Sometimes, as in interwar Europe, this takes the form of a forcible grab for the resources of rivals, and existing disputes over resource-rich regions in East Asia certainly bring this issue to the fore.

It is true that economic nationalism has long been a force in East Asia. The American political scientist Richard Samuels (1994), for example, has argued forcefully that "mercantile realism" remains a driving force in Japanese economic policy. In other work, I have also argued that relativistic, nationalist impulses once linked important aspects of Chinese economic policy directly to security concerns, particularly during the Mao Zedong era (1949–1976) (Feigenbaum 1999b). In both Japan and China, this has been particularly evident with respect to technology policy which, in both countries, focused on the acquisition of "strategic" technologies to enhance relative international standing and national economic competitiveness.[5]

Today, however, doses of mercantilism and nationalistic efforts to foster local technology are in no sense the conceptual equivalent of the beggar-thy-neighbor economic nationalism that vitiated efforts at regional policy coordination in earlier periods of international history. Unlike interwar Europe, where protectionism intensified in response to the economic crisis, today's Asian crisis seems to have reinforced elements of a "rise together, fall together" mentality. Robert B. Zoellick (1998), a former U.S. state and treasury department official, has noted that efforts at regional and global trade liberalization have entered a period of distress. The Mercosur countries of South America (Argentina, Brazil, Paraguay, and Uruguay), for example, have increased common external tariffs in response to Latin America's economic crisis by 25 percent (from 12 to 15 percent). And, of course, competitive currency devaluations might lead to intensified competition and political recrimination.

Still, while pledges to implement World Trade Organization financial services and sectoral liberalization agreements have been put on hold, governmental responses to the crisis thus far provide evidence that Asians are unlikely to choose market closure as a long-term solution to current problems. For example, South Korea's government, in particular, has begun to make painful, yet promising,

changes to its domestic economic structure. Recent steps by the Thai government also mirror a domestic-oriented approach to economic reflation. In Japan, the Obuchi government, however tentatively, has made domestic restructuring, not externally oriented protection, the cornerstone of its economic program.

There is little evidence, then, that resource constraints are viewed by Asian leaders as a significant factor inhibiting continued growth. And particularly because Asian irredentism is focused on peripheral territories, not core resource-producing areas (as was the case with Japan's grab of Manchuria and Southeast Asia in the 1930s and 1940s), the prospects for cooperative resource development also seem promising. While the Spratly issue, of course, remains difficult, China has made noises about joint development. Moreover, Chinese claims to the Spratlys, however rigorously they are enforced, may say more about rigid Chinese sovereignty values than about broader strategic trends and are not necessarily inconsistent with the U.S. role in Asia's sea-lanes (Feigenbaum 1999a). The Spratlys also offer no solution to the economic problems that the Chinese and other Asian governments will face in coming years.

## EXPORTS AND POLITICAL PRESSURES ON THE ROAD BACK TO PROSPERITY

One final cause for optimism is the continuing commitment of U.S. leaders of both political parties to open markets. This economic role directly parallels the U.S. political role as a guarantor of regional security. It has become increasingly clear since mid-1998 that tension in this area is likely to grow in the years ahead. Manufacturing sectors that depend heavily on exports to Asia will likely see dips in earnings. Trade deficits may balloon. There will be pressure on the Federal Reserve to nudge up interest rates. There is also considerable potential for a political backlash within the United States. In short, the notion of a free ride for troubled Asian economies to export their way back to prosperity will be unpopular in the United States. And in any case, the United States cannot stand alone as the source of Asian recovery, for as Snyder and Solomon (1998) have noted, multiple "tugboats," including reflation of the Japanese economy and market liberalization in Japan, are necessary.

Ultimately, however, recovery in Asia is as important to the United States as it is to East Asia. The highest-growth U.S. manufacturing sectors, including software, mainframes and other computer hardware, and telecommunications systems, depend on it. Thousands of jobs are at stake. This provides a fourth structural reason for optimism about the current crisis: Whereas protectionist spirals accompanied past global economic crises and often produced negative security implications, the commitment of U.S. political and business leaders to open markets seems firm, despite the political backlash that will surely accompany U.S. support for Asian exporters.

