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"Triologue": U.S.-Japan-China Relations and Asian-Pacific Stability

Key Points

- Japan, the People's Republic of China (PRC), and the United States all face regional and global challenges such as the Asian financial crisis and the proliferation of long-range missiles and weapons of mass destruction. These challenges underscore the importance of regional and trilateral dialogue, consultation, and coordination. Global changes resulting from the increased flow of information and capital across national borders, the emerging and contradictory influences of nonstate actors at the local and international level, and the difficulties of reconciling the constraints of domestic political imperatives with the responsibilities of international leadership also require trilateral coordination.
- Developments resulting from the Asian financial crisis and the exchange of summit visits between American and Chinese political leaders point out the need to substantially improve Sino-Japanese relations, the weakest leg of the U.S.-PRC-Japan triangle, through more intensive consultations, active back-briefing, and transparency surrounding high-level bilateral meetings.
- Management of cross-Strait tensions continues to be a central policy concern among policymakers in Beijing. Although cross-Strait dialogue is the primary method through which such tensions might be alleviated, the Taiwan issue will continue to surface as a critical issue on Beijing's agenda with Tokyo and Washington, both in the context of clarifying and containing the future direction of the U.S.-Japan relationship and as part of the competition between Beijing and Taipei for international support and recognition.
- Political pressure resulting from slowing economic growth has constrained the ability of the Japanese and Chinese leaderships to respond to the key aspects of Asia's economic crisis. Just when decisive leadership was required in Tokyo, institutional and political constraints paralyzed a decisive policy response to the crisis despite increasing international pressure. Although the leadership in Beijing has been keenly attentive to the potential impact of the Asian financial crisis on the Chinese economy, the crisis has served primarily to narrow the window for effective reform of China's state-owned enterprises.
- The tensions over the Korean peninsula and the South Asian nuclear tests may provide opportunities for multilateral cooperation among the United States, China, and Japan, but the sensitivity of these issues may also limit the productiveness of coordinated action. Long-term objectives of the United States, China, and Japan regarding the Korean peninsula may conflict, while India's and Pakistan's nuclear tests explicitly challenge the international non-proliferation regime and the structure of influence within global organizations.

The New Agenda

The exchange of summits between the leaders of the People's Republic of China and the United States, the Asian financial crisis, and the decision by India and Pakistan to engage in nuclear testing have

redirected the security agenda of the Asia-Pacific region. Such developments underscore the ongoing difficulties inherent in the transition from traditional approaches to security defined by the Cold War to a post-Cold War structure of international relations in the Asia-Pacific. To varying degrees, Japan, the PRC, and the United States are being forced to address a newly formed agenda based on the emerging priorities of the post-Cold War period, but they are unwilling to release their grasp on the familiar and comfortable old structure, including the historical grievances, dependencies, and nationalist rivalries that have defined relations in the past.

The major challenge is how to positively manage a transition to a stable and cooperative set of regional relationships while not inflaming the tensions of the past. One vehicle for addressing the problems of the future while confronting past legacies is a three-way dialogue among representatives from the United States, Japan, and China, the three countries with the greatest influence in the Asia-Pacific region.

The uncertainties of the present -- and the rapid changes resulting from the Asian financial crisis and other unexpected events -- constitute a difficult environment in which to develop long-term strategy. Yet the failure to articulate strategy increases ambivalence among specialists and policymakers in all three countries, creating greater potential for misperceptions that may lead to miscalculation or misunderstanding.

For instance, American analysts visualize China rising against the current formidable difficulties of economic reform and limited political expression. Chinese leaders recognize the imperative of improving relations with the United States, hoping to avoid the policy failures of Indonesia's political leadership while also looking over their shoulders at a Japan adrift; from Beijing's perspective, leadership in Tokyo is desperately needed, but would real leadership in Japan also lead to greater political and security independence that might challenge China's own future aspirations to regional leadership? And Japan's own economic muddle draws its political leaders inward just when neighbors are calling for decisive leadership to tug Asia's economies out of stagnation. To the extent that the respective political leaderships can shape policies rather than allow their choices to be lessened by external circumstances, uncertainty regarding intentions and aspirations may be lessened.

