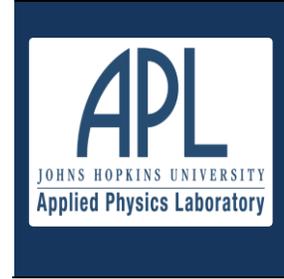




JHU/APL Seminar Series
*Rethinking U.S. Enduring Strengths,
Challenges, and Opportunities*

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The Eurasia Group

Rethinking Risks and Relationships in the Asia Pacific Region

Notes:

1. Below are informal notes taken by a JHU/APL staff member at the Seminar.
2. Links to the video and audio files for this and past seminars can be found on the [Rethinking Seminars](#) website and the [JHU/APL YouTube Playlist](#).

Introduction

Dr. Gordon noted that his organization, the Eurasia Group, usually works for private clients identifying political and security risks worldwide. However, they do produce a series of public assessments each year. Their [Top Risks of 2014](#) report is now available on the organization's website www.eurasiagroup.net.

Paradox of US Foreign Policy

Two trends from last year highlight continuing US strengths, but allies around the world are worried about what Washington is doing and whether it will stay engaged.

- Middle East allies are not happy with the direction of US diplomacy on Iran
- Asia allies are concerned that the US is not really committed to its Pacific pivot
 - How come President Obama in his UN address only gave one sentence to Asia while focusing on Middle East issues?
 - Why, despite a major push for the big Trans-Pacific Partnership (TPP) trade negotiations to be done by the end of 2013, they are yet not completed?

The first part of the paradox and a sign of US strength revolves around elections in Iran

- The elections brought in a government willing to move away from its nuclear policies in response to what sanctions have done to the Iranian economy
 - Since 2012 Iran has lost half the value of its oil exports, causing a major impact on the entire country's economy
- Rhetoric about the US from the new government has changed
 - Previous Iranian leadership used to call the US a paper tiger
 - Now the government asks: Why are the US and the rest of the world at war with us?

- There has been a change in the political calculations about the relationship between the economy and the nuclear program
 - Facing increased sanctions, the Iranians must decide whether they want a viable economy or a nuclear program
 - In the 2013 election Hassan Rouhani was a member of the establishment but from the less militant national security elite
 - He had been side-lined over the last decade but the Supreme Leader allowed him to run this time
 - He attacked Mahmoud Ahmadinejad's policies that had run the Iranian economy into a cul-de-sac promising to get the sanctions lifted
 - The West used Rouhani's election as an opportunity to start negotiations
 - The interim agreement was a big success, however, it offers only the possibility of a getting a final resolution on the nuclear weapons issue
- Main driver of the success of negotiations: the unconventional energy revolution now going on in North America
 - Mostly involving oil and natural gas where resource availabilities are now growing faster than the increase in energy demand
 - Result of the revolution: pulling half of Iranian oil off the market did not cause a major price spike

The second sign of US strength is China's decision to engage the US

- China and the US are still competitors but there is a new dynamic in the relationship
- Main driver: the shift in the internal Chinese debate about whether the US was a resilient power or not
 - In the aftermath of the financial crisis of 2008, China saw the US as weak and, therefore, believed it should act more assertively in the region
 - New leaders in 2013 took another look and did not like what they saw
 - Southeast Asian countries were looking toward closer ties with the US and Japan
 - The US responded to calls from Asian allies for a commitment to a more permanent role in the region in the form of the Pivot

The paradox:

- One side: Big changes in the world are occurring related to US enduring strengths and the continuing robustness of its economy enhanced by the energy revolution
- On the other side: Allies also see other issues
 - NSA and Snowden Affair
 - Complicated by the fact that the Administration has not been able to articulate its policies to either domestic or allied audiences
 - Created major challenges in US relations with Germany, Brazil, India, Indonesia
 - Inconsistencies about the issue of chemical weapons in Syria
 - Less about the specifics and more about the issues related to "red lines" being announced and not acted upon

