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A Reset for East Asia: Managing Risks Under New Leadership

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LOOKING AT EAST ASIA through Japan's eyes, there are a number of challenges that, if not managed carefully, risk spoiling the future stability and prosperity of Japan and the entire region. Four challenges in particular stand out: the North Korean nuclear threat; Japan-China tensions surrounding the Senkaku Islands; Japan-South Korea relations, which further deteriorated after former South Korean President Lee Myung-bak's visit to Takeshima; and the need to reinvigorate Japan's politics and economy.

The urgency of these challenges is amplified by a number of key regional trends. First, leaders in North Korea, the United States, China, South Korea, and then Japan have newly come into office or been re-elected in the past several months. This presents new opportunities for resetting relations with fresh policy approaches and cooperation. But on the other hand, once the honeymoon periods fade, there is the risk that leaders will be tempted to act against regional interests for short-term domestic popularity gains.

Second, nationalist frustrations have surged across the region, magnifying the risk that narrow nationalist interests will take precedence over regional ones.

Third, the balance of power in the region is continuing to shift as emerging economies such as China, India, and many ASEAN countries post rapid economic growth and increase their military spending. Managing the shifting balance of power—so as to maintain and strengthen regional peace and prosperity—is difficult enough given the inherent instability that accompanies power shifts and the troubles involved in coordinating complex global issues among an increasing number of geopolitically important stakeholders. And in the context of domestic politics and surging nationalism, this gargantuan task is even further complicated.

The North Korean Nuclear Threat

With the transfer of power to Kim Jong-un just over a year ago, there was some hope that he would chart a course for reform and opening. Two rocket launches

last year and a third nuclear test in February have all but killed any such hopes. Earlier optimism arose from signs that Kim Jong-un was changing North Korea's power structure. While his father, Kim Jong-il, preferred to rule by centering power in the military, Kim Jong-un has gradually worked to reassert the Workers' Party of Korea's control over the military. But rather than being a sign of Kim Jong-un's strength, this may be an indication that he is not confident in his own ability to control the military or keep his grip on power in the face of a serious challenge from military elites. Indeed, such changes to the power structure appear to have increased the need to placate military demands and continue past patterns of military adventurist behavior. Thus North Korea is likely to continue to try to strengthen its military capabilities and negotiating leverage. This approach may be based on North Korea's belief that its nuclear weapons and delivery systems serve as an important deterrent and the feeling that it needs to prove the credibility of its nuclear weapons and launching devices, which are now said to be able to strike the US mainland. Military strengthening may also be a tactic for seeking external assistance, such as through diplomatic blackmail to prop up its faltering economy.

The big question going forward is how to deal with the North Korean nuclear threat. As has been discussed in previous issues of *East Asia Insights*, there is an urgent need for policy consistency among relevant nations, in particular strong economic sanctions measures through UN Security Council resolutions, contingency planning in case North Korea launches adventurist military provocations, and ultimately, a diplomatically negotiated comprehensive settlement. Also crucially, negotiations must be conducted with North Korea's true power center and not necessarily its Ministry of Foreign Affairs.

Recently, great attention has been focused on the need for policy consistency among nations and the role of China. While Japan, South Korea, and the United States look poised to push for tougher sanctions, the efficacy of sanctions can only be realized if all nations apply them. Most crucially, this means

persuading China to implement sanctions effectively and use its economic leverage over North Korea. There are some signs that the Chinese leadership is losing patience with North Korea, and China agreed to increase the severity of sanctions in the latest UN resolution against North Korea after the December rocket launch. Moreover, China lost face after it publicly warned North Korea against going ahead with its third nuclear test. But whether the balance has actually been tipped among China's foreign policy makers—away from the fear of refugee flows and the concept of North Korea as a buffer state and toward the realization that failure to punish North Korea is seriously damaging China's international credibility and regional stability—remains unclear.