Challenges of Post-Cold War Leadership

The state is facing unprecedented challenges to its ability to provide leadership in the modern era. A widening array of non-state actors have gained influence that can be used either to support or to challenge the central government's leadership. The understanding and careful cultivation of these new constituencies has become a prerequisite for successful leadership, even in countries with relatively controlled political environments. As coercion is neither a viable nor desirable option, state leaders must master the art of persuasion in both domestic and international affairs, wooing "coalitions of the willing" both to gain domestic support and to broaden support at the international level.

The exponential increase in the global flow of information and capital has given increased prominence to new international constituencies -- the market and the media -- as groups that must be cultivated to sustain political power. And the influence of perceptions may overwhelm substance as pressure increases to make significant policy decisions in shorter periods of time and usually without all of the facts. Ironically, these newly emerging constituencies must be both courted and resisted as part of a strategy for effective leadership, yet short-term judgments and the conventional wisdom of today may prove to be illusory. Consistency and vision may be particularly prized because it appears to be in such short supply. Interestingly, newly emerging shared challenges to political leadership may provide a pretext for enhanced policy coordination among state leaders in Japan, the PRC, and the United States.

The remarkable reversal of capital flows that has occurred in conjunction with the Asian financial crisis constitutes a major shock to the system in Asia, unveiling secretive backroom business deals and putting a premium on transparency and the timely provision of accurate information as the new currency necessary

to build and maintain the confidence of global financial markets. To the extent that policymakers in Tokyo or elsewhere have been unwilling to come clean regarding the extent of the crisis, prospects for recovery have only been delayed.

Likewise, policymakers in Beijing must recognize that opening markets and eliminating corruption are necessary and inevitable; the issue is how to manage such a process in the most orderly and efficient manner. And despite some conspiracy theories targeting the U.S. Treasury as the evil manipulator of the global economic order, U.S. policymakers find themselves captive to market forces and well aware of the dangers of recklessly exposing the limitations of their own leadership in cases where the market may be unwilling to follow.

Non-state actors and nongovernmental organizations have reached across international borders to press their concerns more effectively both from below and from above. While the international effort to ban land mines may be the most effective international example, the campaign for recognition and compensation from the Japanese government led by comfort women in Korea, China, and Southeast Asia has also influenced government policy formation in Asia. At the same time, the institutionalization of the World Trade Organization (WTO), even as China continues to negotiate the terms of its own membership, has limited the freedom of unilateral policy action by governments, including the United States, replacing bilateralism with an international court for equitable settlement of trade disputes. Although governments may attempt to limit citizen contacts across borders by regulating information flows through the Internet, globalization is "the wave of the future," and no country can resist it without paying the usually inordinate costs of isolation.

Likewise, domestic political constraints have limited the possibility of effective cooperation on the international level. Political leaders in the United States, Japan, and China have found their freedom of international action limited by domestic politics, whether by political scandals in Washington, the perplexities of perpetuating local political pork projects contrary to necessary financial reforms in Japan, or popular Chinese resentment toward Japanese aggression during World War II.

Ironically, the common challenges to governance may push national leaders into each other's arms as they consider how to broaden the foundations of leadership. Joint intervention by the Federal Reserve Bank and Japan's Ministry of Finance in June of 1998 was stimulated partly by concerns that further devaluation of the yen might cause China to also devalue its currency, unleashing a new round of "beggar thy neighbor" currency devaluations that in turn might trigger global deflation. Although China's decision not to devalue the renminbi may be in its own economic interests, the Chinese leadership has also gained significant political benefits from stepped-up political consultations with its neighbors as well as continued reassurances that China would stand firm despite reduced foreign investment flows to the Chinese mainland. The United States has led a new round of financial consultations among the G-22 in Asia, consulting on pressing issues resulting from the crisis as well as discussing adjustments in the global financial architecture that may be necessary to stem the recurrence of such a crisis.

The Asian Financial Crisis; Enhanced Trilateral Cooperation?

