

A photograph of Barack Obama in profile, wearing a white dress shirt and a blue tie, looking out of an airplane window. The lighting is soft and focused on his face and the window frame.

Committed: U.S. Foreign Policy in Asia and Completing the Rebalance

Edited by Shihoko Goto

 **Wilson
Center**

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Cover: President Barack Obama looks out a window of Air Force One during the flight from Canberra to Darwin, Australia, Nov. 17, 2011.
(Official White House Photo by Pete Souza)

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Preface

The United States is a Pacific power. It may be so reluctantly, but its continued military, political, and economic engagement has been key to Asia's stability and prosperity. Ensuring that the Asia-Pacific remains robust politically and economically will be in the United States' own interest, and will be a key foreign policy challenge for any administration.

The realities on the ground in Asia, though, are rapidly changing. The region has become increasingly divided, and rivalries are manifesting themselves in territorial disputes, competition for resources, as well as a growing arms race. Having overtaken Japan as the world's second-largest economy, China has sought to become as much a political and military power as much as an economic one. Beijing's vision for the region puts China at its center, which has led to rifts in relations among Asian nations, not to mention Sino-U.S. relations.

Continued stability in the region cannot be taken for granted. Washington must continue to be committed to Asia, not least amid growing concerns about North Korea's nuclear aspirations, maritime disputes, and alternative visions for economic development.

This book is a collection of essays by researchers at the Wilson Center engaged in issues related to Asia. It is a collaborative effort between the Asia Program, the Kissinger Institute on China and the United States, the Hyundai Motor-Korea Foundation Center for Korean History and Public Policy, and International Security Studies to identify some of the challenges ahead for the United States to remain a Pacific power and what policies Washington might pursue to ensure regional stability.

September 2016
Washington DC

Managing U.S.-China Relations

By Robert Daly

SUMMARY

China's own perception of its insecurity is destabilizing, even if it is unfounded. As such, China must play a larger role in the security architecture of the Asia Pacific. The difficulty is that any meaningful alteration to that architecture could threaten the United States' core interests in the region: exercising freedom of navigation and honoring treaty commitments to allies. Failing in either task would call the United States' power into question and could even escalate to a nuclear arms race in northeast Asia.

RECOMMENDATIONS

A near-consensus of minimal steps the United States should take to ensure constructive relations with China has emerged over the past eight years, namely:

- **Rebuild U.S. credibility** (political, economic, military, cultural) through domestic budgetary and tax reform, addressing income inequality and social injustice, investing in U.S. infrastructure, R&D, and education at all levels, and maintaining U.S. pluralism and openness.
- **Strengthen the Rebalance to Asia** by committing more resources to the region, particularly on the diplomatic and economic fronts.
- **Ratify the UN Convention on the Law of the Sea** to build U.S. credibility in maritime disputes.
- **Ratify the Trans Pacific Partnership** at the earliest possible date

- **Strengthen regional alliances by improving allies'** capabilities and maritime domain awareness.
- **Strengthen partnerships** with **India, ASEAN,** and the **European Union.**
- **Continue strong support for Taiwan** under the Taiwan Relations Act and One China policy.
- **Broaden and deepen engagement with China** by supporting the China exchange programs of local governments, universities, NGOs, and professional associations.

THE CHINA CHALLENGE

U.S. policymakers must assume that China's rise will prove sustainable despite the domestic and foreign difficulties confronting the Chinese Communist Party. The pace of China's development doesn't matter much; the law of large numbers means that China's growth and expansive appetites will be major U.S. concerns for decades. As the Earth Policy Institute's Lester Brown has said, "1.3 billion times anything equals a whole hell of a lot." Yes, and 1.3 billion times China's purchasing power, talent, geostrategic ambition, and persecution complex equals something larger still.

As a wealthy continental power, China's military expansion is neither unexpected nor unreasonable. The PRC depends on the sea lanes of the Western Pacific for food, energy, and natural resources. Now that it can protect this vital trade for itself, it is no longer content to rely on U.S. good offices for its security. It is building aircraft carriers, submarine bases, and islands that call into question the durability of the U.S.-led balance of power that has benefited the region for over seventy years. Oddly, China now feels less secure than it did before it became the world's top trading nation. Having invited the United States into China forty years ago to provide investment, technology, and expertise, and having sent three generations of students to America's obliging universities, China now claims that the United States is trying to harm it.

China's insecurity may sound unwarranted—why would anyone invade China?—but it cannot be wished away. Because China's perception of insecurity is destabilizing even if it is unfounded, China must play a larger role in the security architecture of the Asia Pacific. The difficulty is that any meaningful alteration to that architecture could threaten America's core interests in the region: exercising freedom of navigation and honoring treaty commitments to allies. Failing in either task would call the United States' power into question and could even escalate to a nuclear arms race in northeast Asia.

Managing conflicting U.S. and Chinese interests in the Western Pacific is the greatest challenge in the bilateral relationship confronting the next president. The president must work with allies, and with China, to ask: what can Washington do to decrease China's threat perceptions—or curb its ambitions—in the Western Pacific *such that China will be mollified and not emboldened*? No workable answer to that unavoidable question has yet

been proposed.¹ In its absence we have a dangerous muddle of mutual bombast, testing, and potentially lethal games of chicken.

The reason no plausible answer to this question has been hazarded is that the United States and most of China's neighbors assume that China cannot be mollified: it will interpret any adjustment to the regional security structure as a weakness to be exploited rather than as a step toward peace. The assumption is that China is determined to become the regional hegemon, which it cannot do if the United States remains the primary strategic actor in the Western Pacific and honors its commitments to its allies (Japan, South Korea, the Philippines, Australia, Thailand) and to Taiwan. This assumption is fueled on a nearly weekly basis by Chinese statements and actions, despite China's declaration of a "peaceful rise" and Xi Jinping's assertion that "seeking hegemony is not in the genes of the Chinese people." For its part, the PRC is convinced that U.S. policy is to encircle and contain China, regardless of Washington's claims that it seeks only a rules-based order that promotes peace and prosperity.

China's leaders believe that a Sino-centric Asia is natural, inevitable, and desirable. *Natural* means China can't be blamed for seeking a hegemony that is its birthright. *Inevitable* means resistance is futile. *Desirable* reflects China's confidence that it will be a benign hegemon.

On the count of inevitability, many nations fear that China may be right.

POLICY FRAMEWORKS

Possible American approaches to this challenge fall along a strategic spectrum:

- *Acknowledgement*: The United States admits that changes in China require changes to the security architecture
- *Adjustment*: The United States and its allies allow an enhanced Chinese role within the existing architecture
- *Accommodation*: The United States pulls back from some traditional regional commitments to placate China

- *Appeasement*: The United States allows China to play a larger regional role than itself
- *Abandonment*: The United States decides it can no longer be a guarantor of security in the Western Pacific

Depending on regional developments and changes within China, there is a range of solutions that might prove acceptable to the United States. There are interests in Washington, however, which claim that even acknowledging China's security needs is tantamount to appeasement. This view is as dangerous as the belief of some Chinese that only American appeasement or abandonment are acceptable to the PRC.

U.S.-China relations are a complex, uncertain dynamic in which (A) China learns to be a responsible world power despite its instinctive insularity, and (B) the United States adapts to Chinese power and to multilateralism despite its preference for preeminence. To manage this relationship, the next President will need advisors who approach China on multiple tracks. The following frameworks are essential to U.S.-China policy, but none offers a solution to the primary challenge described above. The frameworks must be balanced day-to-day, with security issues foremost in mind:

Security

The two nations face a security dilemma in the Western Pacific which can be managed, but not solved. The United States must continue to uphold freedom of navigation and to strengthen its regional alliances and partnerships. China's proximity, will, capability, and legitimate interests demand, however, that Washington be prepared for China to play a larger military role in the region.

World Order

The United States and China now assess their power based on their ability to influence regional and world orders through (1) shaping laws, norms, and practices; (2) building multilateral institutions; and (3) providing international public goods. Washington should acknowledge Beijing's contributions to global welfare in all of these areas, but it must also remain

vigilant. It has become clear that China's instinct and strategic preference is to treat individuals, information, and institutions in the international realm as it treats them at home. China seeks, often in tandem with Russia, to have its authoritarian domestic practices accepted as alternatives to modern, liberal norms on the global stage. The United States should oppose such encroachments as adamantly as it opposes Chinese militarization of the South China Sea.

The Values Debate

The United States and China are not merely strategic competitors; they are engaged in an ideological contest as well. Each wants other nations to espouse values similar to its own in order to reduce obstacles to their strategic ambitions. The United States pursues this goal with missionary zeal, while China is more transactional, but both governments describe their domestic legitimacy and global leadership in moralistic terms. The United States stresses individual freedom and political pluralism, while China inclines toward collective stability under an authoritarian state. These opposed visions produce ideological distrust that pervades the relationship, coloring judgements of each other's intentions and limiting scope for cooperation. Ideological distrust clearly drives debates about human rights and civil society, but it also underlies Chinese accusations of American hegemony and American warnings about China's assertive foreign policy. The United States has the upper hand in the values debate—in global soft power. It should protect that advantage through strengthening its democratic institutions, welcoming immigration, investing in infrastructure and research and development, improving its public schools, ensuring that its system of higher education remains the best in the world, and narrowing economic and social disparities within its own borders. Progress toward these goals will enable Washington to continue to inspire China's own human rights advocates.

Managing Perceptions: Rise & Rebalance

The United States and China both think that most friction in the relationship is the fault of the other side. This attitude breeds diplomacy (and, in China's case, propaganda campaigns) that is too often based

on finger pointing, shaming, and the claiming of moral high ground. Mutual distrust might diminish if both sides would acknowledge what is reasonable in the other's core interests. Americans should understand that China's rise is legitimate and results, in the main, from the Chinese people's desire to flourish, which the United States has encouraged and enabled. China should admit that the rationale for the U.S. Rebalance—American interests are concentrated in Asia and will likely remain there—is uncontested. If Washington regularly tells Americans that the intent of China's actions, if not all of their effects, is to benefit Chinese and not to threaten foreigners, and if Beijing does the same with regard to American policy, public and elite perceptions of the relationship will improve in both countries and national governments will have greater scope for compromise.