- What looked like a ramp-up toward military options was switched to a half-baked domestic strategy
 - If really want Congress on board, should call them back into session rather than wait for them to return from vacation
- Administration's failure to push Congress to get trade promotion authority so that trade agreements can get up or down votes
 - Needed for finalizing negotiations on the TPP
 - Without it, no country will put forward its best offers when making trade deals with US
 - Obama merely told Congress it was their responsibility to pass TPT
 - For the last major trade deal (NAFTA) President Clinton put on a 6-month campaign including a war room in the White House
 - Every economic speech discussed how important NAFTA was to the economy
 - President Obama made two major economic speeches but never tied in how TPP would improve the economy

Bottom-line: The paradox about US enduring strengths

- On one hand: 6-7 years ago in the financial crisis things were not going well with the dollar sliding, talk of Europe taking the lead, rise of the BRICs, etc.
- On the other hand: now the US economy remains relatively strong
 - But the growth rate of the BRICS (Brazil, Russia, India, China, South Africa) have dropped greatly from their peaks
 - China's growth rate is still strong but its leaders see that time is not on their side and must quickly restructure their economy, which will be hard to do
- Financial clients of Eurasia Group seem to agree that the US is back as the leader and the best place to put their investments
 - American economic underpinnings despite challenges (growing inequality and deteriorating infrastructure) are still solid
 - US is stronger today than in the recent past
 - Largely because of the effects of the energy revolution which is centered surprisingly in the traditional carbon-based resources
- These concerns provide framework for thinking about enduring American strengths

Asia

The most important events in 2013 were the leadership changes in Japan and China which produced some unexpected results.

Japan

Shinō Abe was the president of the Liberal Democratic Party (LDP)

- The LDP, which had been in power since the end of WWII, but had been voted out of office in the last elections four years ago
 - The Democratic Party of Japan (DPJ) took over but never got traction
- In the 2013 elections the LDP came back into power
 - Being out of power had a big impact on them

- Abe came in committed to finding new ways to get the stagnant economy moving again toward a growth trajectory
- LDP economic policy includes a large national security element
 - Unless Japan got back on a growth trend economically, it would not be able to compete in the region with a China that was growing stronger

Bottom line: At the core of the national security issue was the notion that Japan had to get its economic house in order so that it could compete in the region

- After being the post-WWII powerhouse for the region, Japan suffered from 20 years of stagnation and deflation that was hard to rise above
- Abe came in with a program to shake things up
 - Even after only one year, it is possible to see improvement there
 - Wanted to inspire inflation concerns so that people would go out and buy today before the price goes up
 - In a deflationary scenario, people hold back their buying thinking that what they want will be cheaper tomorrow
- Abe started off well and then won big in upper house elections in July
- Japanese nationalism which had for decades been focused on the US is now moving defensively to focus on China
 - Japan recognizes that it must up its game to compete with China, a concept that is fueling Japanese nationalism

China

About 30-35 years ago China started to move away from Communism

- In the last 10 years an oligarchy at the top was created centering around a business/state/military complex made up of:
 - High-ranking Party officials and the leadership of state-owned enterprises
 - Leaders of the private sector, which is overwhelmingly dominated by those with close familial ties to the top levels of the political establishment
 - Has caused the Communist Party to lose legitimacy with the public
- In the last 5 years as the Chinese internet grew up, a critique has developed that was both nationalist and anti-Communist asking:
 - Why has China invested so much money in the West?
 - Why are so many Chinese firms developing relations with the West?
 - Most importantly: Why are local political leaders wearing \$10,000 watches?
 - Pictures taken have been posted all over Chinese social media
- Chinese political structures are designed to overcome a problem present in authoritarian systems – how to change leaders
 - In most authoritarian regimes once leaders get into power they don't want to let go, which tends to destabilize the system
 - 20 years ago China built a system where a whole generation of top leaders changes at the same time every ten years
- 2013 was the year to move in the next generation
 - In the run-up to the change there was a great deal of contention for power and influence throughout China