The dilemmas posed by the Asian financial crisis have required enhanced coordination efforts involving the U.S. Treasury in dialogue with counterparts in Japan and China. While many of these efforts have involved joint coordination and technical support to manage short-term macroeconomic responses to the challenges posed by the crisis, the United States has engaged in overt and indirect forms of *gaiatsu* to mobilize a response to structural problems of immediate concern, particularly in the case of Japan. And the crisis has revived the Asian values debate, with critics quick to point out shortcomings in the Japanese economic model, although the terms of debate themselves may prove to be ultimately unsatisfying and inconclusive.

Although the fundamental task in response to the Asian financial crisis is still restoring confidence through transparency, strong prudential regulation, and the willingness to admit and allow the failure

and restructuring of bankrupt institutions, the critical issues posed by the crisis may differ depending on the stage of economic development. For instance, China's long-term dilemmas focus on the challenge of making its currency convertible while managing to reform inefficient state-owned enterprises; the Asian financial crisis has narrowed the margin of error to successfully manage this task while signaling useful lessons for China to gain from the Korean and Japanese experiences. Crisis is an instigator of reforms necessary to move to the next stage of development, at which point a country may only face different types of crisis and new imperatives for reform, as the Japanese situation suggests.

While coordination has been the theme of consultations between economic officials in the United States and a China that remains on the periphery of Asia's financial crisis, *gaiatsu* has been the by-word for describing the tone of a much more intertwined and deeper level of consultation between the U.S. Treasury and Japan's Ministry of Finance. External pressure from the United States partly results from America's profound interest in Japan dealing with its problems so as to halt the contagion effect to the global economy, including the United States. Thus, pressure in the current crisis may be seen as a symptom of the closeness of U.S.-Japan relations, more than a symbol of fraying or distance. Also, U.S. pressure has become a familiar and expected part of the Japanese policy-making process, as domestic constituencies in Japan who favor reform require external support to overcome the entrenched self-interests accompanying a bureaucratic structure which, while highly successful in the past, has failed to choose correct macroeconomic policies in the 1990s.

Does the stagnation Japan currently faces presage the failure of the Asian economic model for growth, and are Japan's current economic difficulties insurmountable? Participants in this July 9-11, 1998, "trialogue" were rightly encouraged to look beyond the vagaries of the business cycle. During the 1980s, the United States was in the economic doldrums as a result of its own savings-and-loan crisis, while Japan and others provided a small measure of reverse *gaiatsu* through criticism of the ballooning U.S. budget deficits. Japan's economic performance in the 1990s may be similar in many respects, but it does not mean that Japan can be counted out in the future.

Likewise, the debate over the role of government planning or public subsidies as a means of targeting or enhancing economic performance and efficiency is not likely to be settled soon. In some cases, public regulations fetter the efficiencies of the market; however, government is responsible for providing regulatory oversight to enhance those efficiencies and augment national competitiveness. The debate over how to reform the regulatory architecture for managing global capital flows reflects the debate over the extent that regulatory mechanisms are necessary or desirable. Would intervention to determine a fixed dollar-yen exchange rate, for instance, resolve the current crisis of confidence, or would the inefficiencies that might result actually limit the potential for additional capital formation needed to escape the crisis? The reality is that Asian and American models are mixed, as are the various contrasting organizational cultures even within the same industrial sectors in the United States; for instance, East Coast hi-tech organizational culture is very different and less efficient than that of Silicon Valley, which, at first glance, seems to share more "Asian" characteristics.

To address the long-term economic and financial problems more effectively, coordination mechanisms that include all the right players should be established. China's admission to the WTO might be one step in that direction, if leaders in Beijing can effect the necessary internal economic reforms to meet membership qualifications. Given China's emerging importance and its responsible, if self-interested, economic behavior in response to the Asian financial crisis, would China's inclusion in the Group of Eight make that organization more effective? Is the current level of consultation among Asian financial and banking officials sufficient? In addition to U.S.-Chinese consultations over economic matters, should Sino-Japanese economic consultations be stepped up on a wider variety of issues, or would a trilateral economic discussion of regional trends be of value?