Cooperation

The bilateral relationship has always been competitive *and* cooperative. Since 1979, it has been American policy, under Democratic and Republican administrations, to keep a thumb on the cooperative side of the scale. As U.S. global influence declines relative to China's, this is harder to do. Still, cooperation must be expanded. By working together to combat climate change and pandemics, to improve the terms of investment and trade, to provide public goods, and to enhance communication between militaries, the United States and China foster perceptions and strategic dispositions without which the security dilemma in the Western Pacific cannot be managed well. Both sides should be careful not to overstate the benefits of cooperation, however. Presenting rosy scenarios to Chinese and American publics will leave politicians and citizens alike ill-prepared to face unpleasant realities and to make trade-offs that may be necessary to avoid conflict.

Implications of China's Purchasing Power

China has a larger middle class than the United States. Its corporations can scale up new technologies faster than the American companies that invent them. Because of its market and manufacturing power, China will increasingly be the tastemaker to the world: Chinese consumers will

influence what Americans see on their store shelves, their dinner plates, and their screens. Through global markets, Chinese talent and traditions will enrich American culture, but there are dangers, too: as American filmmakers, game designers, publishers, and tech companies pursue Chinese profits and design products to accord with Chinese law, China is handed a channel through which it can export censorship to the rest of the world. A blockbuster isn't a blockbuster if it doesn't play in China, and it can't play in China unless the State Administration of Press, Publication, Radio, Film, and Television clears the script. Welcome to Chinese Communist Party storytelling, aesthetics, and encryption. Welcome to boring, and worse. This pernicious effect of trade results from the market decisions of free U.S. companies, and cannot be regulated. It is an emerging threat to American freedom of speech and cultural dynamism just the same. It also harms American soft power; American art and entertainment that is acceptable to China's grim officials will be less attractive to Chinese consumers, who enjoy it precisely because it is exuberant and free.

Continued Engagement

Over the past three years, American critics of engagement have attacked this bipartisan policy because of its purported failure to bring Chinese practices in line with modern liberal norms. This is a straw man; no serious proponent of engagement ever claimed that it would turn the Chinese into Americans—the argument was that engaging was better than isolating the United States from China. Engagement does not give Washington policy levers it can pull at certain times to achieve distinct outcomes, but keeping American models present to Chinese and inviting China into multilateral organizations—which engagement does do—has improved the lives of Chinese in ways that advance American interests. Engagement is catalytic, gradual, and uncertain. Through engagement, the United States gets less than it would like and China gets more than it bargained for. The next president should strengthen engagement with China—corporate, cultural, professional, and academic—in confidence that engagement serves U.S. goals, even if its success can't be precisely measured.

The Wilson Center's Kissinger Institute can play a significant role in bridging relations between Beijing and Washington. The United States

must **conduct a comprehensive study of its ability to achieve its declared goals in Asia** over the next 50 years in light of:

- China's growing economic and military strength
- America's looming structural budgetary crisis and low growth rate
- The complexity and urgency of U.S. commitments and security concerns worldwide
- The willingness of U.S. citizens to bear the cost of retaining strategic primacy in Asia-Pacific

If the United States cannot afford its Asian commitments over the long-term, those commitments must be modified. Bluffing invites conflict, as Beijing will measure American power in the region carefully even if the United States does not conduct the recommended self-audit.

RECOMMENDATIONS OF THE KISSINGER INSTITUTE ON CHINA AND THE UNITED STATES

- Launch a **dialogue with North Korea**, without preconditions.
- Deepen **U.S.-China dialogues on nuclear policy** to ensure that the logic of mutual assured destruction does not drive bilateral nuclear escalation.
- Provide sustained, **robust budgets for Chinese-language study** (and study of other critical languages) in American public schools, beginning at the primary level.
- Strengthen **U.S.-China cooperative provision of global public goods**, including joint work on disaster relief, environmental protection, public health, and food and consumer product safety.

NOTE

- 1 The best treatment of the subject to date was offered by Michael Swaine of the Carnegie Endowment for International Peace in 2015 (<http://carnegieendowment.org/2015/04/20/beyond-american-predominance-in-western-pacific-need-for-stable-u.s.-china-balance-of-power-pub-59837>). His recommendations were viewed as non-starters by readers at the Pentagon.

Economic Leadership in the Pacific Century: The United States as Northeast Asia's Stabilizer

Shihoko Goto

SUMMARY:

Asian economies are more closely intertwined than they have ever been. At the same time, a surge in nationalism, a growing arms race, and competition for resources are increasing tensions across the region. As such, possibilities for political conflict spilling over into economic relations should not be discounted. The United States has a key role to play to ensure that Asian nations, especially in East Asia, continue to remain engaged in dialogue on economic as well as political and military issues. Meanwhile, there is growing concern among U.S. allies that Washington's commitment to the rebalance to Asia is tepid at best. Ratifying the TPP will be the first step to demonstrate U.S. commitment as a Pacific power, and it will be critical to assure its allies that the United States has an economic vision for the region to counterbalance the ever-growing influence of China.

POLICY RECOMMENDATIONS:

- It is in the United States' national interest to ensure stability and continued growth in Northeast Asia. The current disconnect between political tensions and economic relations should not be assumed. The surge in nationalism and manipulation of national pride for political gain

could lead to trade and broader economic frictions. Washington has a significant role to play in ensuring that governments continue to engage with one another despite diplomatic tensions.

- U.S. ratification of the TPP is critical for Washington not just for domestic growth and U.S. trading interests in the Asia-Pacific. It also sends a clear signal to Asian partners that the rebalance to Asia remains a foreign policy priority, and that Washington is prepared to counterbalance China's dominance in the region.
- Even as a non-member, Washington must be prepared to work closely with the AIIB so long as the bank continues to be a transparent international organization committed to providing loans to much-needed infrastructure projects across Asia.
- From tackling demographic challenges to meeting energy needs, there are a number of major issues facing Asia that would benefit from closer multinational cooperation. Washington can act as a broker to ensure that Asian nations continue to engage in dialogue with one another as well as with Washington.
- The United States must leverage its position as the world's center for technological innovation and entrepreneurship. It must introduce educational and immigration policies that not only attract some of Asia's most ambitious and brightest minds, but also allow them to flourish on both sides of the Pacific.

FROM RISING NATIONALISM TO A BUBBLING ARMS RACE, tensions are mounting across the Asia-Pacific, especially in Northeast Asia. But in spite of looming threats of potential military clashes in the South and East China Seas, not to mention uncertainties about North Korea's nuclear ambitions, Asia still remains the world's most economically robust region. One key reason for this disconnect between military and economic realities is that while there are growing fears across the region about China's increasing military power and territorial aspirations, China has also become the single most important trading partner for most Asian nations. So a shared commitment among Asian governments to further economic integration and continued growth has been seen as key to regional stability.

Yet China's drive to exert greater regional influence not just economically, but also politically and militarily is increasing regional tensions. There is, of course, the reemergence of great power politics, with Washington and Beijing each vying for hegemony in Asia. But the politicization of national identity and competition for natural resources in East Asia are also contributing heavily to regional unrest, and could potentially have adverse impact on regional growth. Over the decades, Washington has come to take economic stability in the Asia Pacific for granted.¹ Yet possibilities for the convergence of military tensions and economic competition should not be dismissed, and continued U.S. economic engagement will be key for growth as well as for security on both sides of the Pacific.

NORTHEAST ASIA REMAINS EAGER FOR A U.S. REBALANCE

The Obama administration's endeavors from late 2011 to refocus U.S. attention on Asia has come under much scrutiny over the years, not least because of wariness about Washington's basic calculation that it could begin to distance itself from the turmoil in Iraq and Afghanistan. In actual fact, the White House has been unable to disentangle itself from the legacies of the Iraq and Afghanistan wars, and is being forced to engage even more, not less, in the Middle East since the policy to rebalance focus to the Asia-Pacific was first outlined. What has remained constant instead is the enthusiasm for deeper U.S. engagement in the region amongst its allies as they continue to look to Washington as a counterbalance to China's growing influence across Asia.

Japan in particular has been enthusiastic about Washington's renewed commitment to engage in the region, as friction between Tokyo and Beijing continues to mount. Plans to redefine U.S. commitment to the Asia-Pacific region also happened to come the year after Japan lost its spot as the second-largest economy in the world to China, after over four decades of being second only to the United States. As Japan's global rank slipped and industrialized nations continued to grapple with climbing out of the aftermath of the global financial meltdown, China's military spending steadfastly rose and its efforts to become a political as much as an economic power increased. Numerous initiatives to bring continental Asia closer together under the leadership of Beijing have since been put forward on the one hand, while Washington failed to flesh out exactly how the U.S. rebalance to Asia would look like beyond increased military presence in the region. For instance, former U.S. Secretary of State for East Asian and Pacific Affairs Kurt Campbell noted that China was quick to promote its own economic investment ideas in Asia, while the United States failed to attend the ASEAN meeting in October 2013 for no reason except for its own troubles at home regarding the domestic budget, which led to a government shutdown.²

President Obama's absence from the 2013 ASEAN summit meeting in Brunei appeared too to be a symptom of a larger issue facing the United States in Asia: while Washington's foreign policy experts may recognize the need to follow through on the rebalance initiative, the political will and certainly public support for the United States to remain a strong Pacific power both economically and militarily has been seen as tepid at best. So while China may have grand initiatives to promote its own vision to lead Asia, U.S. policy towards the region has been more reactionary, and not strong enough to counterbalance Beijing's strategies to become the region's hegemony. Vehement public U.S. opposition against the Trans-Pacific Partnership deal, which has been touted by the Obama administration as the single most important economic component of the rebalance, has further stoked fears in Asian capitals about U.S. indifference towards Asia. Such concerns have been accentuated further still as even Hillary Clinton, as presidential candidate, abandoned her support for the TPP, despite championing for the trade deal as the critical part of the rebalance when she was Secretary of State.

