

Asia-Pacific Region: *Murky Future?*

Where is the Asia-Pacific region headed? Countervailing trends are at work in this complex region in ways that match or exceed any other region. The outcome is not foreordained, and wide variations are possible.

Today, the Asia-Pacific region is at peace. However, the Korean peninsula remains tense, and China's future role is unclear. Every Asian state faces economic and political challenges that were unimaginable 2 years ago. How each responds to these challenges will affect it in the decades to come. Collectively, these responses will influence the future character of the regional security environment.

The year 2010 may see a more stable and unified region, firmly committed to responsible, accountable government and market economics. It could also be a divided region, threatened by instability and conflict, with many nations rejecting core democratic values. The challenge for the United States is to support a regional security architecture consistent with its core values. It also must reduce any possibility of a negative backlash and not excessively stress the relatively weak economic and political institutions of Asian nations.

In Asia, 1998 will be remembered as a year of challenge and trauma. North Korea test-fired missiles over Japan, demonstrating its determination to pursue weapons of mass destruction (WMD). Moreover, global interconnectivity made the financial crisis of 1997 a full-blown economic and political crisis by early 1998. Initial forecasts of rapid recovery proved overly optimistic. In addition, 1999 saw major strains in U.S.-Chinese relations, thereby adding strategic troubles to Asia's economic troubles.

Throughout Asia, more than two decades of export-led economic growth, often well into double digits, came to an end. So did rising income and living standards. The people of the region faced the need to live within economic means that were rising only slowly or declining.

Economic decline also brought unprecedented pressure for political change. Economic vulnerability revealed political vulnerability. New groups began to seek redress of political grievances that had been suppressed for more than a generation. The social and political models that had sustained regional elites gave way. Such constructs as "Asian Values," the "ASEAN Way," and "Japanese Capitalism" no longer instill confidence. Today, nations of the region are searching for new economic and political constructs.

U.S. Defense Strategy and Forces in the Asia-Pacific Region

U.S. defense strategy in the region continues to be one of overseas presence, power projection, and bilateral alliances. The strategy's overall goal is to help shape the region's security environment, to maintain a capacity to respond to a wide spectrum of contingencies, and to prepare for the future. U.S. defense planning continues to focus on the tense security situation in Korea, while remaining attentive to other potential regional crises.

The U.S. overseas military presence in the region totals about 100,000 personnel. About 36,000 troops are stationed in Korea, and 45,000 are in Japan/Okinawa. Afloat naval forces, plus units in Guam and elsewhere, provide the remainder. Principal U.S. joint combat forces include 2 divisions, 3.2 fighter-wing equivalents, 1 carrier battle group, and 1 amphibious ready group. The U.S. Pacific Command is headquartered in Hawaii, where another 48,000 troops are stationed.

U.S. power projection assets include pre-positioned equipment and material, strategic airlift and sealift forces. Increases in these assets have greatly enhanced the U.S. capacity to deploy ground, air, and naval reinforcements rapidly in a crisis. U.S. forces in CONUS provide a flexible posture for strongly contributing to any combat missions in the region. The U.S. military capability is adequate for a major theater war and lesser conflicts.

The principal U.S. alliances in the Asia-Pacific are with the Republic of Korea, Japan, and Australia. These countries have strong self-defense forces. The principal function of these alliances is to help defend both countries, but with the Soviet threat gone, the U.S.-Japanese alliance is now being adjusted for new missions. The United States also maintains bilateral alliances with other countries, including the Philippines and Thailand.

The economic crisis also has national security implications for various regional powers. Before 1997, nations in the region were relying on their own force modernization—and on the United States as the ultimate guarantor of regional stability. However, this force modernization has been placed on hold. This means that the United States becomes even more important to regional security. Also, Washington had previously assumed that most Asian nations would gradually assume an increased share of the regional defense burden. That assumption must now be reconsidered.

When considering the Asia-Pacific's future, the economic crisis introduces new factors. Prior to 1998, the region seemed to be evolving toward core economic and political values and continued acceptance of forward U.S. military presence as a basis for a future regional security architecture. That still may be the case. However, changing economic conditions complicate this possibility. Key questions regarding the future include:

- How will economic pressures impact support for market mechanisms?
- Will the trend toward responsible, accountable government continue?
- Will economic difficulties undermine regional stability?

- Will shifting economic fortunes produce new relationships among the regional powers?
- Will the region see shifts in the balance of military power? Will North Korea acquire WMD and delivery vehicles?
- What will be China's role and Western reactions to it?
- Will the possibility of conflict increase, decrease, or remain the same?
- What criteria should the United States use to assess its regional economic, political, and security policies?

Dealing with these and other questions will occupy the American policy community for years. The United States will continue to have vital interests at stake in Asia and in the Pacific. The challenge will be one of protecting them by crafting a mix of old and new policies that respond to the fluid situation.

Key Trends

Asia's economic troubles set the stage for long-term strategic and political changes.

Internal Issues

Indonesia

Indonesia may be near collapse. Conservative estimates are that the economy declined by as much as 30 percent in 1998, with inflation reaching 100 percent. It is unlikely the situation will improve much in 1999. While general agreement exists regarding the need to privatize state-owned enterprises, resistance remains high, and private conglomerates afflicted by cronyism and favoritism find it difficult to restructure. One bright spot is Indonesia's progress toward restructuring its massive external debt. However, the banking sector finds it difficult to adjust debt rescheduling. Increasingly, experts believe that Indonesia faces a 5- to 10-year trial before the economy recovers.

In principle, Indonesia replicates patterns seen elsewhere in the region. Economic stagnation eliminated the safety valve that prevented dissatisfactions from reaching critical mass. Faced with lower living standards, Indonesians throughout the political spectrum could no longer compensate for political and other dissatisfactions by increasing their share of an expanding economy.

