If America isn't careful in Asia, it may "pivot" itself into a strategic typhoon.

Our Pacific Predicament

by Joseph S. Nye, Jr.

Japan and China have been much in the news lately because of their dispute over seven square kilometers of barren islets in the East China Sea that Japan calls the Senkaku and China calls the Diaoyu Islands. The rival claims date back to the late 19th century, but the most recent flare-up, which led to widespread anti-Japan demonstrations in China in September 2012, began when the Japanese government purchased three of the tiny islets from their private Japanese owner. Then-Prime Minister Yoshihiko Noda said that he decided to purchase the islands for the Japanese central government to pre-empt Tokyo Governor Shintaro Ishihara's plan to purchase them with Tokyo municipal funds. Ishihara is well known for his provocative nationalist actions, and Noda feared that Ishihara would try to occupy the islands or otherwise use them to provoke China. Chinese officials, however, chose to ignore Noda's manifest motives. They regard a Japanese government purchase in any form as proof that Japan is trying to disrupt the status quo.

When the United States returned Okinawa to Japan in May 1972, the transfer included the Senkakus, which the United States had administered from Okinawa. A few months later, when China and Japan normalized their relations in the protracted aftermath of World War II, Japanese Prime Minister Kakuei Tanaka asked Chinese Premier Zhou Enlai about the Senkakus and was told that rather than let the dispute delay normalization, the issue should be left for later generations. Both countries maintained their claims to sovereignty. Though Japan had administrative control, Chinese ships would occasionally enter Japanese waters to assert China's legal position. In Chinese eyes, this was the status quo Japan destroyed with the September 2012 purchase.

In October of last year, Secretary of State Hillary Clinton asked me and three other former officials from Democratic and Republican administrations to travel to Tokyo and Beijing to explain the American position and to listen to the concerns of our hosts.[1] Top Chinese leaders told us that they believe Japan is entering a period of right-wing militarist nationalism, and that the purchase of the islands was a deliberate effort by Japan to begin a process of eroding the settlement of World War II, including the Cairo and Potsdam declarations. Since then, Chinese ships have continued to intrude regularly on what Japan claims as its own territorial waters. Clearly, there is more going on than a mere

Joseph S. Nye, Jr., *is University Distinguished Service Professor at Harvard and author of the forthcoming* Presidential Leadership and the Creation of the American Era.

[1] My three companions were Richard Armitage, former Deputy Secretary of State, Stephen Hadley, former National Security Advisor, and James Steinberg, former Deputy Secretary of State.

illustration by Joe Kovach

squabble over empty islands. And just as clearly, the implications for the United States are hardly trivial, since we are simultaneously allied with Japan and enmeshed in a complex and portentous multilevel relationship with China. Meanwhile, too, every other Asian and Oceanic state, ally and not, from the Philippines to Vietnam to Australia, is watching what we do.

The key strategic issue in East Asia is the rise of Chinese power. For nearly three decades, the Chinese economy grew between 7 and 10 percent annually, which means it has more than doubled each decade. China's defense expenditures grew by an even larger percentage. Chinese leaders speak of China's "peaceful development", but some analysts believe that China cannot rise peacefully, and will seek a form of hegemony in East Asia that will lead to conflict with the United States and Japan. Unlike Europe, East Asia never fully came to terms with the 1930s, and Cold War divisions prevented the reconciliation and institutional development that make another war between Germany and France unthinkable. In that climate of lingering mistrust, it is easy for Asian political leaders to turn to populist nationalism to generate support.

In addition to China's rise, the decline of Japan has caused the balance of power between Japan and China to shift markedly over recent decades. Some analysts find it distracting to describe Japan's situation as "decline." As a leading expert, Gerald L. Curtis of Columbia University, correctly pointed out on a Council on Foreign Relations blog last year, "if you think about living standards and the quality of the air you breathe, the water you drink and the food you eat, the health care and other social services you receive, and the number of years you can expect to live, the answer is obvious: better to live in 'declining' Japan than in rising China." True enough, but in terms of the balance of power, the change is clear.

Japan's economy has suffered two decades of slow growth because of poor policy decisions after a speculative bubble burst in the early 1990s. In 2010, China's economy passed Japan's in total size as measured in dollars (though it remains far behind Japan in per capita terms). In 1988, eight of the top ten companies in the world by market capitalization were Japanese; today none are Japanese.