RISKS OF EXPECTING CONTINUED ECONOMIC AND POLITICAL DIVERGENCE

There is an underlying assumption that Asian economies are now simply too closely intertwined, and that strong economic interdependence especially among the major Asian powers would prevent any political tensions from flaring out into outright conflict. There is a seemingly unwavering belief that common expectations in East Asia for continued growth would overcome any political tension between Japan, South Korea, and China. There is a track record to support that assumption of pragmatism prevailing at the end of the day. For instance, even at the height of conflict over the Senkaku/Diaoyu islands in the East China Sea in late 2013, Japanese share prices remained largely unaffected, and there was no sell-off of assets either in Japan or China as a direct result of territorial disputes. Similarly, when Korean President Lee Myung-bak visited Dokdo island in August 2012, there were howls of fury from the Japanese who claimed it as theirs. Nevertheless, animosity between Seoul and Tokyo at that time were not reflected in the financial markets. Granted, Japanese capital flow into China have fallen since riots flared across the country in protest of Prime Minister Shinzo Abe's decision to nationalize the Senkakus. However, the protests simply accelerated a broader trend of Japanese investment moving toward Southeast Asia in search of cheaper costs, rather than being spearheaded by concerns about political risks.

Still, it is premature to assume that investment decisions and political realities will remain at two opposite ends, and that they will not converge. After all, western Europe had been more integrated economically than it ever had been on the eve of World War I, yet those ties were not strong enough in 1914 to overcome the power of nationalism and the network of alliances in Europe. As political scientist Barry Posen argues, economic interdependence in itself is not a reliable tool against conflict.³

With nationalist sentiment increasingly being manipulated for political gain not just in China, but in Japan and Korea as well, the risks of miscalculation of intentions, deliberate or otherwise, have increased. For instance, cooler minds should in theory prevail if there were to be an accidental collision of fishing boats in the East China Sea, especially given the prospects of major economic losses any outright conflict could bring. But that may not

be possible politically. After all, the other parallel between the realities facing Asia today and the situation in Europe in 1914 is the network of alliance systems. The downside risk of the vast web of collective security, of course, is that the number of countries that could get roped into conflict increases.

The real lesson of World War I, though, may well be what its conclusion brought about, rather than why it began in the first place: namely social change and most notably the changes to the political process its aftermath brought about. Large-scale democracy and the rise in the power of public opinion in shaping policy, including foreign affairs, were legacies of the Great War, and continue to sway foreign policy today.⁴ Meanwhile in Asia, there have been considerable technological and social changes which have given far greater power to public opinion. So while averting military conflict may be the more rational choice in dealing with territorial disputes, the tide of nationalist fervor swayed by public opinion may lead to less rational decisions in the case of Sino-Japanese relations, and indeed in many Asian countries dealing with China. The United States can play a key role to ensure that governments remain engaged in dialogue and build trust to avert such conflict in the first place.

WHY TPP MATTERS

Continued engagement is most easily achieved by being united to achieve a common objective, and the Trans-Pacific Partnership can certainly be that common goal that binds the diverse group of Asian nations together. The TPP has been touted as the most ambitious trade deal in history, with a total of 12 countries agreed on the deal to represent over 40 percent of global GDP. According to the Petersen Institute for International Economics, TPP would add 0.5 percentage points to U.S. GDP by 2030, and boost exports by over 9 percent, to the tune of \$357 billion.⁵ TPP supporters are also quick to point out that the deal is ambitious not just because of the sheer size of the global economy it would represent, but also because it is not just a trade deal focused on reducing tariffs. Rather, the most revolutionary aspect of the deal is how it is tackling non-tariff issues, including environmental regulations, labor standards, intellectual property, and state-owned enterprises. Also, U.S. public support for TPP is not as weak as it may seem

at first blush. According to the Pew Research Center June 2015 survey, 49 percent of Americans believe TPP would be “a good thing” for the nation. That is far less than the 89 percent of Vietnamese who support TPP, or 70 percent of Peruvians.⁶ Nonetheless, it does suggest that vehement opposition to this ambitious trade deal is not as strong as it appears to be in the U.S. media.

Yet the real significance of TPP is not about how much it could add to economic growth. Rather, it is the fact that it has brought an incredibly diverse group of countries together, united by a shared belief in open markets, and that the pact itself would be open to new members joining in the future. After all, TPP's members range from the Sultanate of Brunei to Communist Vietnam, as well as the United States and Japan. All members have signed on to the principles of free markets, transparency, and the willingness to adhere to clearly defined rule of law that have been determined by consensus. It is a tangible result of closer cooperation among nations that are willing to put aside their political differences, and cooperate on issues of mutual economic difference. As the world's biggest economy, the United States has played a leading role in ensuring that TPP negotiations came to a successful conclusion. As Congress now mulls whether or not to ratify TPP, U.S. credibility in Asia is at stake, and not just as a global leader of free trade. Having declared repeatedly the U.S. rebalance is not merely a military repositioning to the Asia-Pacific region, and that a successful conclusion to the TPP is a key part of the economic dimension of the U.S. rebalance to Asia, U.S. rejection of the TPP would be regarded as a failure of the U.S. rebalance to Asia strategy itself. It would also be seen as a U.S. failure in consensus-building, at a time when U.S. engagement in the Asia-Pacific is looking more towards greater cooperation among like-minded states not just economically, but militarily and politically as well.

Meanwhile, the United States is competing head-on with China, and not just as an economic rival. Just as Washington is looking to strengthen its ties to regional allies, and also promote greater cooperation amongst its partners in its efforts to remain a leading Pacific power, Beijing too is seeking out new partnerships and strengthening existing ones.

So it is no surprise that at a press briefing ahead of President Obama's visit to China to take part in the G20 meeting in September 2016, Deputy

National Security Advisor for Strategic Communications Ben Rhodes made clear the diplomatic case as much an economic one for concluding the TPP successfully.

“TPP is seen as a litmus test for U.S. leadership. TPP allows us to establish the rules of the road for trade and commerce. It’s also seen as a demonstration of America’s commitment to be a Pacific power,” Rhodes said, adding that “we would be stepping back from that leadership role. We would be ceding the region to countries like China, who do not set the same types of high standards for trade agreements, were we to not follow through with TPP.”⁷

There is no doubt that China would be eager and quite able to step into any economic leadership vacuum the United States would leave behind if TPP did not move forward. In fact, an alternative vision to TPP is already in place. While China is not a member of the TPP, it has a leading role in developing the Regional Economic Comprehensive Partnership (RCEP) free trade deal, consisting of all 10 ASEAN countries as well as Japan, South Korea, Australia, New Zealand, and India. Critics of RCEP, especially in the United States, are quick to point out that the deal is simply focused on lowering tariffs, and not as comprehensive or as ambitious as TPP. But if TPP is not ratified, RCEP would be the next best regional trade deal that is available and could be ready for implementation much sooner, while the United States would not be party to the deal. China has a number of other trade negotiations up its sleeves too, including ongoing negotiations for a trilateral pact with Japan and Korea. Given the political tensions with Tokyo, that pact may face even more hurdles than any other trade negotiation on the table. However, Beijing completed a bilateral free trade agreement with Seoul in 2015, which has not only led to stronger economic ties between the two countries, but also to firmer political relations as well.

THE AIIB CONUNDRUM

Ratification of the TPP is critical for the United States to remain a leading economic power and trading partner in the Pacific. But in the area of development assistance, the United States may already be losing ground. White House officials quickly came to regret its public skepticism about Beijing’s

initiative to establish a new development bank in order to meet Asia's ever-growing infrastructural needs. The United States was caught flat-footed when Britain, France, Germany, and other European nations joined the Asian Infrastructure Development Bank in March 2015, while Washington questioned the Chinese initiative's standards of transparency and sustainability. The White House had also been wary of Beijing's undue influence on a development agency that it has established itself. More significantly, though, AIIB has been seen as a direct challenger to long-established international development agencies, namely the World Bank and the Asian Development Bank, which have until now been led by a U.S. and Japanese national, respectively.

Granted, U.S. criticism of the AIIB have subsided as membership to the bank increased to 57, with Canada joining most recently in August 2016. The United States and Japan are actually the only major countries that have still not joined, even though both countries have now acknowledged that the AIIB could meet the significant infrastructure development financing gap worldwide. The World Bank estimates that up to \$67 trillion will need to be spent by 2030 just to meet global infrastructure needs, and an additional \$1 trillion would need to be spent per year just to keep up with the demands of urbanization in emerging markets, many of which are found in the Asia-Pacific region.⁸ Under the leadership of Jin Liqun, the AIIB would help fill that large financing gap in Asia.

Given that it took five years, until December 2015, for the U.S. Congress to ratify IMF reforms to give greater voting power to emerging markets, it is highly unlikely that legislators would give the green light to the United States joining the AIIB and paying dues to the Beijing-led institution. Nonetheless, as a non-member, it will be in the U.S. interest to work closely with the AIIB so long as the bank continues to pursue its current path of being committed to provide loans for infrastructure development to projects across Asia.

IDENTIFYING NEW ECONOMIC AGENDAS

Active U.S. engagement is critical for continued growth in East Asia. But trade and development assistance are not the only areas that could gain

from strong U.S. commitment. But it is not U.S. leadership per se that is needed. Rather, it is a willingness for the United States to work together on an equal footing, or even to take a more diminished role, on addressing issues of mutual concern without disengaging outright.

One major economic challenge facing Japan, South Korea, Taiwan, and even China is in demographic shifts, as their societies age rapidly and the birthrate declines. Encouraging female participation in the workforce at all levels and addressing the need to accept more migrant workers to fill the labor shortage are issues that could benefit from concerted regional efforts. East Asian nations must be more engaged in global discussions about the risks and rewards of tackling migration, and Washington could play a key role in ensuring there is dialogue not only among Asian nations, but also between the Asia-Pacific, Europe, Africa, and the Middle East. That could also tie in well with another major challenge facing global economies, namely the growing wealth gap and the social instabilities that the divide poses.