- One particular aspect was the efforts of a regional Party leader Bo Xilai to become a populist leader outside the confines of the Party
 - Bo's efforts badly scared the Party leaders who responded harshly
- Younger leaders also perceived that time was leaving China behind
 - China's trajectory was not going to work much longer
 - Chinese economy was too dependent on exports and
 - A level of domestic investment that was unsustainable
 - The state-directed economy
- New leadership quickly outlined their goals for the country:
 - Limiting government by outlining what leaders could and could not do because the people felt so oppressed by local Party leaders
 - Moving markets to the center for the determining distribution of resources in the country to reinvigorate market-centric focus in the economy
 - Most interesting: Recentralizing authority in the top levels of the Party with a corresponding large anti-corruption campaign
 - To instill fear in those likely to be losers in the economic reform process – those who had protected interests
 - To regain credibility especially among the urban middle class who believed the Communist Party was so corrupt that it could not change
- Paradox: The Chinese were doing economically what they had to do to sustain reasonably high levels of growth and to avoid a hard landing
 - Hard landing would be even worse when the demographic shifts kick in about five years from now
 - But the method used is classic Leninism – top down decisions implemented by tough guys, who if crossed, would be dangerous

Regional Security

The big national security challenge is now the growing tension between China trying to flex its strength without scaring its neighbors into calling the US in for support

- China has not been able to find that equilibrium yet
- Example: the recent problems with China's newly proclaimed Air Defense Identification Zone (ADIZ)
 - ADIZ was established to pressure Japan over the long-standing conflict about the tiny Senkaku (in Japanese) / Diaoyudao (in Chinese) islands
 - China doesn't accept Japan's sovereignty of the islands stemming from their 1895 war
 - Japan doesn't accept that there is a conflict over the issue
 - As the new Chinese administration came in they wanted to move Chinese nationalism focus away from the US
 - Abe's rise to power gave them an excuse to focus it on Japan
 - Both leaders gain politically over the tensions around the islands
 - For China tensions provide a way to express nationalism and give a boost to the PLA
 - For Japan tensions provide an example of why radical economic change is needed

- Prediction: The islands dispute is not headed toward a military conflict
 - But accidents are always possible
 - For precedents look at the China/Taiwan controversy which has been going on for decades without an accident in the last decade
 - Should expect to see very tight ROEs
 - Even if there were an accident, both sides want to avoid the dire consequences of a military conflict
- Seeing a shift in Chinese focus
 - China under the last regime was assertive in the region but passive at home
 - Now focusing on the home situation to straighten out problems there
 - To do so they need a quiet foreign policy situation in the region
 - China will try to keep the peace by using extra-territorial instruments like ADIZs
- At the same time China is highlighting long-standing maritime claims as “core national interest”
 - During the Bush Administration China had a much narrower view of its core national interests: primarily the issues of Taiwan and Tibet
 - By pushing these maritime claims China has succeeded in encouraging its neighbors into a greater unity of action
 - This in turn has allowed the US to enhance its security relationships in the region

Bottom line: There is good news in Asia for the US

- Despite all the geo-political tensions: North Korea / Vietnam-China / Philippines – China / etc.
- Even given the tensions related to a rising aspiring power and the incumbent national security guarantor in the region, the US
- Mitigating these tensions
 - Over the last 30 years Asian countries have developed remarkably integrated production and trade relationships
 - Increased growth, job-creation, living standards across the region
 - By contrast the Middle East: continues its isolated economies with little linkage providing no mitigating buffers
 - The US presence is also a buffer
 - China was more assertive 2010-12 when it thought that the US was weak, but its neighbors looked to the US for more reassurance
 - This was the one of the origins for the US Pivot to Asia
 - The Pivot also came from the recasting the relationship between the US and its allies
- In a discussion with a very senior Japanese leader 3 years ago: We Asians are finally getting it – the game with the US military presence is changing.
 - It used to be: What can we get from the US for giving them access to our resources?
 - Now it is: What do we need to give the US to ensure its military will stay?
- TPP becomes important here