It is difficult to remember that a little over two decades ago, many Americans feared being overtaken by Japan after Japanese per capita income surpassed that of the United States. A 1989 *Newsweek* article put it succinctly: "In boardrooms and government bureaus around the world, the uneasy question is whether Japan is about to become a superpower, supplanting America as the colossus of the Pacific and perhaps even the world's No. 1 nation." Books predicted a Japanese-led Pacific bloc that would exclude the United States, and even an eventual war between Japan and the United States. Futurologist Herman Kahn forecast that Japan would become a nuclear superpower, and that the transition in Japan's role would be like "the change brought about in European and world affairs in the 1870s by the rise of Prussia." These views extrapolated an impressive Japanese record, but today they serve as a useful reminder about the danger of linear projections based on rapidly rising power resources.

On the eve of World War II, Japan accounted for 5 percent of world industrial production. From 1950 to 1974, Japan averaged a remarkable 10 percent annual growth, and by the 1980s it had become the world second-largest national economy, with 15 percent of world product. It became the world's largest creditor and largest donor of foreign aid. Its technology was roughly as sophisticated as that of the United States and even slightly more so in some areas of manufacturing. Japan armed only lightly (restricting military expenditures to about 1 percent of GNP) and focused successfully on managed economic growth.

Japan has an impressive historical record of reinventing itself twice. A century and a half ago, Japan became the first non-Western country to successfully adapt to modern globalization. After centuries of isolation, Japan's Meiji restoration selectively borrowed from the rest of the world, and within half a century the country became strong enough to defeat a European great power in the Russo-Japanese War. After 1945, it rose from the ashes of World War II.

graphic by Lindsey Burrows

Can it reinvent itself again? In 2000, a Prime Minister's commission on Japan's goals in the 21st century called for a new reinvention, and some thought the 2011 earthquake and tsunami might provide a shock to jump-start the process. But little has happened. Given the slowing of economic growth, the weakness of the political process, the aging of the population and the resistance to immigration, change will not be easy. Japan faces severe demographic problems, with its population projected to shrink to one hundred million by 2050. But Japan retains a high standard of living, a highly skilled labor force, a stable society, and areas of technological leadership and manufacturing skills. Despite its weak recent performance, Japan retains impressive power resources. It possesses the world's third-largest national economy and has the best-equipped conventional military forces among Asian countries. Moreover, its culture (both traditional and popular), its overseas development assistance and its support of international institutions provide ample resources for soft or attractive power. In December 2012, newly elected Prime Minister Shinzo Abe campaigned on a promise to revive Japanese economic growth.

Could a revived Japan, a decade or two hence, become a global challenger economically or militarily, as was predicted two decades ago? It seems unlikely. Roughly the size of California, Japan will never have the geographical or population scale of China or the United States. Its success in modernization and democracy and its popular culture provide Japan with soft power, but ethnocentric attitudes and policies undercut it. Some politicians have talked about revising Article 9 of the postwar constitution, which restricts Japan's forces to self-defense, and a few have spoken of nuclear armament, but neither seems likely anytime soon.

Alternatively, if Japan were to ally with China, the combined resources of the two countries would make a potent coalition. In 2006, China became Japan's largest trade partner, and the new government formed by the Democratic Party of Japan in 2009 sought improved relations with China. However, not only have the wounds of the 1930s failed to heal, but China and Japan have conflicting visions of Japan's proper place in Asia and in the world. For example, China has blocked Japan's efforts to become a permanent member of the United Nations Security Council. China would want to constrain Japan, but Japan would chafe at the restraints. In the unlikely prospect that the United States were to withdraw from the East Asian region, Japan might join a Chinese bandwagon, but Japan is more likely to maintain its American alliance to preserve its independence from China.

In domestic politics, Japan's December 2012 election marked a turn to the right; the LDP and Komeito coalition achieved a parliamentary supermajority of 327 seats. But it would be wrong to describe this turn as militarist. Shinzo Abe, president of the Liberal Democratic Party and now two-time Prime Minister, has a reputation as a nationalist. He recently visited the Yasukuni Shrine, a Tokyo war memorial that is controversial in China and Korea, and just hours after his election he warned China over the Senkakus issue. More basic to the present mood, however, is the fact that Japanese politics is showing the signs of two decades of low economic growth, which have led to fiscal problems and a more inward-turning attitude among the younger generation. Thirty years ago, Harvard professor Ezra Vogel published a book, *Japan as Number 1*, but recently, Vogel has described Japan's political system as "an absolute mess" that replaces Prime Ministers almost every year. Yoichi Funibashi, former editor-in-chief of the *Asahi Shimbun* newspaper, also worries about Japan becoming too inward-looking: "There's a sense in Japan that we are unprepared to be a tough, competitive player in this global world."