Energy security too will continue to loom large as an issue to secure growth in East Asia. Fracking has made the United States a net exporter of natural gas which invariably will further U.S. influence in resource-poor nations. But it can also be used to highlight the real gains made from technological innovation, and it can create opportunities for collaboration on ensuring energy security in East Asia.

Technological innovation has, of course, been at the core of the economic success not just the United States, but also Japan and Korea as well. Silicon Valley remains the world's undisputed leader in harnessing technology to entrepreneurship, both Tokyo and Seoul as well as all other Asian capitals are eager to create their own innovation hubs as well. Success stories of start-up entrepreneurs are now what attracts more young, ambitious Asians to the United States and embrace Americans values. Tapping into the magnetism of entrepreneurship will be a key driving force for U.S. diplomacy in Asia and beyond. Ensuring that the United States continues to attract some of Asia's best minds, and encouraging them to contribute to both the United States and Asia will lead to growth on both sides of the Pacific Ocean.

The biggest challenge for the United States is not about identifying opportunities for economic cooperation in Asia. Rather, it will be for Washington to hold up to its commitments to see through its vision of an

economic rebalance to Asia, and to embrace a more multilateral approach to cooperation by sharing its leadership role with other nations.

NOTES

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U.S. Policy in South Asia: Imperatives and Challenges

Michael Kugelman

SUMMARY

Sustained bilateral and multilateral U.S. engagement in South Asia is of the essence. Three major factors amplify the importance of placing South Asia on the crowded front burner of U.S. foreign policy priorities: Threats to stability emanating from the region, the overall strategic significance of South Asia, and several notable geopolitical shifts. These shifts are the U.S. combat withdrawal from Afghanistan, an accelerating American rebalance to Asia, and resilient and expanding global terrorist networks.

At the same time, sustained engagement presents policy challenges for Washington. These include addressing definitional disagreements with India about what should constitute a strategic relationship, crafting a proper policy for engaging Bangladesh in that country's highly fraught political and security environment, and identifying ways to help promote stability in two troubled countries—Afghanistan and Pakistan—where Washington is likely to have a lighter footprint in the months and years ahead.

POLICY RECOMMENDATIONS:

- Hold high-level exchanges with New Delhi that seek to find common ground on what should characterize a U.S.-India strategic relationship, and how to get there.
- Step up security cooperation with Bangladesh, and press Dhaka—on counterterrorism grounds—to exercise restraint in its dealings with

the political opposition. Cracking down on political opponents and cutting off peaceful channels to air grievances heightens prospects for radicalization.

- Continue to provide security and civilian assistance to Afghanistan, even if in reduced amounts. Such support plugs away at gaping holes in Afghan governance and security capacities, and provides reassurance to a country that fears abandonment by the United States.
- Identify and pursue areas of cooperation with Pakistan based on genuine shared interests, such as joint efforts to combat ISIS, al-Qaeda, and other terror groups that directly threaten the United States and Pakistan. U.S. development assistance, which helps strengthen civilian institutions in Pakistan's fragile democracy, should not be phased out.
- Make substantive efforts to help improve the hostile Afghanistan-Pakistan relationship. Better bilateral ties would boost stability along their porous border, and help lessen cross-border violence and terror.
- Be more present in South Asia within multilateral settings, in order to maintain credibility in the broader region. Continue to provide robust support for the Turkmenistan-Afghanistan-Pakistan-India gas pipeline and the CASA 1000 power transmission project. Take better advantage of Washington's association with the South Asian Association for Regional Cooperation and the Heart of Asia-Istanbul Process, regional initiatives with objectives that align with U.S. regional goals. Additionally, signal unequivocal U.S. support for the India-led transport corridor project under development in Iran and Afghanistan.

THE UNITED STATES HAS LONG STRUGGLED with South Asia.¹ This is no surprise, given the region's size and complexity.

It is a struggle that plays out in policy circles, but also within the U.S. bureaucracy of statecraft and national security—which has long had trouble conceiving of South Asia as a single, distinct region.

Consider that the State Department's regional bureau for South Asia also includes Central Asia. Similarly, USAID has an Office for South and Central Asian Affairs. Both State and USAID have separate offices focused on Afghanistan and Pakistan. Meanwhile, the two U.S. military commands split the region right down the middle: Central Command (CENTCOM) oversees Pakistan, while Pacific Command (PACOM) oversees India.

All this said, there is razor-sharp clarity about the chief U.S. policy objective in South Asia: The pursuit of stability.² It's an admittedly ambitious goal in a region riven with interstate tensions, including between nuclear-armed neighbors; rife with insurgency and other violent conflicts; and flush with security problems ranging from Islamist militancy to organized crime.

A COMPELLING CASE FOR CONTINUED ENGAGEMENT

These clear and present threats to stability underscore why the United States cannot afford to take its eye off the South Asia ball—even as developments in the Middle East will undoubtedly and understandably continue to consume the attention of U.S. policymakers.

Another compelling reason to ensure sustained U.S. engagement is South Asia's overall strategic significance. South Asia sits astride the Indian Ocean region—an area, in the words of noted foreign affairs commentator Robert Kaplan, that “may comprise a map as iconic to the new century as Europe was to the last one.”³ This region boasts some of the youngest and fastest-growing populations in the world, in an era when many countries are experiencing slower growing and ageing demographics. It abuts critical sea lanes for trade. It serves as a gateway to the Middle East and to China. And it enjoys some of the world's greatest wealth—yet also suffers from some of its worst poverty. South Asia is also acutely vulnerable to natural resource stress and the effects of climate change—threats that will define the 21st century.

Three Geopolitical Shifts

Furthermore, three geopolitical shifts underfoot in South Asia and the broader world amplify the inevitability—or at least, for the sake of U.S. interests, strong desirability—of continued engagement with the region in the coming months and years.

U.S. Combat Withdrawal from Afghanistan

The first shift, perhaps ironically, relates to the scaled-down U.S. role in Afghanistan, ever since the American combat war ended in 2014. A lighter U.S. military footprint in Afghanistan has led to a decreased U.S. policy focus on Afghanistan.⁴ This is concerning, given the country's deteriorating security situation.

And yet, at the same time, this presents a silver lining for U.S. South Asia policy. Less focus on Afghanistan means that the U.S. strategic lens applied to South Asia during the early years of the Obama administration—a narrow optic centered on Afghanistan and Pakistan—is being redirected elsewhere in the region, and particularly to India. Perhaps not coincidentally, U.S.-India relations have been deepening ever since U.S. combat troops began departing Afghanistan in 2014 (and also since Indian Prime Minister Narendra Modi, a strong proponent of warmer bilateral ties, took office that same year). The receding of the Afghanistan-Pakistan-focused lens also provides openings to hone in more on Bangladesh—a powder keg of a country that U.S. policy has long neglected. Washington's widening South Asia optic also presents opportunities for the United States to make more concrete contributions to regional connectivity projects like transport corridors and energy infrastructure. U.S. officials periodically articulate support for such initiatives, depicting them as stabilization projects.⁵ And yet little has been done on operational levels.

An Accelerating Asia Rebalance

A second notable shift that accentuates the importance of American engagement with South Asia is a redoubled U.S. focus on the Asia rebalance. This much-ballyhooed “pivot,” intended to allocate more American resources to the Asia-Pacific, has been painfully slow in coming. However, concrete U.S. actions over the last year—multiple high-level trips to the

Asia-Pacific, successful efforts to solidify new friendships (such as with Burma and Vietnam), and intensified U.S. participation in joint exercises with friendly militaries in the region—suggest the policy is gaining steam.⁶ Additionally, the Transpacific Partnership trade accord, if ratified, would not only incentivize, but also necessitate, a more intense U.S. focus on the Asia Pacific. And yet it is growing U.S. unease about China’s provocative moves in the Asia-Pacific that arguably constitutes the most powerful incentive to push forward with the rebalance—a concern that will remain paramount regardless of who is in the White House come January 2017.

India, and by extension South Asia, plays a critical role in the Asia rebalance policy, because Washington views India as a useful counterweight to China. The Modi government’s articulation of a new “Act East” policy—suggesting a more active and robust policy in the Asia-Pacific than the “Look East” policy embraced by previous administrations—is music to Washington’s ears, because it amplifies how the United States and India intend to rebalance to the same region, and for the same reason: to provide a counterweight to China.⁷

Resilient and Expanding Terrorist Networks

A third geopolitical shift that provides Washington with a strong incentive to remain focused on South Asia is the resurgence and expansion of global terrorist syndicates. At first glance, this may seem like a questionable assertion, because today international terror networks arguably pose the greatest threats outside of South Asia. Al-Qaeda’s presence and clout in South Asia are a far cry from the pre-9/11 era. Its central leadership in the Afghanistan-Pakistan region has been decimated, and some of its remaining top officials have reportedly relocated to Syria.⁸ Today, the greatest strength of al-Qaeda lies in its regional affiliates, and the most powerful ones (some of which have plotted attacks on the United States) are based in the Middle East and North Africa, not South Asia. Meanwhile, the territorial advances of ISIS have largely been limited to the Middle East, and its relentless onslaught of attacks has mostly taken place in the Middle East, North Africa, and Europe.

And yet, al-Qaeda has not exactly shriveled up and died in South Asia. In 2014, it announced the launch of a new South Asia affiliate. In 2015, the U.S. military claimed to have discovered “probably the largest” al-Qaeda

training camp in Afghanistan since American forces entered the country in 2001.⁹ Additionally, al-Qaeda retains deep ties to many of the region's most vicious terror groups—including the Haqqani network and Afghan and Pakistani Taliban, all of which have targeted Americans in Afghanistan.¹⁰

Meanwhile, ISIS has formally declared its expansion into the Afghanistan-Pakistan region. While its physical presence in South Asia is modest, ISIS boasts considerable brand appeal among disaffected local militants—many of them former Taliban fighters in Afghanistan—happy to carry out attacks in its name, and possibly with guidance and other non-operational support from ISIS central authorities in the Middle East.¹¹ With ISIS increasingly on the defensive as it struggles to manage its shrinking so-called caliphate in Syria and Iraq, it has a strong incentive to demonstrate its continued clout by staging (or at least claiming association with) attacks elsewhere in the world, including South Asia. In the summer of 2016, ISIS claimed responsibility for mass-casualty atrocities in Afghanistan, Bangladesh, and Pakistan.