To this end, Japan, South Korea, and the United States must present a clear and united message that China's refusal to adequately enforce sanctions against North Korea will have seriously negative ramifications beyond affairs on the Korean Peninsula. In the worst-case scenario, China risks losing its place as a credible stakeholder in the region. How the new leadership under Xi Jinping will react over the next few months will provide a litmus test as to whether a coordinated approach can be forged. Ultimately, without coordination between the other five Six Party Talks members (China, Japan, Russia, South Korea, and the United States) vis-à-vis North Korea, the current pattern of negative relations between North Korea and the outside world will continue its downward spiral.

The Senkaku Islands and Japan-China Relations

Another serious challenge to the stability of East Asia is the tension between Japan and China surrounding the Senkaku Islands. The situation has become particularly dangerous as both sides are adopting increasingly stubborn postures. Prior to 2010, China maintained a relatively low-key posture toward the islands, but now it is taking a much more aggressive approach. Whereas China previously took the stance that Japan should merely acknowledge that there is a territorial dispute over what it calls the Diaoyu Islands, it now seems to be going a step further by

sending ships and planes in ever greater numbers into the vicinity of the islands in what appears to be a bid to test Japan's resolve and establish the perception in the international community that China and Japan exercise joint control over the territory, rather than the status quo view that Japan exercises effective control. Of particular concern was a recent incident in which a Chinese naval frigate locked its fire-control radar onto a Japanese ship putting the two countries precariously close to exchanging fire for the first time in the postwar era.

Looking at Japan, the administration of the new Prime Minister Shinzo Abe is often seen as a clear example of Japan's increasing rightward ideological shift. Moreover, after the incident in late 2010 in which a Chinese fishing boat rammed a Japanese Coast Guard ship, Japan was perceived as weak for bowing to Chinese demands to release the fishing boat captain. China used its economic power to pressure Japan, suspending rare earth exports and arresting four China-based Japanese employees of Fujita corporation. If Japan were to bend to Chinese pressure again, it would set a highly negative precedent and embolden China to continue to use such coercive methods of diplomacy.

Given the current flare up in tensions, and the unlikelihood that either side will back down, the potential for even a small mistake to lead to violent conflict is far too high. Resolving the issue in the short term may be unrealistic, but there is an urgent need to calm tensions and manage the issue carefully to prevent it from negatively affecting the Japan-China bilateral relationship and regional stability. An excessively narrow framing of the Japan-China relationship focused on the Senkakus is counterproductive. It should be remembered that the impact of these squabbles between neighbors—the second and third largest economies in the world—has regional and global ramifications as disruptions ripple along production chains. Moreover, in order to cool public sentiments, reaffirm the importance of the bilateral relationship, and increase mutual trust, Japan and China should increase their cooperative efforts toward breakthroughs on the China-Japan-ROK and

the Regional Comprehensive Economic Partnership (RCEP) free trade negotiations. Efforts should also be increased for the establishment of an official China-Japan-US trilateral forum with a 2+2+2 framework—including both foreign and defense ministers from each of the three countries—that includes discussions on increased confidence building measures, transparency, and joint operations for search and rescue and natural disasters.

Territorial Issues, Comfort Women, and Japan-ROK Relations

A third challenge to regional stability is the fallout from former South Korean President Lee Myung-bak's Takeshima visit, which stirred Japan-ROK tensions and reopened historical wounds. Both the new South Korean President Park Geun-hye and Prime Minister Abe have recognized the need for cooperative Japan-ROK relations and appear to be moving cautiously in that direction. But the territorial dispute over the Takeshima Islets, which Korea calls Dokdo, and disagreements over historical disputes and particularly the comfort women issue, still have the potential to upset the reemerging cooperative mood if not managed carefully.

Similar to the dispute over the Senkakus, resolving the Takeshima dispute over the short term may not be realistic, as neither side is willing to drop its claim. But it is important that it is managed in a calm way so as to not affect substantive areas of cooperation. To this end, South Korean nationalism—rooted in anti-Japanese attitudes from the colonial era—and Japanese nationalism—keen to break out of its postwar pacifist constraints—must not be unnecessarily inflamed. Politicians on both sides must understand the severity of the long-term damage to regional stability that exploiting territorial disputes for short-term gains does. Visits to the islets, such as by Lee Myung-bak last August, or the proposed holding of a Takeshima Day event by the Japanese central government must be jettisoned as a mode of domestic political gain.