## Security Management

Four variables, then, have been among the most important in determining whether past global economic crises have intertwined with nationalism and political factors to produce negative security effects. Yet in Asia, the presence of positive signs in all four variables sharply distinguishes the present crisis from that of the 1930s and from smaller shocks. Despite these reasons for hope at a structural level, a number of important challenges nonetheless exist at the level of day-to-day policy making in the management of regional security relationships.

### UNRESOLVED SECURITY PROBLEMS

Many of the security problems that lie at the center of the ripe-for-rivalry argument remain unresolved, even as the agenda seems to have shifted away from security to pressing economic matters.

### PROBLEMS OF STATESMANSHIP

The scale of Asia's economic problems is enormous and appears increasingly unlikely to be solved absent significant domestic change, perhaps involving much suffering and financial pain for individual citizens (Japan Center for International Exchange and Institute of Southeast Asian Studies 1999). We have already seen this in South Korea and Indonesia, and we seem increasingly certain to see it in

Japan as well. In this context, great potential suffering, coupled with democratization, loud domestic political opinion, and the increased effectiveness of domestic lobbyists pressuring their respective governments, will surely make statesmanship far more difficult for regional leaders.

The difficulties facing South Korea's Kim Dae Jung exemplify the contradiction between statesmanlike risks on security matters (Kim's "Sunshine Policy" toward the North) and the need to focus on purely domestic problems. Such concerns will not only distract leaders' attention but also make compromise on security issues more difficult for three reasons:

- Any compromise that involves trade-offs affecting domestic prosperity and welfare will be a difficult sell.
- Governments have been weakened.
- Cross-cutting bureaucratic and other pressures will surely increase, giving leaders and governments less room to maneuver within their domestic political contexts.

## INSTABILITY AND MISPERCEPTION

Trilateral relationships can be extremely problematic in international politics. Funabashi Yōichi (1998), in particular, has raised the issues of mistrust and misperception in interactions involving three, instead of two, parties, where all look askance at one another and each side worries about potential collusion between the remaining two.

But if this is true, then trust—and eventually institutionalized trust through transparency, dialogue, confidence-building measures (CBMs), and preventive defense mechanisms—becomes that much more important.[6] The Jiang-Clinton exchange of summits augurs well for longer-term China-U.S. coordination, despite the Belgrade embassy bombing and other sources of short-term conflict. Jiang's visit to Japan also bodes especially well for Sino-Japanese confidence-building, particularly because the Sino-Japanese leg of the triangle has long seemed to be the weakest. But what happens to the prospects for this type of trust when the environment puts as much pressure on leaders, governments, lobby groups, and so on, as is likely to result from the fallout related to the economic crisis?

## RELATIONSHIPS AS ISSUES RATHER THAN FRAMEWORKS

During the cold war, moreover, China-U.S., Japan-U.S., and Sino-Japanese interactions functioned as frameworks within which the parties tackled greater security challenges. Increasingly, however, these interactions have ceased to be a part of a larger strategic context but seem, in some sense, themselves to have become the strategic issue at stake. Thus, when U.S. opinion makers ask, "What should our relationship with China be?" some seem disposed to frame the issue as a strategic dilemma in and of itself. This is a sharp break with the past. For if the mere idea of a relationship is presented as a strategic issue, then the fundamental premises of most CBMs, cooperative security schemes, and preventive defense mechanisms must come into question as well.

Advocates of CBMs generally argue that the mere existence of relationships can be an important stabilizing force in international politics. Relationships create a reservoir of trust, while providing avenues for coordination and cooperation. Various forms of CBMs thereby help to control for misperception by building a legacy of collaboration on which leaders can draw in the event of future disputes.