Economic collapse contributed to political crisis. The nation's political institutions and leaders have lost legitimacy, and a series of associated problems related to law and order have

Chinese Navy Jiangwei-class guided-missile frigate in the East China Sea



occurred. While economic crisis was the catalyst, the political crisis and its associated problems are interconnected. One cannot be solved without major change in the others. For the next few years, Indonesia's leaders will be occupied resolving the dilemma.

This will not be easy. Present leadership remains tainted by the past. The current government is seen as an extension of the Suharto regime, albeit without Suharto. This is the charge made by those demanding President Bacharuddin Habibie's resignation, mainly students and younger people. The larger population does not as yet see any alternative to the present regime.

The general and presidential elections scheduled for late fall 1999 will probably not resolve Indonesia's problems. Megawati Sukarnoputri's Democratic Party, allied with the (Muslim) Nahdlatul Ulama, may win a slim majority in the general elections, but forming a national leadership would be a formidable challenge. Habibie's Golkar Party is so tainted that it is unlikely to receive a sufficient mandate to establish legitimate national leadership. If the elections continue the status quo, the situation could worsen.

The Indonesian Armed Forces present a fuzzy picture. They have lost public esteem as a result of their suppression of demonstrations

and links with the establishment. Led by Chief of Staff General Wiranto, the reform wing is seemingly increasing its influence. Redefining the political role of the armed forces is integral to reform; this would include its withdrawal from the political process and resignation of its parliamentary seats. However, military reformers continue to disagree over the pace and scope of change. There is also a widespread view that, as the only truly national government institution, the armed forces ought to remain involved in the policy process.

Indonesia's economic and political evolution will continue to be erratic and contradictory over the next 3 to 5 years. Slow economic recovery will negatively affect political evolution, and a political transition will not be smooth. The nation lacks an institutional structure strong enough to channel the demands for change in constructive directions. The possibilities include national collapse, degrees of authoritarianism, or movement toward a responsible system.

China

Thus far, China has been insulated from the worst of the Asian economic crisis. This is largely due to its nonconvertible currency, greater reliance on foreign direct investment than bank loans, and international debt that is long term. However, many of the conditions that produced crisis elsewhere exist in China. These include

bad bank loans, allocation of capital based on political criteria, and cronyism.

Moreover, the government seems to be retreating from the rigorous privatization and reform announced by Premier Zhu Rongji at the National People's Congress in March 1998. Consequently, China may be facing its own economic crisis. Like Indonesia, China could experience significant political dislocation. China's economy seems plagued by contradictions. Growth in retail sales is declining, and consumer spending may weaken further because of rising unemployment, slowing wage growth, and rising interest rates. Investment in fixed assets is also down as are exports and foreign direct investment. An 8 percent growth rate as set by the programs announced in Premier Zhu in March 1998 almost certainly will not be achieved; a rate of between 4 and 6 percent is far more likely.

The problems are in two interrelated areas: state-owned enterprises (SOEs) and the banking system. Most of the SOEs are effectively bankrupt. They are kept afloat by politically directed bank loans, which at present, are all outstanding and unproductive and amount to nearly 30 percent of the gross domestic product (GDP). This situation is not sustainable, and the banking system is approaching crisis. Reform of SOEs and banks was the thrust of Premier Zhu's 1998.

China's problem is as much political as economic. Privatizing SOEs would result in widespread bankruptcy and drastic work force reduction. Privatization could increase unemployment by one-third. Northeast China, where most SOEs are concentrated, would suffer the most from increased unemployment. SOEs provide such services as medical care, education, and housing; if they ceased to exist, the burden of providing such services would fall upon a government that is ill prepared to respond.

The banking situation is also perilous. If the government directed the banks to write off bad loans, millions of households that provide the bulk of assets would lose their savings. At the same time, the government does not have the resources to recapitalize the entire banking system.

The political consequences of reduced economic growth also pose another potential difficulty for Beijing. China's leaders are concerned about widespread social unrest that could occur as a result of broad dissatisfaction with the corruption and inefficiency that seemingly pervade

every aspect of social life, particularly in urban areas. Double-digit economic growth enabled leaders to avoid dealing with this problem, and until recently, the strategy seemed to work.

The rate of increase is now declining, and most observers believe that a growth rate of anything less than 5 percent will be insufficient to keep discontent within acceptable parameters. If the economy fails to meet this goal, social unrest will likely increase and so will demonstrations, strikes, and overt challenges to government authority. Such activities have increased in frequency during the last 2 years.

This concern is reflected in the plan to allocate \$1.2 trillion to infrastructure development between 1998 and 2000. It is seemingly intended to ensure that economic growth eventually reaches 8 percent by increasing investment in fixed assets. Overall, state investments are expanding more than 20 percent annually. This may increase growth, but it also represents a major retreat from privatization programs for SOEs and the banking reforms announced in March 1998. This infrastructure program is being financed by banks; much of the money is going to SOEs that actually subtract value from the overall economy. At the end of August 1998, the number of loans outstanding was 16 percent higher than a year ago.

This program will inevitably add to the number of bad loans held by banks, which is reportedly approaching 25 percent—higher than those held by the banking systems of Indonesia, Thailand, and the Republic of Korea before the 1997 crisis. Overall, the loan program indicates that the government has determined short-term growth to be its highest priority. However, the problem is a long-term one. If growth rates increase in the short term, the costs of postponed reform are likely to be high. Moreover, it is unlikely that the prospects for social and political unrest will decrease.

Japan

As 1997 ended, Japan's 5-year economic downturn began to assume crisis proportions. In November, one of Japan's largest regional banks, the Hokkaido Takushoku Bank, failed; Yamaichi Securities, one of the nation's four largest brokerages, also declared bankruptcy. The longest economic slump in Japan's postwar history deepened in 1998. In July, the ruling Liberal Democratic Party (LDP) suffered an unexpected defeat in a national election for the House of Councilors, the legislature's upper house. It was

widely interpreted as a no-confidence vote in the government's economic policies and led to Prime Minister Ryutaro Hashimoto's resignation. His successor, Keizo Obuchi, inherited the difficult task of restructuring Japan's ailing banking system and restarting the domestic economy.