Ominously, in the coming months, the presence and influence of al-Qaeda and ISIS could strengthen in South Asia. Deteriorating security in Afghanistan could enable the Taliban to carve out new sanctuaries that double as safe havens for its al-Qaeda ally. This means that an early key U.S. achievement in Afghanistan—the elimination of al-Qaeda sanctuaries—could well be reversed. Additionally, ongoing fragmentation and splintering within the Taliban could spawn new militant factions that reject their parent organization and pledge allegiance to ISIS. Finally, the possibility exists that if ISIS leader Abu Bakr al-Baghdadi is killed, al-Qaeda could extend an olive branch to its erstwhile Iraq affiliate. If ISIS feels sufficiently on the defensive and vulnerable, it could well opt for reconciliation.¹² A reunited al-Qaeda and ISIS would spell big trouble for South Asia.

The uptake? Writing South Asia out of the U.S. foreign policy script would be not just unfortunate, but downright dangerous.

THE CHALLENGES OF CONTINUED ENGAGEMENT

Washington has compelling reasons to stay engaged in South Asia, but sustained engagement also presents a series of policy challenges and conundrums.

India: Definitional Dilemmas About Strategic Partnership

Prime Minister Modi's visit to Washington in June was meant in part to showcase the many shared values and interests between the two countries, and to make the case that U.S.-India relations enjoy sufficiently deep repositories of goodwill to flourish deep into the future, regardless of who is America's next president. This may well be true; the U.S.-India relationship is one of the few U.S. foreign policy issues that enjoys widespread bipartisan support. However, for U.S.-India relations to truly take off, Washington and New Delhi will need to work through some definitional disagreements about the nature of their relationship. These disputes are quite separate from, and more fundamental than, the policy-focused bilateral disagreements that revolve around U.S. visa laws for Indian workers, India's position on global trade negotiations, and Washington's relationship with the Pakistani military, among other points of tension.

The core definitional disconnect in U.S.-India relations is what exactly constitutes a strategic relationship. Both countries claim to want one, but without defining what this means—and yet each country has a different expectation of what strategic partnership entails. For Washington, generally speaking, strategic partnerships are expected to involve close operational security cooperation, including the possibility of joint operations. For India, this type of cooperation is off the table, at least for now. When PACOM commander Admiral Harry Harris, in a 2016 speech in New Delhi, proposed joint patrols between the U.S. and Indian navies in the South China Sea, Indian officials promptly responded that such options would not be welcome.¹³ India's idea of a strategic partnership, meanwhile, involves high levels of technology transfers and arms deals. For Washington, such transactions, while essential, are only part of a broader package. An inability to reconcile these differing views of strategic partnership could constrain U.S.-India security cooperation, and more broadly complicate efforts to move the relationship forward.

The two countries could benefit from several high-level exchanges that seek to find some common ground on what should characterize a U.S.-India strategic relationship, and how to get there.

Bangladesh: A Delicate Dance with Dhaka

Over the last decade or so, Washington has relegated its relations with Dhaka to the backburner of South Asia policy, where they have been subordinated to America's relationships with Afghanistan, Pakistan, and India (though to be fair, the United States has provided ample aid to Bangladesh—more so than to any country in Asia other than Afghanistan and Pakistan¹⁴). Until recently, this relative inattention to Bangladesh made sense, particularly given serious stability concerns in Afghanistan and Pakistan. Bangladesh, despite great political volatility, did not pose major threats to U.S. interests. However, deprioritizing Bangladesh has now become an untenable policy as the country suffers through an increasingly violent campaign of Islamist terrorism, culminating in an ISIS-claimed attack on a popular Dhaka café in July. Like several other attacks that preceded it, the assault on the Holey café targeted foreigners. In effect, in Bangladesh, America's core interest—stability—and American lives are both at risk.¹⁵

These developments suggest the need for greater U.S. engagement with Bangladesh. How to orient this engagement, however, is a delicate matter. In an ideal world, Washington would ramp up counterterrorism cooperation with Dhaka in order to help Bangladesh identify local extremists and probe possible links between homegrown militants and global terror outfits like al-Qaeda and ISIS. However, Bangladesh's government frequently uses counterterrorism sweeps as pretexts for cracking down hard on the political opposition. If Washington does choose to increase security cooperation—and particularly security assistance—then it will need to work to ensure that its dollars do not end up being used to bankroll draconian measures against Dhaka's political opponents. U.S. officials should press Dhaka to exercise restraint in its dealings with the opposition—not just to safeguard human rights, but also to forestall terror. By cracking down on political opponents and cutting off peaceful channels to air grievances, prospects for radicalization are heightened—and particularly when these channels are denied to the likes of Jamaat-e-Islami, an anti-government Islamist party that harbors hard-line views and harbors violent factions. Unfortunately, given Bangladesh's notoriously polarizing political environment, fueled in part by an ugly vendetta between the country's prime minister and its top opposition leader, Dhaka is unlikely to relent anytime soon.

Afghanistan and Pakistan: Sustaining Stability with a Smaller Footprint

Afghanistan and Pakistan are arguably the two greatest sources of instability in South Asia, and yet U.S. relations are destined to be downgraded with both of them. A smaller U.S. military mission, coupled with considerable donor fatigue, portends less engagement with Afghanistan. This means that Washington's relations with Islamabad, which tend to be viewed through the lens of Afghanistan, could also grow more distant—and perhaps more tense as well.¹⁶ When the United States was fighting a combat war in Afghanistan, it sought to build more trust with Islamabad to help secure its assistance there. And yet now, with U.S. forces no longer in a combat role, Pakistan's help isn't as crucial—and Washington can afford to take a tougher line. Predictably, in 2016, the United States—for the first time—launched a drone into the Pakistani province of Baluchistan, killing Afghan Taliban leader Mullah Mansour, who enjoyed sanctuary there; it refused to subsidize the sale of an F16 package to Pakistan; and it threatened to cut back financial assistance to the Pakistani military for failing to adequately crack down on militancy.

In Afghanistan and Pakistan, Washington's core challenge is to find ways to help promote stability with a lighter footprint. This is no easy task, given the scale of the challenges that Washington confronts in both countries.

In Afghanistan, the Taliban insurgency—sustained by its sanctuaries in Pakistan, fueled by drug money, and emboldened by struggling Afghan security forces—rages on. Afghanistan's government, regarded by many across the country as feckless and corrupt, has little capacity to weaken the insurgency, which now controls more territory now than at any time since 2001. And in Pakistan, the military's counterterrorism offensives have helped reduce terrorist violence, but the state still refuses to cut ties to Pakistan-based terror groups—like the Haqqani Network and Lashkar-e-Taiba—that have staged attacks in India and especially Afghanistan that kill Americans. More broadly, Pakistan—with its hardline religious institutions and clerics, its climate of intolerance toward religious minorities, and above all its refusal to crack down on terror groups of all forms—continues to provide an entrenched, enabling environment for the extremist ideologies that fuel terror.¹⁷

Indeed, another big U.S. challenge in Afghanistan and Pakistan may be to admit that there is only so much Washington can do. It can't magically

transform beleaguered Afghan armed forces into a war-fighting powerhouse. It can't magically refashion the Afghan government into a paragon of good governance. Meanwhile, Washington—no matter how much aid it dangles—cannot compel Pakistan to sever its ties with, or deny sanctuary to, terror groups on its soil. Pakistan's core strategic interest is to keep India at bay, and it believes maintaining links to terror groups can help it do so. American weapons or dollars are unlikely to alter the cold, hard calculus of Pakistan's unshakeable strategic interest. In fact, providing arms and cash just causes Pakistan to double down.

The United States should continue providing security and civilian assistance in Afghanistan, even if in modest amounts. The presence of U.S. troops provides psychological reassurance to a military, government, and population that fears abandonment by the United States, and it helps plug away at gaping holes in Afghan warfighting capacities. As bad as things are now, they could well spiral out of control in the event of a full U.S. withdrawal—from mass desertions within the military to an acute economic crisis and, perhaps, civil war.

In Pakistan, the United States should identify and pursue areas of cooperation based on genuine shared interests. These may include, for example, joint efforts to combat ISIS, al-Qaeda, and other terror groups that directly threaten the United States and Pakistan. Bilateral exchanges on softer areas of cooperation—water, energy, education—can be useful to build goodwill, though with U.S. troops no longer needing as much Pakistani assistance in the Afghanistan war effort, it may be difficult to justify expending so much diplomatic capital to cultivate that goodwill. Still, U.S. development assistance to Pakistan, which could face significant cuts, should not be altogether phased out, given the important role it seeks to serve: strengthening civilian institutions in a nation where democracy is dangerously fragile.

Furthermore, Washington should actively pursue efforts to improve the hostile Afghanistan-Pakistan relationship. Better ties would boost stability along their porous border, and help lessen cross-border violence and terror. The United States is better off serving as an intermediary in this troubled relationship than it is in the India-Pakistan one, given New Delhi's rigid opposition to any outside efforts to help ease its tensions with Pakistan.

India worries that any external mediation would mean bringing up the Kashmir dispute, which New Delhi believes has long been settled.

Overall, sustained U.S. engagement in Afghanistan and Pakistan presents three fundamental policy conundrums.

- Maintaining U.S. troops in Afghanistan helps Afghan forces, but also provides propaganda coups for the Taliban—which vows to fight until every last foreign occupier leaves Afghanistan—and gives it an excuse not to pursue peace talks with Kabul. Washington, aware that Afghanistan’s war can’t be won militarily, fervently supports talks.
- In 2016, Obama announced measures giving remaining U.S. troops in Afghanistan more flexibility to go after the Taliban. This move could produce tactical counterinsurgency successes, but it could also strengthen ISIS. This is because the Taliban, to this point, has effectively fought off ISIS-aligned militants in eastern Afghanistan. By weakening the Taliban, the United States weakens an anti-ISIS ally of America’s in Afghanistan.
- So long as Washington keeps sending military assistance to Pakistan, it runs the risk of having this aid used to fund or arm groups, such as the Haqqani Network, which threaten U.S. lives in Afghanistan, or those like Lashkar-e-Taiba, which threaten India. Such outcomes would undermine the very stability that U.S. military assistance is meant to promote. Even worse, such outcomes could endanger American lives.