Many younger Japanese are "fed up", in their own parlance, with stagnation and drift. Theirs is a reactive more than an aggressive nationalism. Japan is not about to return to the 1930s, and the military is firmly under civilian control. When asked about the rightward trend in politics, some young Diet members say they hope it might produce a realignment among political parties that would lead to greater longevity of Prime Ministers and more effective national government. If a moderate nationalism is harnessed to produce political reform, the results could be good for

Japan as well as the rest of the world. But an increased nationalist mood can also lead to symbolic and populist positions that win votes at home but irresponsibly antagonize Japan's neighbors.

In the 1980s, after China turned to market mechanisms to foster economic development, Deng Xiaoping warned his compatriots to eschew external adventures that might jeopardize internal development. In 2007, President Hu Jintao told the 17th Party Congress that China should invest more in its soft power, and China has spent billions of dollars in that effort. This is a smart strategy for a country making enormous strides in economic and military power. China has sought to reduce the fear and the tendencies to balance Chinese power that might otherwise grow among its neighbors.

After the 2008 financial crisis, however, many Chinese mistakenly concluded that the United States was in decline. "People are now looking down on the West, from leadership circles, to academia, to everyday folks", said Professor Kang Xiaoguong of Renmin University.[2] Such overconfidence in power assessment (combined with deep insecurity in domestic politics) led to more assertive Chinese foreign policy behavior in the latter part of 2009. China disregarded Deng Xiaoping's advice that China should proceed cautiously and "skillfully keep a low profile." Indeed, with a few choice missteps over a remarkably brief period, Chinese leaders squandered the benefits of an otherwise impressive charm offensive.

After experiencing international criticism and failing to deter the United States from sending arms to Taiwan, top Chinese leaders soon decided to return to Deng's smart power strategy. That is still the view at the top. One of the new fifth-generation leaders told our visiting team that China would need a peaceful environment for development for 30 to 50 years, and that the United States would remain the most powerful country for at least that long.

But below the top level there flows a strong current of nationalism, both in the bureaucracy and in the blogosphere, that serves as a substitute for public opinion. At that level, Chinese opinion is more impatient. For example, General Liu Yuan argues that China should cast aside restraint, and Major General Luo Yuan urges the dispatch of hundreds of fishing boats to fight a maritime guerrilla war to seize territories claimed by China. Such positions may not be typical, but the danger is that nationalists in China and Japan will provoke each other to greater belligerence. In such a situation, hawks feed each other across national boundaries.

Moreover, such views are exacerbated by biased textbooks and government policies. The Chinese Communist Party is not very communist any more. The joke goes that it is "market-Leninist." It bases its legitimacy on high economic growth and ethnic Han nationalism. Memories of the Sino-Japanese War of 1894–95 and Japanese aggression in the 1930s are politically potent and undergird a larger theme of Chinese victimization by imperialist forces.

What is China's maritime strategy? China used lethal force to expel Vietnamese from the Paracel Islands in 1974 and 1988. And China prevailed upon Cambodia, host of this past year's ASEAN regional summit, to prevent a final communiqué that would have called for a code of conduct in the South China Sea. It was the first time in the ten-member association's four decades that it failed to issue a closing communiqué.

Some American defense analysts see a clear and aggressive strategy. They point to increasing defense expenditures and development of missile and submarine technology designed for area denial in the seas out to "the first island chain" of Taiwan and Japan. Others see a Chinese strategy that is confused, self-contradictory and paralyzed by competing bureaucratic interests. They point to the negative results of China's more assertive policies since the economic crisis of 2008, which have worsened relations with nearly all its neighbors. Take the Senkakus incident in 2010, when a Chinese trawler rammed a Japanese coast guard vessel, Japan arrested the crew, and China escalated its economic reprisals. The result was a reversal of what had

[2] John Pomfret, "Newly Powerful China Defies Western Nations with Remarks, Policies", *Washington Post*, March 15, 2010.

been for China a favorable trend under the new Democratic Party of Japan government. As one Japanese analyst told me, "China scored on its own goal." And while China spends billions of yuan in efforts to increase its soft or attractive power in Asia, its actions in the South China Sea contradict its own message.