Every indicator points to continued recession, and even depression. In October 1998, the Neikei stock index closed at 12,946—the first closing under 13,000 since January 1986, and one-third of its 39,845 record-high reached in late 1989. Negative growth continued throughout 1998. In early October, the government's Economic Planning Agency projected that GDP growth would be -1.8 percent for fiscal year 1998 (April through March), despite massive tax cuts and public works spending projects enacted earlier. Finally, unemployment rose to 4.3 percent—the number of unemployed hit 2.97 million. Unemployment among heads of household went up 0.8 percent to 3.2 percent, setting a new record. Those forced to leave employment rose from 370,000 to 910,000. Slumping department store sales, machine tool sales, and crude steel production rates reinforced the gloomy picture.

As with its regional neighbors, the banking system's deepening crisis impedes the return to sustainable growth. Japan's banks are overwhelmed by bad debt, largely because of the collapse of the late-1980s "Bubble Economy," built on real estate and stock market speculation. When share prices and real estate values began falling in the early 1990s, Japan's banks rapidly accumulated bad debt. In summer 1998, the government's Financial Supervisory Agency calculated the bad debt to be \$630 billion. When added to the already declared bad loans, total bad debt is \$880 billion, or one-quarter of the GDP.

Japan is also troubled by major political problems. Although Japan does not face problems similar to Indonesia's, its political system is weak and incapable of effectively responding to economic or even security challenges. Since its establishment in 1954, the Liberal Democratic Party had served Japanese interests and dominated consensus on economic, political, and bureaucratic issues. Its fall in 1994 eliminated discipline within the political system and severely reduced the means by which a rising generation of leaders could be socialized into political life. This, along with the electoral system's restructuring, resulted in the emergence of several small groups. Centered around individual leaders, these groups combined largely for the purpose of contesting elections. While they can influence a significant remnant of the Liberal Democratic

Party, these groups cannot govern in their own right. They do not reflect the political center, which has been the weakness of recent Japanese governments. A more desirable endstate in the near future is unlikely. For the next 3 to 5 years, Japanese governments are likely to be weak.

Any new consensus may be very different from the old one. For example, it may agree on a relationship between government and business that is far less connected than in the past. It may also want Japan to be a "more normal nation," a prospect that holds obvious implications for Tokyo's regional and global roles, and its security policy.

The Republic of Korea

The Asian economic crisis hit the Republic of Korea (ROK) in fall 1997, as those holding outstanding foreign loans demanded payment. By year's end, Korea's short-term external debt amounted to \$68 billion, while foreign exchange reserves were \$7.3 billion. Seoul insisted it could service the debt, only to be forced in early December to accept a \$57 billion assistance package from the International Monetary Fund (IMF). Once the world's eleventh-largest economy, South Korea's acceptance of the IMF deal was seen as a national humiliation by its people.

Like most countries in Asia, the root of the crisis rests in the structure of the Korean economy. Successive governments distrusted markets, and they exercised control over the economy and financial sector. Crony capitalism was rampant. The industrial sector was protected and over-regulated. The *chaebols*, dominant industrial groups, were highly leveraged and excessively diversified. They sought increased market share rather than profits. Originally family-run businesses, the *chaebols* grew too big and suffered from poor corporate management. The financial sector was weak, lacked proper risk-management safeguards, and made loans based on political favoritism and government guidance. Labor became militant and growth in wages far outpaced productivity gains.

The depth of the crisis is indicated by the following data. According to a consensus estimate, the GDP contracted between 5 and 7 percent in 1998. Company bankruptcies exceeded 3,000 per month between November 1997 and May 1998; they included seven of the nation's top thirty *chaebols*, the massive conglomerates that account for 90 percent of the ROK GDP. In



Japanese P-3 Orion of the Maritime Self-Defense Force alongside a U.S. P-3 during Exercise RIMPAC 98

mid-1998, combined foreign and domestic currency debt was estimated to be \$730 billion, twice the size of the 1997 GDP. Unemployment, which was 400,000 in May 1997, was nearly 1.5 million a year later. It may exceed two million, and hit 8 percent. Consumption fell 28 percent in the first 6 months of 1998, and imports fell 35 percent over 1997.

On December 18, 1997, after serving nearly 30 years as an opposition leader who was once sentenced to death for his politics, Kim Dae Jung was elected president. Recognizing the economic situation's gravity, Kim Dae Jung focused on the economic crisis well in advance of his February inauguration. He has committed government to the difficult task of reforming and restructuring

the devastated economy. Industrial restructuring is slow and resisted by the *chaebols*. Financial restructuring may be more expensive than anticipated. Bad debt is growing, and the cost of recapitalizing the banking system will be high. Foreign investors remain wary.

President Kim must also deal with the sensitive issue of North Korea. His "Sunshine Policy," makes it clear that the South is not out to absorb or collapse the North's regime and is prepared to deal with Pyongyang reciprocally. North Korea finds this difficult because it means treating Seoul as an equal.

Given its preoccupation with the domestic economy, South Korea is looking for stable relations with the North. In fact, it will wish to avoid actions that could increase instability and deter investors. Therefore, the United States must make special efforts to coordinate with Seoul as it manages relations with the North. This will become more difficult owing to the seriousness of Washington's concerns about Pyongyang's nuclear and missile programs, and to growing desire in Washington to invest U.S. policies toward the north with a "harder edge."

The Unsettled Security Environment

Overall, domestic pressures will likely encourage regional powers to maintain stability and avoid conflict. However, as recent Malaysian and Singaporean statements indicate, these pressures have already caused tensions within ASEAN. Long-standing challenges also remain on the Korean peninsula, in the Taiwan Strait, and around the South China Sea. Overall, the regional security outlook is mixed. The likelihood of conflict that might involve the United States is low. However, the conditions that could cause unintended or accidental conflict are becoming more widespread.