Regarding historical disputes and the comfort women issue, there are people inside the new Japanese cabinet and surrounding Prime Minister Abe with

strong views against the 1993 statement by then Chief Cabinet Secretary Yohei Kono, apologizing for and recognizing the role of the Japanese military in forcibly recruiting some of the comfort women, and the 1995 Murayama statement apologizing for Japan's wartime actions. These statements have been in place as official Japanese government positions for nearly two decades, and the Abe administration should not underestimate the likelihood that any attempts to change them will have severely negative effects on Japan's relations with South Korea, Asia more broadly, and the United States and its Asian-American communities.

The stakes of Japan-ROK cooperation are high. Given South Korea's stunning economic development and democratization, the bilateral dynamic should be transitioning toward a strategic partnership between two democracies, rather than being mired in historical and territorial disputes. In addition to the importance of bilateral ties for both countries' economies, as the region's two most economically advanced democracies, Japan and South Korea must act as regional leaders and cooperate to shape the evolution of the region toward a stable and prosperous rules-based order as the balance of power continues to shift. Also, in order to effectively address the North Korean question, intensive cooperation between the two nations is indispensable.

Revitalizing Japan's Politics and Economy

A fourth challenge to regional stability is the revitalization of Japan's politics and economy. Japan's ability to help promote a stable and peaceful liberal regional order depends on its economic dynamism and its relations with other countries in Asia. With a debt-to-GDP ratio of nearly 200 percent, Japan can ill afford further prolonged inaction and stagnation. In the short term, until the Upper House election scheduled for July, the Abe administration is likely to focus predominantly on the objective of revitalizing the Japanese economy. But beyond the election, there is a crucial need for more stable governance and a boosting of economic growth. If the Liberal Democratic Party (LDP) wins the election as predicted, and thus gains a majority in both houses, it should have a stable

enough base to push through more substantial economic reform. In particular, in order to really boost economic growth, there is a need to deregulate inefficient sectors of the economy such as agriculture. This prospect, however, is unlikely to go down well with many LDP Diet members, as changes in agriculture policy will affect their core constituents. On the other hand, failure to move strongly to address Japan's economic situation will lead to an unstable financial situation, negatively affect Japan's international credibility, and hinder its ability to participate in regional free trade negotiations such as the Trans-Pacific Partnership, the China-Japan-ROK free trade agreement, and the RCEP.

An Upper House election victory for the LDP may also embolden the Abe administration to prioritize more hawkish foreign policy objectives on sensitive questions. This includes issues such as revision of the constitution's Article 9 peace clause, recognition of Japan's right to exercise collective self-defense, and efforts to get tougher on China over the Senkaku Islands. However, moving boldly and quickly on such sensitive questions is likely to undermine Japan's relations with its Asian neighbors, and this in turn will negatively affect Japan's economy, too. While Japan needs to conduct open and frank domestic debates about these issues, it is important that potential changes are implemented with sensitivity to its Asian neighbors, given Japan's history of aggression, and that changes are based on liberal internationalist strategic considerations, not nationalist motives.



It is no secret that Japan is facing multiple tricky challenges in East Asia today, and resetting regional relations will require careful management of these issues both domestically and internationally. The North Korean nuclear threat, the Senkaku Islands issues between Japan and China, the Takeshima and other historical disputes between Japan and South Korea, and Japan's stagnating economy and volatile domestic politics are all threats to Japan and the region as a whole. The need to address these challenges to regional stability is even more urgent than it otherwise would be

given current regional trends. Intensifying nationalist tendencies across East Asia and the temptation for national leaders to look inward and focus on domestic issues makes solving these challenges increasingly difficult. However, given the need to manage the shifting balance of regional power and emerging complex regional and global problems that cannot be solved by any single nation, it is crucial that national goals are aligned with, rather than undermining, regional

cooperation and goals. Making certain that efforts to garner short-term domestic political advantage do not derail long-term regional goals is the key to a successful reset for East Asia.

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East Asia Insights

East Asia Insights is an occasional newsletter focusing on East Asia community building from the Japanese perspective.

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