- Provides the context for the economic/commercial side of the Pivot
- Compliments the extended security guarantees on the military security side of the relationships
- But the US government got caught up in the Obama-care development
 - So the President saw the TPP as too hard to do right now given his low domestic standing and a challenging election cycle
 - It might be possible to get traction on TPP after the 2014 elections
- The problem: Trade agreements have a certain momentum
 - Slowing negotiations down can be detrimental
 - Failing to get TPP worries Asian allies who see the Obama Administration's apparent shift back to a Middle East focus

North Korea

The Bad News

- The new regime is even more unpredictable
 - Will be even harder to know what is going on there
- Communist countries with unofficial familial dynasties (Lenin did not have this in mind) tend to become less legitimate over subsequent generations
 - N. Korea is no exception
 - The first leader, Kim Il Sung the brutal revolutionary, had legitimacy, and spent years before his death building up the legitimacy of his son, Kim Jong Il
 - Kim Jong Il did not build up the legitimacy of his son, Kim Jong Un
 - Kim Jong Un is hard to see as a leader now and is unlikely to have an easy time at proving his legitimacy
- Prediction: N. Korea might be heading toward a very bad period

The Good News

- Worries about a crisis in N. Korea revolve around the risk of where it might lead – to a crisis between the China and S. Korea or China and the US
 - Chances of that happening have dropped a great deal
- In last year of N. Korean provocations, China has been much less supportive to N. Korea, its traditional ally
 - At the same time there are growing relations between China and S. Korea
 - This may be problematic for the US because of on-going nationalism problems between two key US allies, Japan and S. Korea
- The most severe concern has been the N. Korea collapse scenarios
 - S. Korea and the US go north to secure nuclear facilities while China moves south to try to stabilize the situation to avoid large-scale migration
 - Such concerns are much less of a worry now
- A reunification crisis would be horrible primarily for S. Korea
 - The income difference between North and South Korea is 10 times larger than the income difference between East and West Germany at reunification
 - Reunification was very painful for Germany and S. Korea does not believe that it can financially handle the burden of reunification

- While reunification would be a potentially horrendous economic problem for S. Korea, it would not be as big a security issue as a humanitarian crisis

Other Asian Issues

China – Taiwan

- Concerns for a real conflict have faded a great deal
- Security trends in northeast Asia have definitely improved somewhat

Southeast Asia

- Traditionally tensions between Vietnam and China have been strong but recently Chinese investments have been fueling Vietnam's economy
 - Because wages were getting too high in China
- Vietnam is trying an interesting hedge by getting very close to the US in security terms but remaining the focal point of regional, Chinese, and US investment
 - This will likely continue

Philippines – China: perhaps the biggest problem in the area

- Part of the problem stems from the Philippines' military's efforts to gain a bigger cut of the national budget
- The Philippines also wants to see how far it can push China but they got burned trying this in 2012
- The Philippines believe that the US will be there for them, but that might depend on the circumstances

South China Sea

- China has very recently been making efforts about energy resources in the SCS
- Competing sovereignty claims in the area mean that no energy development is happening yet
 - China wants to discuss these various claims through bi-lateral negotiation
 - Other countries involved want discussions to be between China and the Association of Southeast Asian Nations (ASEAN)
 - Very recently China has shown some interest in this option
- China is very scared about the Middle East becoming less stable as well as less important as a producer of energy for the US
 - Makes China want to develop local resources more quickly
- Bottom line: China is unlikely to engage in a process involving multi-lateral negotiations over the claims
 - However, until agreements are worked out, few investments will be made in the development of resources in the SCS

Energy Issues

- China has tremendous fears about its energy resources and their vulnerabilities
- A couple of years ago China's watchword for energy was: look westward as the US became more involved in the western Pacific
 - China saw commercial opportunities as the US pulled back in the Middle East

- In the last 12-18 months China sees that there won't be the stability needed to obtain a great deal of resources from Central Asia and the Middle East
- China is now looking eastward to North America for energy
 - Already bought into a Canadian energy firm
 - Wants very much into the US shale oil and Mexican markets
- China has also changed its attitude about the Trans-Pacific Partnership (TPP)
 - When TPP was first discussed, China considered it a US plot to contain them
 - Now China is talking about how and when it could take part in negotiations
 - Now talking about a bi-lateral investment treaty with the US after years of refusing to do so
- Bottom line: This may be an opportunity to reset US-China relations in positive way