In Southeast Asia, there are two kinds of problems. The first involves traditional rivalries. For example, Singapore alleges that Malaysia is deliberately creating problems in bilateral relations in order to distract Malaysian attention away from Kuala Lumpur's economic difficulties. In this view, one wing of an embattled, divided Malaysian leadership is using tensions as a political weapon. At worst, Malaysia might interfere with Singapore's water supply, harass shipping and air flights, and posture military forces on the border. Singapore would have to take defensive measures, thus increasing the risk of conflict.

Disputed Claims to Parcel and Spratly Islands



Source: Central Intelligence Agency.

A second source of difficulty is the spread of ethnic conflict. Violence against Chinese populations in Malaysia or Indonesia might incite Singapore's overwhelmingly Chinese population and cause additional ethnic discord. Military forces would then have to restore order. This could complicate Singapore's ties with Indonesia and Malaysia. Although the risk of actual interstate conflict is low, the potential for internal instability is high and would negatively affect economic recovery, overall regional tranquility, and ASEAN unity. Moreover, it would undermine any bilateral effort to resolve difficulties.

Regarding the more traditional flashpoints, the Korean peninsula remains a major problem.

Present policies are being challenged by continuing revelations about Pyongyang's nuclear programs, its missile development, and its potential role as a proliferator of weapons of mass destruction (WMD). A North Korean medium- or long-range missile with WMD negatively affects the Northeast Asia balance of power, the global non-proliferation regime, the ability to deter the North, and the ability to prosecute conflict should deterrence fail.

In the Taiwan Strait, prospects are more positive. The Koo/Wang talks convened in October 1998 suggest the beginnings of a cross-strait process that may reduce tensions between Beijing and Taipei, even if it does not produce a resolution. Reduced tension is in the interests of both sides and will enable them to keep cross-strait



Associated Press

South Korean soldiers searching for possible North Korean intruders near Donghae

dynamics within acceptable boundaries. However, Beijing is exhibiting a new sense of urgency about achieving progress toward reunification and has begun to pressure Taipei, most notably by beginning to deploy missiles across the strait. This in turn pressures the United States to provide Taiwan with suitable defenses, including theater missile defense (TMD) systems. If Washington does so, the situation could worsen.

Although its economy remains sound, Taiwan is in a state of political evolution like Japan, Indonesia, and the Republic of Korea. Taiwan is 3 to 5 years away from achieving a political center of gravity capable of managing cross-strait ties. In the meantime, suspicion remains on both sides of the strait and will continue to influence events. If Beijing construes Taipei's actions as separatist or as a prelude to a formal declaration of independence, the situation will inevitably deteriorate again. Similarly, if Beijing is perceived to be impatient or militarily threatening, Taipei might feel it has no option other than to force the pace.

The potential for conflict over territorial disputes in the South China Sea may be on the rise once again. After a period during which the parties appeared to be avoiding inflammatory actions, the Philippines reported the Chinese had erected new structures on Mischief Reef, an island claimed by Manila. The Philippine Government can ill afford to appear to be weak on this issue and continues to press the United States and ASEAN for support. Although both Beijing and Manila are proceeding slowly to resolve the situation, it will be difficult for the Philippines to accept the Chinese *fait accompli*. In these circumstances, the possibility of accidental conflict remains a factor to be considered.

Threats to Future Democracy

Prior to the latest economic crisis, most nations were in the process of accepting market mechanisms as their economic regulators. Politically, many were evolving toward institutions based on pluralism, responsibility, and accountability, or liberal democracy. In each nation, this evolution was managed by a coalition of national elites that allowed non-elites to share in economic progress, while strictly limiting individual expression and political activity. All sectors accepted the reality because all benefited. Frequently termed "illiberal democracy" in the West, the system was often described in Asia, as the "Asian Way," or a system based on "Asian Values." That model has been discredited, and an unfocused search for a replacement model is now underway.

Generational change is also a factor. Throughout the region, the generation that defined each nation's modern identity is passing, or has passed. Moreover, the economic growth that enabled acceptance of the Asian Way has diminished. As a result, new coalitions have emerged in the Republic of Korea, Indonesia, and Malaysia. They consist of disenfranchised social strata that were hardest hit by economic decline and are demanding thorough change and elite replacement. Albeit at a different level, Japan is now in the fifth year of what is proving to be a long transition to a new political consensus, that changes the relationship of old elites. This transition will affect how Japan defines itself. China may be in the early stages of this process as well. New coalitions that have little association with the discredited past are making new demands and challenging institutions that had only just begun to mature.

This trend raises questions about the future of market economies, pluralism, accountable government, and liberal democracy in general. Recently, regulation of currency and capital flow has begun in Southeast Asia. Japan and the ROK are slow in redefining the relationship between government and the economy. Those favoring economic nationalism by means of regulation and restriction may be gaining ground.

Democracy's future may also be questionable in some instances. In Japan and the ROK, demands for change are expressed within a constitutional framework. The procedures are well-established. However, Indonesia, Malaysia, and Singaporean institutions are far less well established. In China, notions of democracy are very



AP/Wide World Photos

Indonesian soldier standing guard over young East Timorese men during selection for civilian militias in Dili

fragile. Moreover, democracy in China and Southeast Asia is seen more as a cure for ills or providing the disaffected with access to the political process and less as a set of immutable principles limiting state power over the individual. In many nations, the military is the strongest national institution. It would play the major role in ensuring internal security and stability in a crisis. If this occurred, coercive measures likely would prevail and could produce a retreat from democracy.

The future of democracy in much of Asia is mixed. The ROK and Southeast Asian nations depend heavily on the United States, Europe, and international institutions for economic and political recovery. The latter regard reform and reconstruction as requirements for continued assistance. If aid is sufficient, and does not further exacerbate stresses, then the region may emerge from crisis with institutions that exhibit more

democratic characteristics. On the other hand, if aid is insufficient, and especially if it is offered with conditions that weak governments cannot meet, there could be movement away from democratic norms.