This offers an analytic window into why it may be dangerous if post–cold war decisionmakers on the three sides of the China-Japan-U.S. triangle, particularly those in the United States, should come to view relationships not as intrinsically important but, rather, as involving strategic trade-offs from among which leaders must choose. All relationships have a clear strategic dimension. But if, as in some recent U.S. opinion, the very *premises* of a relationship come into question, the prospects for CBMs and cooperative security inevitably deteriorate. The China-U.S. relationship has become particularly fragile in this regard. As a result of three major political debates of 1998–1999—one related to space launch technology, the second to campaign finance, and the third to allegations of espionage at U.S. nuclear weapons laboratories—many of the rationales that have underpinned two decades of broad-ranging Sino-American cooperation have come under attack in U.S. political debate. Indeed, much recent U.S. commentary, particularly in the media and on Capitol Hill, has none-too-subtly implied that these events violate the very principles that were originally offered as the framework to justify bilateral coordination: mutual interest and a growing trust between

the two countries. On the Chinese side, meanwhile, perceptions of latent U.S. hostility, particularly in the wake of the Belgrade embassy bombing, have increasingly placed the relationship with the United States under strain in Beijing's political circles. To those who advocate CBMs as an avenue to coordination, such an atmosphere is unhealthy, not least because the relationship itself, not simply the issues that divide the two sides, becomes the political issue under debate.

## TAIWAN, KOREA, AND TMD

All of the above policy challenges, particularly the problems of misperception and statesmanship, carry a variety of implications for how specific issues, such as Taiwan, TMD, and achieving peace and stability on the Korean peninsula, are likely to be managed by the trilateral countries. Certainly, such cautions and constraints bear directly on the likelihood of their being managed trilaterally, as opposed to bilaterally.

In fact, the triangle hangs like a shadow over most bilateral interaction among the three major Asia Pacific powers. Thus, whereas China and the United States may talk bilaterally about Taiwan, the Guidelines for U.S.-Japan Defense Cooperation touch all aspects of bilateral coordination on the issue. Chinese analysts have expressed concern about the implications of the guidelines for Taiwan (Wang 1998). Meanwhile, officials in Tokyo and Washington have been ambiguous about what the new framework may mean in concrete terms for the Taiwan problem in the event that hostilities break out.

This essentially triangular dimension—the fact that few issues can truly be treated in a purely bilateral context in Northeast Asia—also shapes Korean issues, and especially the matter of TMD. Thus, it is not surprising that it has become difficult for Japan and the United States to discuss TMD vis-à-vis North Korea in a purely bilateral context without raising hackles on the Chinese side.

## Realpolitik and Long-Term Instability

For all of these reasons, the political stakes of the Asian economic crisis for all three trilateral partners, as for all countries in the region,

are high. At the same time, those stakes have security implications, not merely implications for economic prosperity and continued growth, because they have made cooperation critical. The structural dimensions of the economic-security linkage in East Asia may provide reason for optimism. The crisis may also provide new opportunities and avenues for bilateral, trilateral, and multilateral coordination in Asia, as well as an important basis for confronting problems not directly related to the crisis down the road. However, two fundamental questions cut directly to security and political concerns at the structural level: How will the Sino-Japanese relationship evolve as Japan battles to overcome the distortionary effects of economic decay? And what does a China-U.S. "strategic partnership," whatever form it may take, mean for Japan?

Both questions are the logical outgrowth of realpolitik-type thinking, for as Wang Jisi has noted, "U.S. officials and analysts point to the potential rivalry between Japan and China" (1998, 24), and many Chinese and Japanese analysts point to the problem as well (see e.g. Christensen 1999). Mistrust remains pervasive in Sino-Japanese relations, despite three decades of extraordinary progress between Asia's two great indigenous powers. Greater power competition has been a stable feature of international relations for many centuries. Thus, it is important to ask whether, as Snyder and Solomon contend, "Asia's financial crisis may mark a shift in relative long-term influence in favor of China at the expense of Japan" (1998, 1). If so, then those who believe that China and Japan are destined to renew their strategic competition of the early part of this century may ask: Are there those on one or the other side who might try to exploit the weaknesses introduced by the economic crisis? How, then, might this crosscut Funabashi's (1998) suggestion that triangular relationships reinforce suspicions about collusion between two parties at the expense of the third?

## TRILATERAL INTERACTION: A STRUGGLING JAPAN, A DYNAMIC CHINA-U.S. RELATIONSHIP

Few strategic analysts are likely to disagree that Asia's great powers succeed best when they hang together. Yet, as Thomas Christensen (1999) has argued, many Chinese remain deeply troubled by the

emergence of Japanese power, while a strong ambivalence characterizes Japanese perceptions of China. As Christensen has noted, the issue of Sino-Japanese competition, however delicate, is lent special weight by historical rivalries and the structural realities of great power conflict through East Asian history. And it may now have become more acute because of recent economic events.