Ultimately, U.S. policy challenges in Afghanistan and Pakistan boil down to an uncomfortable yet critical question: How much diplomatic, security, and financial capital is Washington willing to expend in pursuit of stability that has long been elusive, despite ample American largesse?

REMAINING RELEVANT IN THE REGION

In South Asia, despite its best efforts, the United States remains a relative outsider. It has been out-engaged and outmaneuvered by China, which is

busily building out its One Belt, One Road project—an enterprise that entails deep levels of infrastructure investments across Afghanistan and Pakistan, including the \$46 billion China-Pakistan Economic Corridor. Meanwhile, India is developing its own, more modest, regional infrastructure project, with efforts underway to construct Chabahar port in southern Iran along with roads and railroads up to the Iranian border with Afghanistan. South Asia, much like Asia on the whole, has become a battleground for influence between Asia's two rising powers.

In fact, these Chinese and Indian regional infrastructure projects are both good for Washington, because they aim to produce the same outcomes the United States wishes for in South Asia: more infrastructure and development, enhanced regional connectivity, and, above all, stability. In this sense, there's nothing wrong with Washington playing second fiddle to China and India in South Asia.

At the same time, within broader regional settings, the United States risks losing credibility by not being more present. To this end, U.S. engagement with South Asia should be multilateral as well as bilateral. Washington's robust backing for a gas pipeline project involving Turkmenistan, Afghanistan, Pakistan, and India is a good start, as is its financial support for CASA 1000, a power transmission project involving Afghanistan, Kyrgyzstan, Pakistan, and Tajikistan. It should also take full advantage of its association with the South Asian Association for Regional Cooperation (SAARC), where it holds observer status, and with the Heart of Asia-Istanbul Process, where it is a supporting member. The objectives of these two initiatives are to promote South Asian regional trade and cooperation (in the case of the former) and cooperation between Afghanistan and its neighbors (in the case of the latter). Both align with U.S. regional goals. Furthermore, Washington should signal its unequivocal support for the India-led Chabahar deal.¹⁸ Endorsing it would telegraph Washington's support for—and awareness of—India's growing regional footprint.

To be sure, sustained bilateral and multilateral U.S. engagement in South Asia is a very tall order, and especially at a time when the attention of American foreign policymakers is consumed by crises in the Middle East, Europe, and Russia. And yet, numerous critical factors—bearing on issues of stability, strategic significance, and geopolitical shifts—amplify the im-

portance of placing South Asia on the crowded front burner of U.S. foreign policy priorities.

NOTES

- 1 South Asia is comprised of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. These are also the countries that make up South Asia's regional organization, the South Asian Association for Regional Cooperation.
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Managing U.S.-ASEAN Relations

Sandy Pho

SUMMARY:

U.S. strategy toward Southeast Asia continues to posit the region as a subset of U.S.-China relations, but the United States' relationships with the 10 member countries of ASEAN are of growing importance in their own right—even without China in the picture. The challenge for U.S. policymakers in the new administration will be maintaining support for Southeast Asia's pivotal role in promoting regional peace and security, which begins with reinforcing ASEAN unity.

POLICY RECOMMENDATIONS

- The new Secretary of State and Secretary of Defense should make their first overseas trips to the Asia Pacific and include a Southeast Asian country.
- The United States should host a second U.S.-ASEAN Leaders Summit.
- U.S. businesses, universities, and NGOs must deepen existing partnerships in the region and with U.S. allies, especially Thailand and the Philippines.
- The administration must work closely with Congress to ratify TPP.

THE OBAMA LEGACY: GETTING IT RIGHT, BUT NOT RIGHT ENOUGH

For most of the past century, the United States' Asia policy focused on Northeast Asia. After the Second World War, conflict on the Korean Peninsula, tension in the Taiwan Strait, and, most recently, China's rise, have made Northeast Asia *the* primary U.S. security interest in the region. In spite of the United States' entanglement in the Vietnam War, Southeast Asia remained a secondary regional priority for Washington.

This changed with the September 11, 2001 attacks. With sizeable Muslim populations, including the world's most populous Muslim country,¹ Southeast Asia suddenly became the "second front" in President George W. Bush's Global War on Terror. Following 9/11, America's approach to Southeast Asia was "almost entirely dictated by its overarching preoccupation with terrorism."²

Today, Southeast Asia is receiving the attention it deserves in DC policy circles, thanks in large part to "America's first Pacific president."³ In a speech to the Australian Parliament in 2011, President Barack Obama formally introduced his administration's "rebalance" to Asia, declaring that, "as a Pacific nation, the United States will play a larger and long-term role in shaping this region and its future, by upholding core principles and in close partnership with our allies and friends."⁴ Southeast Asia is key to a successful rebalance strategy.

Obama laid the groundwork for sustained engagement with Southeast Asia by visiting nine out of the ten Association for Southeast Asian Nations (ASEAN) member countries in his two terms in office.⁵ This year's first-ever, stand-alone meeting between Southeast Asian leaders and President Obama in California further solidified ASEAN's importance to the United States. In spite of Obama's eight-year charm offensive however, Southeast Asians still question America's commitment to the region. At the same time, domestic critics question whether engaging ASEAN countries is the best use of limited U.S. resources.

U.S. strategy toward Southeast Asia continues to posit the region as a subset of U.S.-China relations, but the United States' relationships with the 10 member countries of ASEAN are of growing importance in their own right—even without China in the picture. The challenge for U.S.

policymakers in the new administration will be maintaining support for Southeast Asia's pivotal role in promoting regional peace and security, which begins with reinforcing ASEAN unity.

At a minimum the next administration should sustain the level of engagement established by the Obama administration. In order to fully capitalize on the past eight years however, the next president will have to prioritize the U.S.-ASEAN strategic partnership, while at the same time, strengthening relations with key member countries bilaterally. This starts with understanding Southeast Asian countries individually, their unique histories and demographic makeup, as well as their shared goals for the Asia Pacific.

ASEAN AS THE MANAGER OF REGIONAL ORDER

The Association of Southeast Asian Nations was created in 1967 “to establish a firm foundation for common action to promote regional cooperation in South-East Asia in the spirit of equality and partnership.”⁶ Since its founding, ASEAN has established habits of cooperation that make bilateral disputes easier to manage. It has given countries ranging in size from Indonesia (nearly 255 million people) to the tiny sultanate of Brunei (less than 500,000) sufficient cohesion to stand up to great powers such as China. By coordinating their efforts, ASEAN countries have inhibited the powerful countries of Northeast Asia from dividing and conquering the smaller countries to the south. In the absence of a comprehensive security architecture in Asia, ASEAN worked toward maintaining a balance of power in the face of rising great power rivalry.

To accomplish this task, Southeast Asian nations put forth a number of community-building initiatives and spearheaded ASEAN-led multilateral platforms. These include the ASEAN Regional Forum (ARF), ASEAN Plus Three (ASEAN plus China, Japan, and South Korea), the East Asia Summit (EAS), the ASEAN Defense Ministers Meeting-Plus, and the Chiang Mai Initiative. Southeast Asian countries understand that they cannot act independently of big powers. Instead of competing with them, ASEAN nations have brought larger countries in as full dialogue partners. Their strategic imperative is to enmesh the great powers in a stable, ASEAN-led regional order that big powers have a stake in preserving.⁷

ASEAN's role as "manager of regional order"⁸ grows in importance as the great power rivalry in Asia heats up. Unlike in the Middle East, the risk of great power confrontation in East Asia is high. The region is home to big powers harboring mutual suspicions and historical grievances that are feeding a wave of nationalism. Relations between East Asia's two strongest resident powers, China and Japan, are in their worst state since they established diplomatic relations in 1972.⁹ Strategic rivalry between the United States and China show no sign of abating; mutual accusations of outmoded thinking and bad faith proliferate, even as each side assures the other of its good intentions. North Korea continues to defy the international community by pressing ahead with its nuclear program and test-launching missiles.

These developments threaten to fracture ASEAN and undermine its role as manager of regional order. A divided Southeast Asia would allow big powers, such as China, to shape the region in ways that could be detrimental to America's interests. The next administration must therefore advance ASEAN unity in the face of growing strategic tensions.

ASEAN unity is at highest risk in three areas:

Trade and Economic Engagement

Southeast Asia is home to nearly 633 million people and covers an area more than half the size of the continental United States.¹⁰ Sixty-five percent of Southeast Asians are below the age of 35. The ten ASEAN member states have a combined GDP of \$2.4 trillion, making the bloc the third largest economy in Asia and the seventh largest in the world.¹¹ Bilateral trade between the United States and ASEAN reached \$226 billion in 2015 and supported more than 500,000 (or 7 percent of all) American jobs.¹² The East-West Center estimates that 21 U.S. states export at least \$1 billion in goods to ASEAN each year.¹³

Southeast Asia is also the top destination for U.S. investment in Asia, totaling almost \$190 billion in 2012 and surpassing U.S. investment in China, India, South Korea, Hong Kong, Taiwan, and New Zealand combined.¹⁴ ASEAN investment in the United States increased 1,440 percent from \$1.8 billion in 2001 to \$27.5 billion in 2012—more than five times that of China's and exceeding the combined investments of China, Hong Kong, India, Taiwan, and New Zealand.¹⁵

The Organization for Economic Co-operation and Development (OECD) projects an average growth rate of 5.2 percent for ASEAN between 2016 and 2020.¹⁶ Individual country rates range from a low of 0.9 percent in Brunei (fewer than half-a-million people) to a high of 8.1 percent in Laos.¹⁷ With a middle class expected to double by 2020 (to 400 million), ASEAN will continue to be an important market for U.S. exports and investments.¹⁸

The Trans Pacific Partnership (TPP) was intended to capitalize on these economic opportunities and reinforce U.S.-Southeast Asian linkages. Four ASEAN members are signatories to the deal: Singapore, Vietnam, Malaysia, and Brunei. Even though the U.S. Congress approved Trade Promotion Authority legislation in June 2015, the American electorate is becoming hostile to trade deals in general and TPP in particular. Presidential candidates from both parties have come out against the deal, vowing to oppose TPP if elected.