Roles and Relations Among Major Powers

In the first decade of the 21st century, China's rise could alter the roles and relations among major powers, including Japan and the United States. At present, Beijing plays a defining role in regional security affairs. However, its influence is based on size, location, resources, and potential, rather than actual comprehensive national strength. Beijing can influence developments in the South China Sea, in South and Southeast Asia, and on the Korean peninsula, and it can intimidate neighbors like Taiwan. It could create great havoc if it were willing to pay the costs. However, it lacks sufficient national strength to permanently change the regional security equation.

China's Maritime Strategy toward Western Pacific Chain Islands



Source: PLA Data Bank CAPS, 1995.

In 2010, the Chinese will probably not have an overpowering capability. However, Beijing will probably make significant gains and be able to pursue Chinese interests more effectively than today. By 2010, Chinese naval and air forces will probably be able to prevail over any ASEAN military forces in the South China Sea and may even possess military superiority over Taiwan. The Chinese People's Liberation Army (PLA) will not be a match for U.S. or Japanese forces, but new force-projection assets such as aerial refueling, improved air defense, integrated command-and-control systems, and information warfare capabilities will compel the attention of Washington and other nations. How China will exercise its

growing national strength is the question facing Washington and other nations.

Today, indicators regarding the future are ambiguous. On the one hand, China's economic development remains its priority. Moreover, its regional policies are designed to maintain stability in support of this goal. The following seem to indicate this trend:

- Despite the accidental bombing of the Chinese Embassy in Belgrade and violent Chinese demonstrations at the U.S. Embassy in Beijing, China appears to be searching for ways to return to a healthier relationship with the United States.

- Even though Jiang Zemin's visit to Japan was less than fully successful, Beijing remains interested in improving relations with Tokyo.

- Despite initially harsh public rhetoric, Beijing's response to India's nuclear weapons program has been moderate. Moreover, Beijing is increasingly supporting nonproliferation regimes.

- Beijing appears committed to Korean peninsula stability.

- Chinese rhetoric has cooled on South China Sea territorial disputes.

- After military action in March 1996, Beijing is now pursuing its objectives regarding Taiwan by political means.

However, a question remains. Does the present course reflect China's true strategic objectives, or is it a temporary accommodation to current internal and external realities until China can build the capabilities necessary to secure other objectives?

Beijing is concentrating more intensely on pursuing maritime interests in the South China Sea and the Taiwan Strait, and with respect to Japan and Southeast Asia. The PLA intends to develop a sea-denial capability out to the so-called Second Island Chain and eventually control that space. This has obvious implications for all of Northeast Asia.

China's official *Defense White Paper*, published in July 1998, lays out a vision of the future security environment that is antithetical to that embraced by the United States. The difference arises over the future role of military alliances. In Washington's view, alliances are stabilizing and provide a solid foundation for regional security. Beijing, on the other hand, sees alliances as destabilizing relics of the Cold War that should be replaced with a network of bilateral strategic partnerships and consultative mechanisms.

China's rise directly affects major regional power relationships. With Russia's power fading, the trilateral relationship among the United States, China, and Japan currently defines the regional security environment. For example, events on the Korean peninsula and the possibility of confidence-building regimes depend directly on the willingness of the members of this triad to support them.

Since the Cold War's end, each triad member has attempted to maintain balance in its relations with the other two. Despite difficulties and some dramatic swings, the three nations interact in a balanced manner regarding economic and strategic interests. The United States is central to this relationship. Washington's security alliance with Tokyo allays Chinese concerns about Japan, as well as Tokyo's concerns about Beijing.

China's rise could alter the equation. Unofficially, Beijing acknowledges benefits from the U.S.-Japan security relationship. However, Chinese leaders may not indefinitely accept the idea of China's security being dependent upon an alliance over which it has no control and which it feels might be directed against Chinese interests. To the extent that Beijing feels capable of managing such relations, it will approach Japan independently. In doing so, it will offer Japan a mix of incentives and disincentives designed to weaken the alliance and increase its influence over Tokyo. This would challenge the present trilateral dynamic, severely complicate U.S. relations with Japan, and eventually produce a triad in which members shift and change relations in order to secure dominance.

Military Modernization and Operations

Because of economic crisis, most regional militaries have curtailed, or forgone, long-held modernization plans. Most defense budgets in the region are declining. Indonesia, Malaysia, Thailand, the ROK, and Japan have canceled or delayed planned procurements and have seriously reduced exercises integral to operational readiness. Only China's PLA seems to remain on an upward trajectory; this may change, depending on economic factors.

During the next decade, reduced defense spending will affect the region in several ways. First, the ability of regional military forces to participate in programs enhancing military cooperation will diminish. The armed forces of the

ASEAN nations were initially seen as guarantors of internal security. In recent years, national cohesion has improved, and these forces are redefining themselves and assuming external security missions. They were also developing experience in cooperative efforts by means of intelligence sharing, joint patrolling, and joint exercises. Military cooperation was seen as a key to ASEAN unity. Now, this progress may be arrested.

Second, the U.S. military engagement with ASEAN nations will be more difficult. U.S. planning was based on rising capabilities that would potentially deepen and broaden military ties with other countries in the subregion. With the decline of available resources and, consequently, military capabilities, the United States will have to adjust its plans.

The political sensitivities regarding U.S. cooperation with Southeast Asian militaries had begun to subside but now may increase. If social and political instability becomes a reality, local military forces will revert to internal security missions. Experience with Indonesia, China, and Burma illustrates how difficult it is for the Department of Defense to establish and maintain ties with military establishments focused on internal security missions.

This is less so in Northeast Asia, largely because of tensions on the Korean peninsula and in the Taiwan Strait. Despite basing and other management problems, mature alliances with Japan and the ROK contribute to secure military relations. However, economic conditions are influencing defense thinking in those countries. In Japan, reduced resources have complicated legislation regarding implementation of the Revised Defense Cooperation Guidelines. However, this difficulty may be partially overcome. Japanese political circles are recognizing the need to meet North Korean nuclear and missile programs, as indicated by Japan's research in TMD.