Recommended Strategy for the US Advance in the Region

1. Move ahead with finalizing the TPP negotiations
 - Would do the most to reassure Asian allies that the US will remain committed to the area
 - Would create mutually beneficial economic relations
 - Would encourage China to become more involved
2. Reassure close allies (Japan/S. Korea /the Philippines) and new friends (Indonesia/Vietnam/others) that the US won't allow China to create new strategic realities
 - Most important now is the Senkaku / Diaoyudao Islands dispute
 - US has been playing this issue well so far
 - High-level visits in fall of 2012 convinced China to shift their pressure tactics from the military to the commercial
 - However, lately the Chinese have been behaving a little more militaristic
 - But the reaction to the introduction of its ADIZ has shown China how it is hurting relations with neighbors who are banding together
3. Work to collaborate more with China on issues from outside the region
 - Hold robust energy dialogs with China including allowing them into the US energy market
 - Engage China on security issues of mutual interest such as in Afghanistan, the Levant, North Africa
 - Confirm that the US remains committed to protecting the sea line of communication (SLOCs) but perhaps not indefinitely
 - Over time there will be a need for new parameters on the SLOCs
 - A potential trade: the US continues to protect SLOCs while China accepts US presence in the Pacific with a more institutionalized framework for security

The other biggest risk to the US are tensions between S. Korea and Japan

- The Korean president (because her family background includes a Japanese ancestor) is not in a position where she can make the first move to improve things between S. Korea and Japan
- New US Ambassador Caroline Kennedy, already a big hit in Japan, could use quiet diplomacy to impress upon the Japanese the need for good relations with S. Korea

QUESTIONS & ANSWERS SESSION

Re: Reasons for Chinese Establishment of Coordination Elements like the ADIZ

- The decision probably had more to do with domestic issues
 - In efforts to make political reforms there will be many powerful losers
 - Do not want the losers to have the ability to mobilize against leaders
- It is unlikely that the policy-makers had a fear of the PLA becoming too independent
 - Often such mechanisms made to keep the military in line but that is not the case in China
- The ADIZ is also:
 - China's response to President Obama being distracted by the controversy around the Obama-Care start-up
 - Provided an opportunity to push Japan a little
 - China likes to use any opportunity to put some space between Japan and the US
 - However, that makes it easier for Japan to strengthen connections with others in the region creating a security dilemma for China
- The establishment of the ADIZ is not seen as a big success for China

Re: China and Energy Resources

- China does not have enough energy resources in the SCS to be able to depend on it for energy requirements any time soon
 - China will continue to be more dependent on resources from the Middle East over the next 5-10 years
- There is no really good insight about where energy production will be going even in the next few years
- The world energy picture had changed a great deal in the last 5 years due to surprising technological advances
- Technology overtook two National Intelligence Estimates (NIEs) that Dr. Gordon led on the geo-politics of energy
 - Technology moved much faster than the policy-makers were told would happen

Re: India-US Relations

- From a very high level India and the US look like they should have very similar interests but they are very different when looked at more closely
- The civilian nuclear deal with India was a very good idea that turned out badly
 - The US did not get the commercial benefits and access that it expected
 - Much had to do with the way that India negotiates
 - India says: Give me this today
 - Then tomorrow India says: Give me that
- India is not in the top 50 security relationships that the US has developed with countries after 9/11
- India does have military aspirations (especially the navy) which could potentially come to fruition
- India likes to keep its relations with China on a bi-lateral basis

- NATO's withdrawal from Afghanistan could make relations interesting
 - India and China are just now starting to talk about Afghanistan
- Expect that it will be hard to get good political engagement
- India also tends to respond out of proportion to diplomatic problems
 - The response to the recent incident with the Indian diplomat in New York City was closer to actions taken against an adversary
- US is extremely popular among the people of India but translating that into a strong security relationship has proven very difficult
- India has a lot of commercial connections to China
 - It currently is not interested in taking a stronger lead in Southeast Asia
 - It may want more of a role in a few years