It is no longer inconceivable that economic restructuring could hobble Japan financially, create problems for its once rapidly expanding economic role in the region, and make it less likely to evolve into the aggressive, forward- and outward-looking power that once seemed likely to be thrust onto the stage as a genuine regional leader. On some level, serious analysis in the wake of the financial crisis must recognize that, when viewed through the historical and conceptual lens of great power competition, Japanese weakness could provide certain strategic opportunities to Chinese political constituencies that regard the potential expansion of Japanese military power with concern. A weaker yen may pose problems for Chinese economic policymakers, and Beijing has made its unhappiness with Japanese fiscal policy known to Tokyo. But one cannot help but wonder whether Chinese security constituencies concerned about the expansion of Japanese defense roles in Asia might not view a "weakening" of Japan in this way as favorable to China's own strategic prospects.

This takes on special resonance in the complex geometry of trilateral interaction because the trilateral relationship has long been asymmetrical, with two sides of the triangle (Japan and the United States) more powerful and prosperous (and more closely tied by bonds of interdependence and trust) than the third. Might the economic crisis in some way lay a foundation that will ultimately alter these asymmetries? More important, will coordination over matters related to the crisis—the widespread suggestion over the past year of U.S. "pleasure" with China's monetary "statesmanship," contrasted with frustration over Japan's "paralysis"—change the dynamic through which the sides of the triangle, particularly China and the United States, interact?

This discussion accelerated in 1998, in large part because of the complex reaction in Japan to President Clinton's China trip, coupled with Secretary of State Madeleine Albright's trip of reassurance to Tokyo in the wake of the visit. Those events made clear that there is

a strong element of ambivalence in Tokyo about what closer China-U.S. ties mean for Japan. Some Japanese analysts clearly regard Japan's strategic position in the triangle as having been undercut by a new phase of closer China-U.S. bilateralism.

If one believes, then, that some Chinese policymakers might regard a hobbled Japan as strengthening China's strategic position in the region, East Asia is likely to experience a vastly different trilateral dynamic than might be the case if Japan deals smoothly with its current crises and rapidly sets itself back on course. This dynamic of strategic competition demonstrates clearly why institutionalized trust and the avoidance of misperception are so important to regional stability. Future strategic relationships among great powers are likely to mix aspects of cooperation and rivalry (see e.g. Feigenbaum 1999a). Thus, three strong, secure, and assertive trilateral powers—potential rivals in some areas, but strategic partners in the maintenance of Asian economic and political stability—best reflect the interests of all three countries and the Asia Pacific region at large.

## THE UNITED STATES AND REGIONAL COORDINATION

Above all, the concerns voiced by China and Japan make clear just how important it has become that the trilateral countries view their relations as partnerships, with stability in each bilateral interaction reinforcing the stability of the triangle as a whole. While deepening its relations with China, the United States must reassure Japan. The Sino-Japanese relationship, in particular, has become the critical leg of the triangle.

In recent years, there has been a growing recognition in all three capitals that regional problems, whether economic or security-oriented, reflect the challenges of a shared future. This does not imply that all interests are commonly shared, simply that stability is important to all. Yet stability—a shared interest—becomes easier to achieve when actors recognize their common stake in its maintenance. This is the most important political and strategic lesson of the Asian financial crisis, which has shown decisively just how much of the region's economic future is shared. For two decades, sustained economic growth has been the most important goal of all major Asian countries, including post-Mao China.

This explicit recognition of the need to share in a coordinated regional response to today's economic crisis is thus particularly encouraging. Tomorrow's Asia Pacific region will be shaped, in large part, by how countries face down this present challenge. Cooperation amid potential strategic rivalry is never easy. Many analysts have pointed to the problems that Asian leaders will have to confront to sustain coordination in the face of domestic political pressure, threats to regime legitimacy, and painful economic restructuring choices that may further undermine popular support. The most poignant example of sustained intraregional cooperation on political matters—the ASEAN model—has come in for harsh scrutiny as the crisis has intensified.