South Korea's situation is similar. Washington and Seoul agree on the need for effective deterrence but sometimes disagree on means. Before the economic collapse, Washington took issue with Seoul's desire to acquire capabilities that would enable it to play a security role beyond the peninsula. Declining resources and Pyongyang's recent actions will modify Seoul's desire.

The overall regional military balance is a major question for some. Unlike other nations, no evidence indicates that Chinese naval and air force programs have been negatively affected by financial shortfalls. In fact, Chinese defense expenditures are increasing. However, even if PLA modernization programs are realized while those

Older homes giving way to modern infrastructure in Shanghai, China



AP/Wide World Photos

in ASEAN, Japan, and the ROK are not, the regional military balance will not change dramatically by 2010. The PLA may narrow the gap, but that gap will still be substantial. The issue is what capabilities the PLA will be able to achieve. Depending on the Chinese economy, the PLA by 2015 could begin fielding a force that would be similar to some U.S. forces of the early 1990s. The PLA could also pose a limited challenge to U.S. information systems and other regional military forces. If the Chinese economy falters, however, PLA progress would be negatively affected.

U.S. Interests

Asia-Pacific Peace and Stability

The United States has a vital interest in the stability of the Asia-Pacific region. U.S. prosperity is linked to Asia's prosperity. Access to Asia-Pacific markets and productive capacities are essential to U.S. strategic well-being. American ability to execute responsibilities in Europe and the Middle East assumes continued relations with a stable and secure Asia.

Regional stability enabled Asia's economic development. The region prospered because it was free of discord, largely due to U.S. security guarantees in the form of military presence. As a result, the United States is seen as an honest broker that has ensured balance in the region. This

has reduced incentives for nations to seek military superiority over others. The region, therefore, was able to achieve dramatic economic and political development.

The region is now experiencing economic stagnation. Nations must implement reforms necessary for economic rehabilitation and recovery. Prospects for success will be enhanced if regional stability can be preserved. Doing so promises to be a key challenge in the coming years.

Recovery and Western Economic and Political Values

The United States has a vital interest in Asia-Pacific economic recovery. However, a unique opportunity exists to accomplish this in ways that result in the extension of core economic and political values. This, too, is a national interest.

As noted earlier, most nations in the region are in transition. All accept to varying degrees the core economic values of market-directed institutions and unrestricted trade regimes. While there is less acceptance of such core political values as responsible and accountable government, the trend has been in that direction. A key uncertainty now is how the changed economic environment will affect the place of core values within the different national outlooks.

The United States has a vital interest in supporting positive trends and preventing reaction to the current difficulties from forming the basis for a long-term, broadly based, negative reaction. Consensus on the form of economic organization and on citizen relations with government will help to remove some of the sources of discord that have traditionally prevented regional cooperation and reduce the risk of conflict. It can also provide China with incentives to integrate itself more fully into the region.

Accordingly, the United States has an interest in promoting economic reform programs that reduce the significance of political factors in economic decisionmaking and increase the transparency of economic processes. The economy of the United States as well as the economies of the region will benefit if each is more confident of its ability to assess how the others will respond under a variety of economic circumstances. Also, shared approaches to economic activity can contribute to a network of shared political interests.

Integrating China into Regional Security

The United States has a critical interest in integrating China into the regional security architecture. Even if China does not begin to approach the United States in terms of comprehensive national strength by 2010, it will do so in later decades. China is the one nation in the region that could alter the regional order in ways that make U.S. interests less secure than they are today.

With China shifting toward a maritime focus, its strategic interaction with the United States in the Asia-Pacific region is likely to increase. How the United States manages these new interactions will greatly affect how other nations evaluate the performance of the United States as a regional leader. In the next few years, U.S. regional influence will be directly affected by how successfully it manages the "China issue."

It is, therefore, important that the United States and its regional friends and allies persuade Beijing that Chinese interests are better served through cooperation than through competition. As China's power grows, doing so will become increasingly difficult.

Responsibility for Regional Order

The United States, Japan, the ROK, ASEAN nations, and China share an interest in a stable regional order. After economic recovery, most

Asian nations will regain the ability to resume development of military capabilities and assume a greater responsibility for regional stability.

There will also be a clear need for the regional powers to do so. U.S. forces have been shrinking as a result of domestic political pressures and, until recently, because of a perception of a reduced threat. U.S. military presence in the Asia-Pacific is holding at about 100,000 personnel. This level will be subjected to increased scrutiny in the future. The revolution in military affairs (RMA) could mean new U.S. capabilities that would compensate for lower deployment levels. However, even if this possibility proves true, Washington would still require support from allies and friends, including the assumption of military missions in addition to providing bases. If such support is not forthcoming, generating public and congressional backing for continued U.S. military deployments will be difficult.

The question is, to what degree should the United States pursue the issue of increasing the security responsibilities of allies and friends, particularly at this time? If the United States were to strongly advocate increased responsibilities, it would likely be rebuffed on economic grounds and prejudice allies and friends in the future. It may be more effective merely to develop the basis for future cooperation, deferring the direct approach until later.

Regional Security Institutions

Over the next decade, conflict is more likely to be accidental than deliberate. For example, North Korea may miscalculate and strike the South. Seoul might perceive an action by Pyongyang as threatening and move against it. Beijing might perceive Taipei as aggressively seeking independence and attack the island. One of the nations in the Spratly Islands dispute might conclude another nation is trying to alter the status quo and resort to military action.

A collateral danger is that the United States and China might be drawn into one of these conflicts. Such conflicts would add years to the time required to recover from damage to regional security and the economy.

These possibilities highlight the need for the United States to work with the nations of the region to increase transparency and, more important, to establish procedures for confidence building and conflict management. The present alliance structure can provide a useful framework within

**Securing the beach during
an amphibious assault
in support of Exercise
RIMPAC 98**



which to begin such an effort, which could be of great use in consolidating U.S. regional influence and in countering Beijing's charge that alliances no longer serve a useful function.