Re: US and Indian Relations in South Asia

- The US is on the road to normalizing relations with Vietnam
 - There are still political elements there that are making relationships difficult
 - Impossible to tell how long it will take to reach normalization
- India has been underplaying its role as a major power in the region and is aware of this now
- The announcement of the upcoming US pull out from Afghanistan has encouraged India and Pakistan to develop an emergency communications system
 - Designed to avoid conflicts, it is moving into economic relationships
 - It is expected that a new government after elections in 2014 will keep up these policies
- India will remain focused on its big power relations with US, China, Pakistan
- It is doubtful that they will get further into the great power game any time soon

Re: Financial Markets

China's senior financial managers are very sharp, but much of what they say publicly is done to manage domestic situations

- China currently has no other reasonable alternative to investing in the US
- It will be interesting to see what happens under the new leadership
- China was already looking for a way to internationalize its financial system without going through financial liberalization, but learned that it could not be done
 - Expect to see real financial liberalization
 - Could be one of the most interesting and challenging elements of China's reform efforts
 - Will likely cause tremendous financial pressures in China
- China does have a great deal of financial reserves but in a closed system it is not possible to have a banking crisis if the state has reserves and the will to use them
 - There have been no banking crises up until now but they are opening themselves up to the possibility of such crises
 - The Chinese do not want to protect all assets in its banking system
 - Once a banking crisis starts it is hard to stop it without massive intervention

- Bottom line: If China could actually internationalize its systems, it could be a very positive thing for China and probably also for global financial market stability
 - Would be good to have another alternative to the dollar, Euro, pound sterling, and Swiss francs

Re: Opportunities for Engagement with China

- China's new leaders have called for a new relationship among the Superpowers, which at its core has:
 - China's belief that it should be treated as a Great Power in global venues such as the UN and the IMF
 - The US would see this as a good idea, too, so that China could be a more constructive global player
 - China's desire is to be recognized as the ultimate dominate power in the western Pacific
 - The US will not go along with this concept
- The US could do a great deal in developing relations through military-to-military exchanges and the Navy has begun doing that
- It is unlikely that the competitiveness can be removed from the regional equation
- Recommendation: the US must look for win-win opportunities on security, economics and energy
 - US must socialize China to the notion that the US will not be leaving the western Pacific
 - If China wants a reduced US presence, there must be a regionally agreed framework for protection of the SLOCs, especially to the Middle East

Re: North Korean Collapse

China is already pressuring North Korea more using food, energy, and other relations

- China has been very unhappy with the new N. Korean leadership
- China's tone about N. Korea has changed over the last 3-4 years in its media
- The level of frustration toward the regime is rising
 - China even co-authored the latest UN Security Council resolution on N. Korea
 - However, China is not likely to make any multi-lateral moves to pressure N. Korea further
 - They do not want to legitimize that sort of activity
 - Don't expect to see any strategic coordination between the West and China on N. Korea
- China does not care what the Koreans do domestically or its internal purges, since the big issue for them is the North's nuclear provocations
 - Provocations help to legitimize the presence of US forces in the Pacific and show how little influence China has with its closest ally
- Trying to predict N. Korea's collapse is foolish
 - Fifteen years ago during its food crisis, Dr. Gordon would not have believed that the N. Korean regime would still be here today
 - There is no way to know when it will collapse

Re: Chinese Journalists and Censorship

China's attempts to control journalists are part of its overall desire to expand its political control enabling its economic reforms to take place

- Relations are likely to be critical for the next several years
- Expect to see a tight rein on the media
- The leadership desperately wants to
 - Control the narrative on corruption
 - They really do want an anti-corruption campaign but it won't be transparent
 - Reestablish credibility of the Party among the middle class
 - Strike fear in the hearts of those who might be interested in challenging the leadership on the reform front