Trilateral Cooperation and Regional Security Issues

In principle, it is in the interest of the United States, Japan, and China to cooperate in efforts to resolve

and prevent regional conflicts as well as to ensure that cross-Strait differences between Beijing and Taipei do not escalate tensions that might unnecessarily draw in external actors such as the United States to keep the peace. In practice, however, uncertainties about the future may limit practical cooperation measures in areas where long-term national interests may conflict or if directly concerned parties feel that their own interests are being ignored.

Near-term interests of the United States, Japan, and the PRC include maintaining stability regarding the Korean peninsula problem rather than encouraging precipitous changes that may upset the status quo. Neither do the two Koreas themselves seem eager for sudden or destabilizing events that might lead to German-style reunification in the aftermath of the Asian financial crisis and the election of Republic of Korea President Kim Dae Jung (although North Korea's missile launch in 1998 suggests that Pyongyang could miscalculate how others will interpret their missile diplomacy). However, major-power cooperation in managing policies toward the Korean peninsula currently takes the form of complementary and reinforcing parallel actions rather than direct or institutionalized coordination.

For instance, the Korean Peninsula Energy Development Organization (KEDO) is an international organization formed to provide light water reactors to North Korea in return for the dismantling of North Korea's nuclear weapons program. The United States, Japan, and South Korea are core members and the European Union has also joined. The PRC, which also supports a non-nuclear Korean peninsula, has claimed that its contributions are most effective outside of KEDO. Likewise, China's major food-relief contributions are widely perceived as essential to perpetuating North Korea's survival, but have been provided independently of the UN World Food Programme. Japan, on the other hand, has been a remarkably passive actor -- except for its participation in KEDO -- providing virtually no food assistance to North Korea despite its large rice stockpiles. In addition, Japan is excluded from the Four Party Talks, despite the likelihood that Japan may be expected to provide financing to support a Korean peace process. Of course, North Korean actions have put KEDO into some jeopardy, at least for some time.

The challenge to the global nonproliferation regime posed by nuclear testing in India and Pakistan has likewise created opportunities for international consultation among the United States, China, and Japan. The "danger and opportunity" contained within the South Asian nuclear crisis has, however, been poorly exploited, demonstrating the difficulties and potential for missteps that might accompany dialogue in which interested or reluctant parties are excluded.

For instance, questions were raised at this meeting regarding whether the U.S.-PRC joint statement condemning South Asia's nuclear tests may have been premature in the absence of a broadly supported international formula accepted by India and Pakistan that might effectively address proliferation issues. Without such a formula, a constructive process for managing the effects of proliferation in South Asia seems unlikely. Likewise, China's decision to exclude Japanese attempts to join the UN-sponsored effort to draw the UN Security Council nuclear "haves" into a dialogue on nonproliferation that would also include India, Pakistan, and Israel constitutes a failure to enhance trilateral dialogue opportunities. Excluding Japan, which has shown responsibility by foregoing nuclear weapons development efforts from international proliferation dialogue efforts, is shortsighted. Such exclusion punishes Japan for voluntary adherence to the values of the nonproliferation regime and reinforces the notion that nuclear weapons development is indeed a prerequisite for gaining leadership in international conclaves. A coordinated trilateral approach by the United States, Japan and China that seeks to engage South Asian proliferants in confidence-building regimes and otherwise seeks to dampen South Asian regional tensions might contribute constructively to international nonproliferation efforts.

Finally, cross-Strait relations remain a sensitive issue in Beijing. Such relations have ramifications for trilateral dialogue, taking into consideration that leaders of Taiwan must also be constructively engaged for such consultations to bear fruit. To the extent that cross-strait relations themselves improve, one might expect the Taiwan question to become less important as a subject of dialogue between Beijing, Washington and Tokyo. Yet it continues to be one of the most sensitive issues in U.S.-PRC and Sino-Japanese relations because the issue has been politicized and has taken on significance in political debates in all three capitals. The competition between Beijing and Taipei for support in international

forums internationalizes the issue, yet Beijing continuously warns against "outside interference" on cross-Strait relations.