Consequences for U.S. Policy

Current U.S. policy in Asia is focused on three goals: enhancing security, promoting prosperity, and encouraging democracy. They are being pursued by upgrading bilateral alliances, engaging China, and securing other forms of regional cooperation. Achieving U.S. economic goals has become more complicated because of the economic crisis. Pursuit of democracy—although successful in Korea, Taiwan, and elsewhere—is encountering frustrations in China and other countries. Overall, U.S. policy in Asia has been reasonably successful in recent years, but progress has been difficult. A key issue is whether U.S. policy can reflect greater sensitivity to regional economic and political conditions.

Economic, Political, and Security Goals

The core of Asia's problem lies not just in the regional economic system, but in its weak political and security institutions. They are not

strong enough to establish the order and discipline necessary to ensure economic recovery.

A first step for the United States is to approach the problem with a better understanding of all of its various dimensions and interrelationships. Thus far, Washington's approach has been to tackle the economic aspect of the problem, almost to the exclusion of political and security dimensions. The international community emphasizes economic measures, often without regard for political realities. Indonesia is illustrative of the political side-effects caused by certain types of economic remedies.

U.S. policy might be more effective if it were to become more multifaceted and were to reflect, more than it does at present, the perspectives of the U.S. foreign policy and security policy communities. A broader approach might make it possible to reduce the unintended negative consequences, political as well as economic.

Heightened Expectations for the U.S. Regional Role

The United States already plays a salient security role in the region. In the near future, regional reliance on the United States is likely to grow. Each nation in the region is encumbered by the need to achieve economic recovery. Most nations also recognize the commensurate need

for a stable regional security environment. Enhancing confidence and providing assurance are needed more than ever before.

Regional leaders also expect the United States will continue to play a balancing role in regional security. Because of their political and economic situation, they view the U.S. regional role as being more important today than at any time since the Cold War ended. Regional leaders see stability as being directly attributable to the network of U.S. alliances and U.S. military deployments and to its larger military presence. U.S. military engagement is perceived as contributing to regional stability.

During this economic crisis, regional leaders will be increasingly watchful of the U.S. commitment to the region. Any perception of a reduction in U.S. military capabilities will be interpreted as a declining commitment. A major reduction in the operational tempo of U.S. military forces would cause a similar reaction.

Regional nations judge the effectiveness of U.S. engagement by its military posture, but it is also based on U.S. political and diplomatic activities. These refer to Washington's effectiveness in managing the overall regional security environment, particularly with respect to China and North Korea. As noted earlier, U.S. management of these relations has assumed new importance in the aftermath of the Cold War, largely because of the need to maintain confidence and provide reassurance within the region.

Military Engagement in Troubled Times

In the near future, Washington may encounter increasing challenges to its regional commitments. Some will arise from U.S. domestic politics while others will originate within the region. Congress will likely insist that U.S. allies do more. U.S. commitments to Asian security could be linked to specific contributions from regional nations.

Within U.S. defense circles, the future shape and global posture of U.S. forces are being debated. The RMA promises to maintain capabilities, but many nations within the region regard the RMA with uncertainty and are concerned about the future U.S. defense budget. Defense planners in Australia, Japan, the ROK, and Singapore assume that changes are forthcoming and

are apprehensive about them. The recent rise in U.S. defense spending will send a reassuring signal but will not solve the long-term problem.

Conditions within the region will also complicate U.S. regional military activities. In addition to how U.S. commitments will be perceived, the region's threat perception will also be a problem. Prior to North Korea's satellite launch and revelations about its nuclear program, the region generally saw the possibility of destabilizing conflict as receding. Until recently, positive developments in the United States-China-Japan trilateral relationship and improved relations across the Taiwan Strait reinforced this perception.

Much depends on how relations with Korea are managed. A more comprehensive U.S. policy is desirable and will reinforce the perception of a reduced threat to regional security. This will also encourage those in Japan and the ROK advocating a reduction in U.S. military presence and support China's criticisms of the alliance system. If Korea were to unify peacefully, this would necessitate changes in the U.S. defense posture in Asia. Until then, continuity is critical.

The need for continuity suggests the importance of redefining U.S. regional military engagement. First, expectations for increased contributions by Asian nations could be seriously examined. This includes expectations about procurement, exercise participation, and inclusion in coalitions other than for the most serious military challenges. In the long term, ensuring greater allied burden sharing will remain an important U.S. goal. In the near term, however, Japan and the ROK cannot financially or politically undertake increased military spending. Any pressure to do so will increase friction; the same applies to most of the ASEAN nations. It would be better for Washington to work with allies regarding only the most crucial plans and programs over a lengthened period of time.

Second, engagement could be improved if the United States were more accepting of political conditions and actions that challenge its notions of civil-military relations and human rights. The possibility of regional military forces returning to and conducting internal security missions with excessive force is high, particularly in Indonesia. The United States could not condone such actions.

The aim should be prevention, which could be accomplished through a robust network of military relations that includes something of a personal dimension. DOD and regional U.S. commanders should be encouraged to nurture contacts with their regional counterparts. Such

Cambodian Prime Minister Hun Sen and Chief of Defense Staff General Ke Kim Yan



AP/Wide World Photos

contacts could be useful in influencing the behavior of regional military forces, particularly as they engage in internal security missions. At a different level, these relations could provide reassurance.

Third, Washington might apply the lessons learned in the Partnership for Peace program to the Asia-Pacific region. These would be modest, low-cost initiatives that would not strain U.S. or regional defense resources and would emphasize such military activities as information processing, management techniques, and professional military education.

Finally, the United States might determine what allies and friends perceive to be essential military capabilities for regional security in the next century. This effort should focus on capabilities and missions, rather than numbers. Such an initiative could alleviate doubts about U.S. intentions. It could also build notions of partnership and help regional defense officials structure their forces for the future.