Yet if, as this chapter contends, the future seems brighter than pessimists predict, it is because important structural conditions in place in today's Asia were absent from earlier regional and global economic crises. This not only provides a historical baseline for optimism. It also presents a strategic opportunity. Responding constructively and cooperatively to the challenges of a new era requires that partners overcome all of the reasons for pessimism to which observers of Asian security routinely point:

- Reservoirs of distrust.
- Problems of misperception.
- The reality of conflicting interests in some important areas.
- A future that will include Korean reunification and thus require adjustments to the regional structure, especially with respect to the U.S. military role.

The current crisis should make clear even to those Asians who actively seek a reduced U.S. role in the region that a medium-term continuation of that role has become vital to the very stability that will ultimately make such change possible. The United States plays the critical role in guaranteeing the structural conditions that make today's situation hopeful. On two levels—the exercise of strategic leadership, and a commitment to market openness—the U.S. role is simply indispensable to prevent the economic crisis from feeding security problems.

This is not to argue that any particular political or security order must remain in place over the long term to guarantee stability. It is not necessarily a recipe for a permanent U.S. forward presence.

Someday, Korea will be reunified. Will a role for forward-deployed U.S. forces on the peninsula then be sustainable? Chinese diplomats have expressed their sensitivity to some of the rationales offered for the continuation of a Japan-U.S. alliance forged during a very different era. Tokyo and Washington must both make a more compelling case to Chinese leaders that is sensitive to their concerns.

Most important, then, acknowledging U.S. "leadership" implies that Washington is a genuine partner—a constituent member of a region whose problems should be shared. This is neither a new nor an especially surprising conclusion. Fighting the economic crisis required partnership, and partnership requires coordination. Under a positive set of structural conditions that is likely to prevent economic problems from feeding security concerns, coordination on pressing economic matters, especially among China, Japan, and the United States, may ultimately create useful channels for partnership on strategically sensitive questions.

## Notes

1. See, for instance, Fareed Zakaria (1997), who argues for a view of Chinese strength, coupled with a prediction of a fundamentally conservative Chinese foreign policy. China is not a "rogue," Zakaria argues, because it largely lacks the resources to be one. The region should relax, he seems to argue, but must also be on its guard. Fuel for the more extreme arguments about Chinese intentions came from a variety of events and statements. A good example concerns Sino-Russian cooperation, the goals and outlines of which still remain murky and which many suspect amount mostly to rhetorical posturing. On China and Russia, see for example Gordon (1997).

2. The polar argument, which has been discredited among most specialist and popular audiences alike, has been made by Bernstein and Munro (1997). A good rejoinder is Nathan and Ross (1997). However, many analysts who view China's ascendance more conservatively than Bernstein and Munro nonetheless predict potential challenges to the existing order as a key Chinese goal. See, for instance, Christensen (1996). See also the debate between Roy (1994) and Gallagher (1994).

3. For a sense of how dramatic this problem is, one need only consider the story of Japan Leasing Corporation, a subsidiary of the Long-Term Credit Bank of Japan, which is itself in trouble. By the end of September 1998, Japan Leasing had gone under with more than US$16 billion in debt. The Japanese government's efforts to address the banking crisis have thus far focused on how to guarantee deposits without bailing out the banks per se. The refusal to guarantee Japan Leasing's debt may be a recurring story in Japan's financial crisis.

4. I am grateful to Francis Gavin for discussion of the major points in this section.

5. On Japanese "technonationalism" and "mercantile realism," see Samuels (1994) and Heginbotham and Samuels (1998). On China, see Feigenbaum (1999b, 1999c).

6. Much has been written about this issue. The most eloquent treatment, which is also somewhat pessimistic, is by the Canadian scholar Paul Evans. See, for example, Evans (1993; 1994). On some of the reasons why transparency and regional security dialogue are important, see the discussion in the context of arms race concerns by Ball (1993/1994). One positive byproduct of Asia's otherwise unfortunate economic crisis may be the effect that it will inevitably have on acquisition budgets and the potential for regional arms races. The title of Ball's pre-economic crisis article, "Arms and Affluence," is, in this sense, particularly poignant: Strapped for cash, most Asian governments will find it difficult to pursue expensive force modernization programs. Thus, for the moment the problems of the crisis, unfortunate as they are for regional leaders, may vitiate some of the concern from three to five years ago about the possibility of a regional arms race.

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