The importance of TPP goes beyond economic benefits. Ratifying the deal will enhance American leadership in the region, both economically *and* politically. In global affairs, robust trade relations are building blocks of strong, peaceful relations and have been a key factor in reducing poverty worldwide. If Washington fails to ratify the TPP after seven years of negotiations and domestic horse trading by all the parties, U.S. credibility and leadership will suffer a major blow in the Asia Pacific. As one senior Southeast Asian diplomat put it, “there is no plan B.”

It is imperative the next commander in chief work with Congress to ratify the TPP; or at the very least, submit it for ratification. The president will have to educate the American public on the economic benefits of TPP using plain language backed by data. The next president should also acknowledge any negative economic impacts of the deal and propose concrete ways of addressing them.

Failure to pass TPP would allow other regional powers to reap the benefits of economic leadership of this dynamic region. As Beijing continues to flex economic muscle in the form of the Asian Infrastructure Investment Bank (AIIB) and the “One Belt, One Road” (OBOR) initiative, its political influence will also grow, creating divisions within ASEAN and having a disproportionate impact on its most vulnerable members—Cambodia and Laos.

A basic principle outlined in the ASEAN charter is that of consultation and consensus in decision-making. All 10 member states and dialogue partners must agree to the final text in order for a statement to be issued after major meetings. ASEAN's foreign ministers failed to issue a joint statement for the first time in its 45-year history under the chairmanship of Cambodia in 2012,¹⁹ following a disagreement on whether to include a statement about disputes in the South China Sea. The Philippines wanted the communique to include language on the confrontation between the Philippines and China at Scarborough Shoal and to note Vietnamese concerns over exclusive economic zones (EEZs). Cambodia, pressured by China (Cambodia's leading source of investment),²⁰ used the power of the chair and rejected mention of Scarborough Shoal and the EEZ's in the statement. In the end, no joint communique was issued.

A strong, united ASEAN can only be built by ASEAN countries themselves, but the United States can support the Association by ramping up its economic engagement with the region. Sustained U.S. engagement in the form of TPP, U.S.-ASEAN Connect,²¹ and the Lower Mekong Initiative offers Southeast Asian countries an alternative to Chinese preponderance.

Geopolitics and Maritime Security

The Strait of Malacca is a vital waterway that flows along the coasts of Indonesia, Malaysia, and Singapore (the latter two are signatories to the TPP). It measures just 900 kilometers long but is the main shipping channel linking Asia with the Middle East and Europe. The U.S. Energy Administration estimated in 2013 that 15.2 million barrels of oil passed through the Malacca Strait each day.²² One-third of the world's liquefied natural gas, the bulk of which originates in the Persian Gulf, makes its way through the strait as well.²³ 50,000 ships ferry 25 percent of the world's traded goods through the Malacca Strait every year.²⁴

In addition to commercial shipping, the Malacca Strait is the main artery through which U.S. naval ships travel between the Pacific and Indian Oceans. With more than 78,000 U.S. military personnel stationed in East Asia and the Pacific,²⁵ and a commitment to deploy 60 percent of all U.S. Air and Navy forces to the region by 2020,²⁶ unfettered access through

this Southeast Asian chokepoint into sea lanes in the region is crucial to America's expanding military footprint in Asia.

Unfettered access to the Western Pacific through the Malacca Strait is all the more important as tensions rise between China and many of its Southeast Asian neighbors over the status of disputed islands in the South China Sea. In the past two years, Beijing has undertaken destabilizing land reclamation projects on land features it claims in the South China Sea. In 2015, China ramped up reclamation efforts on seven reefs in the Spratly Island chain: Fiery Cross, Cuarteron, Hughes, Johnson South, Mischief, Gaven, and Subi.²⁷ The Asia Maritime Transparency Initiative reported in September 2015 that China had completed construction of an airstrip on Fiery Cross Reef, its first on the Spratly Island chain.²⁸ Operational runways have also been identified on Subi and Mischief Reefs.²⁹ Other claimant states such as, Malaysia, the Philippines, and Vietnam have also constructed airstrips on disputed land features in disputed South China Sea territory. These developments have led to tense stand offs between Beijing and its neighbors, most notably the Philippines and Vietnam.

Manila and Hanoi have repeatedly expressed frustration over ASEAN's inability to address South China Sea issues. In 2013 the Philippines filed a case against China at the Permanent Court of Arbitration in The Hague following an incident off of Scarborough Shoal in which a Philippines naval vessel attempted to intercept Chinese fisherman.³⁰ Although the tribunal did not rule on issues of sovereignty, on July 12 it rejected Beijing's claims of historic and economic rights in the South China Sea.³¹ Despite this strong rejection of China's claims, China blocked ASEAN from including the tribunal case in a July 24 joint communique—the first to be issued following the ruling.³²

Although the United States does not take a position on sovereignty issues, the disputes have strained U.S.-China relations and precipitated a 5.4 percent rise in military spending in Asia last year.³³ According to the Stockholm International Peace Research Institute, "Heightened tensions with China over the South China Sea are reflected in substantial growth in military expenditure in 2015 by Indonesia (16 percent), the Philippines (25 percent) and Vietnam (7.6 percent)."³⁴ A divided, increasingly militarized Southeast Asia makes conflict much more likely in East Asia. The next

administration will need to work closely with its Southeast Asian partners to create a regional architecture that is stable and deters unilateral changes to the status quo.

Understanding Regional Diversity

Southeast Asia is home to nearly 633 million people speaking an estimated 1,000 languages across 11 different countries.³⁵ Its location at the strategic crossroads between the Pacific and Indian Oceans makes it a melting pot of world religions and cultures. According to a 2014 Pew Research poll, Singapore and Vietnam are two of the most religiously diverse countries in the world (numbers one and three respectively).³⁶ 85 percent of Filipinos are Roman Catholic. Thailand is more than 95 percent Buddhist.³⁷ 87 percent of Indonesians are Muslim, making it the world's most populous Muslim nation. Islam is the most widely practiced religion in Southeast Asia, with over 240 million worshippers, which is 40 percent of the region's population.³⁸

Varying geographies and historical experiences have produced social and cultural diversity and political systems ranging from an absolute monarchy in Brunei to the world's largest Muslim democracy in Indonesia. Economic development across the region is also mixed. Singapore's GDP per capita is 30 times higher than in Laos and 50 times higher than Cambodia's and Myanmar's.³⁹ While Indonesia accounts for 40 percent of Southeast Asia's economic output and is part of the G20, Myanmar is emerging from decades of isolation and working to integrate itself into the global economy.

The ASEAN principle of consultation and consensus in decision-making grew out of respect for these differences. U.S.-China strategic rivalry exacerbates these differences and diminishes ASEAN's ability to maintain cohesion. Laos and Cambodia tend to support Chinese positions because they depend on China's aid and investment and because they share ideological leanings with the PRC. Vietnam and Myanmar, which have some of the same affinities, have moved away from China in recent years toward balancing between Beijing and Washington. Indonesia, Malaysia, and Singapore have long maintained strong, neutral relations with both Washington and Beijing, balancing security and economic cooperation with both powers. The Philippines and Thailand, the United States' only two formal allies in

Southeast Asia, were designated as “major non-NATO allies” during Bush’s Global War on Terror,⁴⁰ although Thailand has drawn closer to Beijing since the military coup in 2014.

The developmental, cultural, and political diversity of the region poses challenges and presents opportunities to the next president. Vietnam will require especially close attention. Hanoi values its economic relationship with the People’s Republic of China, but prefers an enhanced American regional security role to Chinese military dominance. Although President Obama made an historic visit to Hanoi in May and lifted the decades-old arms ban on Vietnam, mutual mistrust still pervades the relationship. The Communist Party of Vietnam remains suspicious of U.S. intentions and of the American penchant for spreading democracy. More importantly, it does not want to provoke its northern neighbor if it can be helped. Only by nurturing U.S.-Vietnam relations for their own sake, and not as a corollary to U.S.-China relations, can American strategists develop the sensitivities needed to promote American interests.

The next administration needs to be mindful of Southeast Asia’s diversity and to understand the histories and demographics of Southeast Asian countries individually. Only then can it effectively strengthen relations with key member countries bilaterally and promote ASEAN cohesion.

The United States, after all, is a Pacific Power. Washington’s strategic and economic engagement in the region is robust and welcomed by most regional actors. A 2015 Pew Research poll shows that public opinion of America is strongest in many ASEAN countries, notably the Philippines, Vietnam, and Indonesia (92, 78, and 62 percent favorability ratings respectively).⁴¹ American “Pacifness” goes beyond U.S. strategic and economic engagement however. The Pacific is central to American culture and identity. 20.3 million Americans identified as Asian or Asian-American in 2014;⁴² thirty-six percent of all Asians trace their ethnicity to an ASEAN country. The United States is home to the largest Vietnamese,⁴³ Thai,⁴⁴ and Laotian⁴⁵ communities outside of their respective countries. The largest Cambodian population outside of Southeast Asia is in Long Beach, California.

Asians are the fastest-growing racial group in the United States, having experienced a 46 percent increase between 2002 and 2014.⁴⁶ Nielsen, a global information and measurement company, projects a 150 percent rise

in the Asian American population between now and 2050.⁴⁷ Asians are not only woven into the fabric of America life, they are also the vectors for cultural and economic ties across the Pacific. Asian Americans anchor the United States to the Pacific and insist on an involved, effective Asia policy. This starts with getting Southeast Asia right.