I have asked Chinese friends and officials why China follows such a counterproductive strategy. The formal answer I usually get first is that China inherited historical territorial claims, including a map from the Nationalist period with a nine-dashed, U-shaped line that creates a deep pocket into the South China Sea. Now with technology opening access to underwater resources and fisheries in the area, it is impossible to give up this patrimony. In 2009–10, some mid-ranking officials and commentators even referred to the South China Sea as a sovereign "core interest" on a par with Taiwan or Tibet.

While China spends billions of yuan in efforts to increase its soft or attractive power in Asia, its actions in the South China Sea contradict its own message.

But China has never been clear about the exact location of the nine dashes on that U-shaped line, nor about whether its claims refer to only certain land features or to more extensive continental shelves and seas. When asked why they do not make this clear, my Chinese interlocutors sometimes say that it would raise difficult nationalist issues at home, and would require difficult political and bureaucratic compromises. Sometimes they say they do not want to give away a bargaining position prematurely. In 1995 and again in 2010, the United States declared that the waters of the South China Sea should be governed by the 1982 UN Law of the Seas Treaty (which, ironically, the U.S. Congress has not yet ratified). But the U.S. government takes no position on these third-party territorial claims. Instead, it urges, sincerely but in rather anodyne terms, that they be resolved peacefully by negotiations.

In 2002, China and ASEAN agreed on a legally non-binding code of conduct for managing such disputes, but, as a large power, China believes it will do better in bilateral rather than multilateral negotiations with small countries. That belief was behind China's pressure on Cambodia to prevent an ASEAN communiqué related to a reinforced code of conduct. But this is a mistaken strategy. As a large power, China will have great weight in any circumstance, and it could reduce its self-inflicted damage by agreeing to a code.

During our October 2012 visit to Tokyo and Beijing, my colleagues and I stressed three points. First was a message of deterrence, reminding our interlocutors that the U.S. Secretaries of State and Defense had declared publicly that the Senkaku Islands are covered by Article 5 of the U.S.-Japan Security Treaty.

Second, we urged that horizontal communication between Japan and China be improved, but also that more attention be given to vertical communications between the national capitals and actors on the scene who come from many bureaucracies and whose heroics can take governments beyond where they want to go. The 2010 ramming of a Japanese coast guard cutter by a Chinese trawler was not an action ordered from Beijing.

Finally, we warned that populist nationalism could destroy the joint-sum gains that China, Japan (and, indirectly, the United States) get from rising prosperity. China and Japan are each other's main trading partners, and top Chinese leaders told us they were well aware of the costs of disrupting that relationship. At the same time, former Japanese Foreign Minister Koichiro Gemba has estimated that the September incident alone cost Japanese companies more than $100 million. When populist nationalisms interact and leaders compete for power, economic rationality can be quickly overwhelmed.

In 2011, President Obama announced a "pivot", later labeled a "rebalancing", toward Asia. As already noted, some American ana-

lysts argue that China's rise cannot be peaceful and that therefore the U.S. government should now adopt a policy of containing China. Many Chinese officials perceive that to be the current American strategy, but Administration officials have denied that is the case, and they are correct. A glance at history illustrates the point. Cold War containment of the USSR meant virtually no trade and little social contact. Today the United States not only has massive trade with China, but also extensive social contact, including 157,000 Chinese students attending American universities.

With the end of the Cold War, the containment of the Soviet Union could no longer provide a model for U.S.-China relations. Moreover, relations with China cooled after the Tiananmen Square shootings in 1989, and the Clinton Administration had to devise a new approach. As an Assistant Secretary of Defense, I supervised the Pentagon's *East Asia Strategy Review* in 1994, and we rejected the idea of containment for two reasons. If we treated China as an enemy, we were guaranteeing an enemy in the future. If we treated China as a friend, we could not guarantee friendship, but we kept open the possibility of more benign futures. In addition, it would have been difficult to persuade other countries to join in a coalition to contain China unless China resorted to bullying tactics such as the Soviets used after World War II. China, by its behavior, would be the only country that could organize the containment of China.