The Korean Peninsula

Continued deterrence of conflict on the Korean peninsula is essential. A new Korean crisis may be looming. Pyongyang's recent actions suggest that the Agreed Framework of 1994 may have

been less significant than previously thought. In the initial Agreed Framework negotiations, many assumed that Pyongyang would enter into relations with the United States and the ROK, instituting at least minimal economic reforms, and that the potential military threat would slowly recede. Another assumption was that the *juche* regime would eventually cease to exist.

Pyongyang's missile and nuclear programs and its military intrusions into the South suggest that these assumptions may have been inaccurate. North Korean policy is seemingly aimed at getting the nation through its economic difficulties while regaining sufficient strength to continue its hostile policies. To do this, Pyongyang appears to follow a pattern of increasing tensions and then making concessions that never fully materialize, in exchange for additional economic and food assistance. Largely because of the lack of a threat reduction or any other positive change associated with the Agreed Framework, support for current policies appears to be waning. North Korea's Taepo Dong missile launch and evidence that it violated the nuclear accords surprised Japan. Consequently, Tokyo is less enthusiastic about financially supporting the Agreed Framework. In Seoul, Kim Dae Jung's "Sunshine Policy" is facing increasingly negative pressure. In Washington, the demand for implementing tougher policies is increasing.

Washington faces hard choices in the months ahead. If it were to take a tougher approach with Pyongyang, the risk of collapse or conflict could increase. Considering their present circumstances, neither Seoul nor Tokyo would likely support Washington consistently. This could strain U.S. ties with both Japan and the ROK. In the near term, the safest course may be to allow the present dynamic to play out. This would contain the risk of collapse or conflict and allow all nations concerned to buy time.

Another possibility is a combination of these two courses of action. Washington would continue its present policies, but gradually work with Tokyo, Seoul, and Beijing to develop policies that would use a more comprehensive "carrot and stick" approach to change Pyongyang's behavior. This might be accomplished through a special envoy. Any new policy departure must be fully supported by all nations concerned. Additionally, the U.S.-ROK military deterrent must be maintained.

China

The Korean situation and the Asian economic crisis increase the need to integrate China into the regional security community. However, this may prove to be an increasingly difficult problem as time passes.

Recent events clearly demonstrate that the presidential visits in October 1997 and July 1998 did little to reverse the pattern of oscillation in U.S. relations with China. Allegations of Chinese spying and interference in U.S. domestic politics, a continuing hard line on dissidents, and missile deployments opposite Taiwan also cast doubt on the announced intention of the two sides to build a "Constructive Strategic Partnership for the 21st Century."

In the near term, both nations have much to gain from positive ties. Both share an interest in developing their economies, and bilateral economic relations will likely continue to grow. On the Korean peninsula, both share an interest in preventing conflict and nuclear proliferation, and achieving peaceful, incremental progress toward reunification. Also, Chinese reactions to Indian nuclear tests indicate that the two nations are moving closer in their approaches toward dealing with the proliferation of WMD. Finally, the region's economic recovery is in the national interests of both. Over the next 2 to 3 years at least, these overlapping interests will help promote stability in bilateral relations.

However, there are important issues that will affect bilateral relations over the longer term. The challenge is to develop an arrangement within which both the United States and China feel secure without sacrificing any vital interests, including those of key U.S. allies. Considering the issues, this will not be easy.

For example, as the possibility of conflict and instability on the Korean peninsula recedes, China's interests will likely change. Traditionally, Chinese views of national security emphasize the need for friendly or neutral states along its borders. Korean reunification would almost certainly mean that Beijing would try to displace the United States as the most important external influence in the affairs of the peninsula. At a minimum, China would likely seek a significant reduction in U.S. forces in Korea. China might also seek limits on how such forces could be employed. Beijing is likely to view any alliance between the United States and a unified Korea with skepticism and try to undercut it.

The role of alliances in the regional security architecture is the most difficult issue of all. In the past, Chinese security officials have privately acknowledged the benefits of the alliance-based security architecture. However, this view is beginning to change. China's *Defense White Paper* does not see alliances as a suitable basis for the future regional security architecture. It regards them as destabilizing and as vehicles for the promoting of hegemony. Yet, Washington, properly continues to uphold alliances and hopes that Beijing will accept them as in its best interest.

The *Defense White Paper* implies that the Chinese have concluded that alliances have outlived their usefulness and that Beijing cannot realize its interests within such a system. China is determined to be a great power, and, in Beijing's view, great powers do not rely on other nations for their security. Once Beijing has amassed sufficient strength, it may wish to manage its relations with Tokyo independently and avoid what it perceives to be Japanese dependence on the United States.

The probable reactions of Tokyo and Seoul will compound the problem. Neither would likely wish to deal with China without reasonable guarantees of U.S. support. Additionally, any effort to integrate China would seemingly necessitate some power-sharing agreement in the region. Both Washington and Beijing would have to give up some control.

Beijing is not ready to attack the alliance system directly, for two reasons. First, China made such overtures early in 1997 and retreated after

being rebuffed, mainly by the ASEAN nations. The regional nations value the U.S. presence as a counterweight to growing Chinese influence. Second, economic development makes it imperative that Beijing avoid any actions that might undercut regional stability, particularly if they raised questions about Beijing's future intentions.

China is not likely to force any issues until the future becomes more clear. However, China will take every opportunity to advance its own vision. This is based on a vaguely defined combination of bilateral "strategic partnerships," multilateral regional security dialogues, and a regionwide, confidence-building regime.

The United States and China have an opportunity to begin discussions that would enable each side to express its views of how it sees strategic interests developing over the next decade. These discussions should identify future

areas of compatibility and incompatibility and explore means of accommodating differences.

The alternative is to prolong the ambiguity that now exists. This approach would serve short-term interests but leave questions about the future unanswered; this would not be in the interest of the United States or its regional allies and friends.

Net Assessment

The future of the Asia-Pacific region is murky. Its regimes are simultaneously experiencing forces of integration and disintegration. The outcome is in doubt, and no single scenario can be considered more likely than another. The future will be influenced by many countries, particularly the United States.