Trilateral dialogue on this most sensitive issue is valuable precisely because Taiwan represents the unresolved historical legacy of great power conflict in Asia in the twentieth century, originating from the Sino-Japanese war of 1895 in which Taiwan became a protectorate of Japan. And Taiwan's return to China was, in the view of many in Beijing, thwarted by U.S. Cold War intervention and the heating up of the Korean War, as a result of which Mao failed to gain absolute and unconditional victory over the Chinese nationalists, leaving China divided. Resolution of such deep differences will take time and can only occur through careful consultations to manage such differences until they can be fully resolved.

Sino-Japanese Dialogue

As the weakest bilateral link in the triangular relationship, improvement and broadening of Sino-Japanese cooperation may require special efforts. It is particularly important that the recent warming of relations between Washington and Beijing also be reflected in Sino-Japanese relations; otherwise, China might become a controversial issue in U.S.-Japan relations. In the wake of the second summit in a year, the U.S. Administration's sustained attention to China has become an issue requiring reassurance and explanation by American officials visiting Tokyo.

The central task for Chinese and Japanese policymakers will be to define expectations for the future of Sino-Japanese relations in the context of other Chinese relationships. China's active international diplomacy has succeeded in establishing healthy bilateral relations with every leading nation; relations with Russia and the United States (and even France) are "strategic," but how might one characterize relations between China and Japan, the major nations of Northeast Asia? The agenda for such a relationship must be defined more broadly and more "strategically" than simply returning to the issues of Japan's historical legacy and Taiwan. It also requires the active development and articulation of a clear Japanese diplomatic strategy for overcoming historical legacies and creating healthier relationships in the region. How Beijing and Tokyo might develop a common agenda that contributes to the perpetuation of peace, prosperity, and stability in the Asia-Pacific may be a key factor in determining the shape of regional relations in the twenty-first century.

Conclusion: Psychology of Trilateral Relations

The Asian financial crisis, the South Asian nuclear tests, and President Clinton's visit to the PRC appear to have drastically changed the context for discussion of trilateral relations, but those events serve only to underscore the fundamental premises behind the initiation of a three-way dialogue. In particular, concerns regarding the collateral effects of efforts to "demonize" China in the United States and Japan that were prevalent in previous trilateral discussions have given way to questions about whether the United States might make a strategic choice to downplay or abandon its close security and economic relations with Japan in favor of a broadened and deepened relationship with a rising China. The facts suggest that to view U.S. options in these terms is either a false choice or, at best, a premature and unwise consideration under current circumstances. A deeply intertwined U.S.-Japan security relationship is based on decades of economic, security, and political investments and is built on shared democratic values. U.S.-Japan economic ties dwarf the U.S.-PRC economic relationship, even if the PRC has caught up with Japan in importance to the United States in the bilateral trade-deficit category.

Perhaps more significant, manifestations of China's rise, particularly if it is perceived as having come about at Japan's expense, will raise questions regarding whether the ultimate objective of a trilateral dialogue is to develop equidistant tripartite relations, or whether it should reinforce current bilateral relationships while maintaining the status quo, in which the U.S.-Japan security relationship would always be shorter than the U.S.-PRC side of the triangle. While such long-term direction may be influenced by domestic political influences or the emergence of new regional challenges, trilateral

dialogue is an appropriate vehicle for increasing confidence building and transparency among all of the parties precisely to forestall the suspicions that might develop if only bilateral contacts are fostered. In the case of either the perpetuation of the status quo through continued preeminence of U.S.-Japan security relations or the possible long-term development of an equidistant tripartite relationship in which Japan would become a more independent actor, the development of a sustained trilateral dialogue will be necessary to manage the psychology of trilateral relations so that one party does not feel that developments in bilateral relations are coming at the expense of any third party. The provision of such reassurance is the foremost task of such a tripartite cooperation, and it is evident that further development of a constructive trilateral dialogue among the United States, Japan, and the PRC is necessary.

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