Instead of containment, the strategy that the Clinton Administration devised could be termed "integrate but hedge"—something very much like Ronald Reagan's "trust but verify." The U.S. government supported China's membership in the World Trade Organization and accepted Chinese goods and visitors. However, the Clinton-Hashimoto Declaration of April 1996 reaffirmed that the U.S.-Japan Security Treaty was not a Cold War relic that would in due course be discarded, but an operative arrangement whose modernization would provide the basis for a stable and prosperous East Asia. President Clinton also set his sights on a major improvement of relations with India. This strategy has enjoyed bipartisan support. The Bush Administration continued to improve relations with India, while deepening and formalizing the economic dialogue with China. Bush's Deputy Secretary of State Robert Zoellick made clear that the United States would accept the rise of China as a "responsible stakeholder." The same policy continues to guide the Obama Administration. In my view, it remains the right policy.

One of the major power shifts of the 21st century is the recovery of Asia. In 1800, Asia represented half the world's population and half the world's economy. By 1900, because of the industrial revolution in Europe and North America, Asia's share of world product declined to 20 percent. By the middle of this century, Asia should again represent half the world's population and product. This is a natural and welcome evolution, as hundreds of millions of people escape from dire poverty. At the same time, however, it has given rise to fears that China will become a threat to the United States.

The fear is not necessary, however, if we remember that Asia is not one entity. It has its own internal balance of power. Japan, India, Vietnam and other countries do not want to be dominated by China, and thus welcome an American presence in the region. Unless China proves able to better develop its soft power of attraction, the rise in its hard military and economic power is likely to frighten its neighbors into seeking coalitions to balance against it. For example, after China developed its more assertive foreign policy in 2009, the net result was that, after a short two years, China had worsened its relations with Japan, India, South Korea, Vietnam and others—quite a remarkable record that has confirmed the premise of the American strategy that "only China can contain China." A strong American economic and military presence in Asia allows us to be a balancer that helps to shape the environment and provide incentives for more responsible Chinese behavior.

But it would be a mistake to focus only on the hedging part of the American strategy. We should not over-militarize the rebalance toward Asia. The United States and China (as well as other countries) have much to gain

from cooperation on a range of transnational issues. One cannot manage solutions to global financial stability, climate change, cyber-terrorism or pandemics without such cooperation. If power is the ability to affect others to obtain the outcomes one wants, it is important to remember that sometimes our power is greater when we act *with* others rather than merely *over* others. This important dimension of a smart power strategy is not captured by the concept of containment.

As a status quo power, the United States has much to gain from a triangle of good relations among itself, Japan and China. Those who evoke the analogy of a rising Germany a century ago forget that the Kaiser's Germany had passed Britain by the beginning of the 20th century, while China will not pass the United States in overall power for decades, if ever. Unless we succumb to premature fear, we have time to manage the emergence of Chinese power, and our alliance with Japan provides an important hedge in case things go wrong.

But it's true that nationalism poses dangers that are difficult to control. Despite the fact that China has become Japan's largest partner in trade and direct foreign investment, one country's nationalist energies fuel the other's, and both governments are now developing a habit of playing with fire. The United States has an interest in dampening this trend. American interests rest on stability in the region to allow the continuing growth of trade and investment that benefits all countries. The U.S.-Japan alliance remains crucial to stability in East Asia, but so too are good relations in all three sides of the strategic triangle. One thing is clear: If, despite all we do, Sino-Japanese relations deteriorate toward literal conflict, the United States will be faced with some very tough choices. It is probably not too soon to quietly begin to analyze within government just what some of those choices might look like.

As for the Senkaku/Diaoyu Islands, no swift resolution is likely. Japan's former Foreign Minister invited China to take the issue to the International Court of Justice, but China is unlikely to accept. At best, we can hope to move the issue to the backburner of regional politics, where it would be less likely to boil over and spoil other dishes. In the meantime, incidents proliferate, as on December 13, when Japan scrambled eight F-15 jets in response to a Chinese intrusion into airspace Japan considers its own.

In my view, the best proposal is that suggested by the *Economist*. China should refrain from sending official vessels into Japanese waters, and use a hotline with Tokyo to manage crises generated by nationalist hotheads or "cowboys." At the same time, the two countries should revive a 2008 framework for joint development of disputed gas fields in the East China Sea, and the Japanese government should declare the islets an international marine protected area with neither habitation nor military activities. It's an excellent idea: balanced, proportional and eminently rational. And that is precisely why, in the present climate, I am not holding my breath waiting for it to be adopted.