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U.S. Success in Asia Depends on Innovation and Integration, Not Isolation

Meg Lundsager

SUMMARY:

The United States shares many economic priorities with Asian countries that should lead to building mutually supportive policies and outcomes. Pursuing international economic agreements such as the Trans Pacific Partnership and maintaining high level engagement in the G20 and other groupings demonstrates U.S. policymakers' awareness of the international economic linkages among our economies. That engagement should be sustained and deepened. The United States and Asian countries can also actively participate in many international organizations—global and regional—and play key roles in setting institutional agendas.

Asian partners do not, however, always share the sense that the United States understands their challenges or accommodates their priorities. With relatively little effort U.S. officials could look first to finding shared solutions to shared problems and then use the enhanced mutual understanding to tackle some of the more difficult bilateral and regional economic issues. This would facilitate addressing U.S. priority concerns.

No efforts will succeed without public support and commitment from the U.S. Congress. Therefore, policy makers should forestall any perception that the United States is making 'concessions' to foreign negotiators by demonstrating the national benefit of agreements and providing assurances that those benefits will be shared throughout the U.S. population. The new Administration's domestic economic agenda and international economic agenda should be complementary with interlinkages well thought out and

disparities in outcomes addressed. The following policies would help put the American economy on a sounder footing and would sustain U.S. global leadership. Economic strength will help enhance the priority for Asian nations of good relations with the United States.

POLICY RECOMMENDATIONS:

- Put international policy consultation at the forefront of strengthening the U.S. economy. Without stronger growth globally, the United States will be unable to achieve export growth, and will find other countries increasingly reliant on selling their products to the United States. While the TPP has become an unwelcome issue in this year's election, many TPP countries are already changing their domestic policies to meet the new higher standards demanded by this agreement. Sustaining that liberalizing trend in Asia will be critical for long run U.S. regional and global competitiveness. Asian economies remain among the fastest growing globally. India tops the charts currently but trade and investment with India still face impediments. As India moves forward on economic reform, the U.S. should focus on finding shared objectives that achieve deeper market opening in India while assuring India of its access to the U.S. economy.
- Pursue engagement with younger, dynamic Asian economies such as Indonesia to anchor their preferences for American goods and services. Regionally, the focus is on infrastructure to promote more internal and external trade and economic activity. Washington should find ways to support U.S. firms in meeting that demand for capital investment, whether through regional or global institutions, or U.S. financing mechanisms such as the Export-Import Bank.
- Use the international financial institutions to achieve agreed goals, including supporting larger stakes in the International Monetary Fund for rapidly growing Asian economies. The work of the IMF should be more closely coordinated with the World Trade Organization to generate a

more coherent environment for fair trade globally. Press for IMF and WTO cooperation to reduce exchange rate competition and reduce reliance on export led growth.

- Put our own house in order: Pursue tax reform to promote fairness while generating some increase in revenues to cover improvements in infrastructure and enhance the productivity of American workers. Prepare for our own changing demographics.
- Innovate and integrate domestically to better prepare for global competition. Lead by keeping markets open, while going after unfair trade practices. Compensate American workers impacted by technological innovation or trade and facilitate continued employment.
- Look to the future. Prepare American students to adapt to future changes in the workplace.

U.S. ACCEPTANCE OF ASIAN ECONOMIC INFLUENCE was visible in two IMF related areas; namely IMF quotas, or ownership shares in the institution, and IMF policy on economic controls on cross border capital flows.

First, the United States' shift towards appreciating the growing economic role of Asian countries began ten years ago, when the Bush Administration recognized that the fastest growing economies were grossly under-represented in the international institutions, the International Monetary Fund in particular. While the first effort to rebalance IMF governance benefited just four countries—China, Korea, Mexico and Turkey, the next two rounds negotiated during the global financial crisis, led to increases in the voting power of several Asian economies, including Korea, India, China, Malaysia, and Indonesia. While Europe remains over-represented in the IMF, the balance in voting power better reflects the higher economic growth of a number of Asian emerging markets yet preserves the influence of the U.S. economy.

Second, IMF policy recommendations during this period became more nuanced, as IMF staff and leadership were increasingly aware of the challenges faced by countries in dealing with large and at times volatile capital flows. IMF sensitivity to this policy challenge led it to soften its stance against capital controls, recognizing that at times, good macroeconomic and regulatory policies may not be able to counterbalance the strength of capital inflows or outflows, generated primarily by developments in advanced economies.

These are just two examples of the experiences and trends in Asian economies shaping the global policy architecture and a demonstration of the United States' ability to work closely and negotiate effectively with counterparts to achieve mutually beneficial outcomes. From the United States' viewpoint, securing stronger Asian commitments to the International Monetary Fund helps maintain this global institution as the primary forum for debating and deciding key issues related to the international financial architecture. Furthermore, larger quotas, or ownership shares in the IMF means Asian economies are larger sources of financing for IMF lending, which enhances their stake in the stability of the global financial system and their stake in international cooperation.

Looking ahead, United States' economic priorities should include deepening trust and relationships throughout the region. Domestic challenges in the United States and other countries may impede success, but the cost of withdrawing from economic engagement with Asia would be high.

How should a new Administration proceed?

First priority should be to ratify the Trans Pacific Partnership. This agreement opens doors for U.S. exports of goods and services—in agriculture, in manufacturing, and in the many services that U.S. firms produce so well. The countries in the TPP are committing to reduce their barriers to U.S. exports, including regulatory barriers that have limited agricultural and services exports. Many countries such as Vietnam are already changing their domestic laws to comply with their treaty commitments. With U.S. tariffs and other trade barriers already low, these countries will continue to export their products to the United States, regardless of U.S. ratification. With U.S. ratification, the United States secures their binding commitments to lower their much higher barriers to U.S. goods and services exports.

In addition, once the TPP comes into force, other countries will seek membership. With the agreement already negotiated, these prospective members will have little choice but to change their laws to adapt to the higher standards of the TPP. Korea for example already has a free trade agreement with the United States, but joining the TPP would require Korea to make deeper reforms to its regulatory restrictions that impede trade and investment. Indonesia has indicated interest and its large population with many moving into higher income brackets and middle class lifestyles could be a significant future market for a broader array of U.S. goods and services. Finally, if China decides to pursue joining the TPP, it would need to make far deeper structural reforms and market opening measures which would remove many of the obstacles now faced by U.S. firms, obstacles which the World Trade Organization does not address.

If the United States commitment to the TPP withers away, Asia will not forgo the benefits of market opening trade agreements. Asian countries, including China, are negotiating the Regional Comprehensive Economic Partnership (RCEP). This negotiation, while including many countries, falls far short of the reforms entailed in the TPP. If the United States fails

to ratify the TPP, RCEP will take center stage, deepening regional ties with the risk that trade and economic engagement with the United States is displaced, or at best grows much more slowly, thereby limiting job creation and growth in U.S. export sectors.

To add one more little understood benefit of TPP, a side declaration made by finance officials commits TPP members to report intervention in their currency markets. This means reporting publicly on government or central bank purchases of foreign currency (selling their own currency) as a means to depreciate their currency, making their exports more attractive abroad and raising the domestic price of imports. The commitment to report, and the scrutiny exercised by other TPP countries, will contribute to inhibiting such unfair currency practices. To illustrate, press reports cite Korean intervention in the foreign exchange market to drive down the won and help Korean exports even though Korea already has one of the largest external surpluses in relation to its economy. But the Korean central bank does not report such activity, making it more difficult to prove such unfair practices. If Korea seeks to join TPP once the agreement is enacted, Korea should be required to immediately report regularly on its intervention in foreign exchange markets. Without the TPP, there is no other organization requiring Korea to report intervention – not the International Monetary Fund and not the World Trade Organization.

Second, join with fast growing Asian economies and support further increases in their IMF quotas. This will entail further reducing the collective quota share of European countries, which remains above Europe's share in the global economy while the US quota share remains below the US weight in the global economy. The large emerging markets, the BRICS (Brazil, Russia, India, China and South Africa) recently established their own joint fund, the Contingency Reserve Account (CRA), of \$100 billion, with each country able to draw an initial amount from the collective funds upon request. Frustration with slow moving IMF reforms could push these countries to expand this agreement and drop the CRA requirement for parallel IMF engagement if a country seeks a second draw. While this is fairly unlikely to happen, given that IMF engagement spreads the burden of dealing with a crisis, the fact that the BRICS have managed to make binding financial commitments to each other in the CRA and in the AIIB (see below)

demonstrates a growing level of trust with each other and frustration with the European and U.S.-dominated Bretton Woods system.

Third, use the Asian focus on promoting infrastructure spending to galvanize Europe to increase internal spending to generate growth and create jobs. China just hosted the G20 meeting and used the opportunity to highlight its commitment to spending more on infrastructure, not just in China but throughout the region. China was the impetus behind the Asian Infrastructure Investment Bank (AIIB) which the United States did not join although many close allies did, with Canada the latest to apply. The United States does not need to join the AIIB, but the priority set on building and modernizing infrastructure in a region which is already growing much more quickly than Europe could help build a strong global consensus for stronger spending that both generates jobs and incomes and enhances the productivity of the economy. Asian G20 members can point to their spending commitments to increase growth, further highlighting the inadequate response in Europe to the need for much stronger domestic stimulus. The United States should also prioritize infrastructure spending, which would create new jobs and increase our future economic potential.

Hosting the G20 provides countries with the opportunity to showcase their economy, culture, and most importantly, their role in the global economy. China's changing self-perception is evident. Not too long ago China hid behind the claim of being a poor developing country to fend off criticism of its economic impact internationally. Now China is acutely aware of how closely the rest of the world follows Chinese economic developments and policies. This international scrutiny helps push for more transparency, and more collaborative policies, especially given the sensitivity of many emerging market economies to China's ups and downs

When India chairs the G20, likely in the next few years, the United States should make every effort to find common ground and shared objectives. India has begun a long needed domestic reform effort, and could complement that with deeper international engagement to help bring more rapid development and higher living standards throughout the country. As these reforms unfold, U.S. business can be expected to seek out opportunities in India. At the same time, supporting India's goals in international institutions as noted above could also generate stronger bilateral relationships.

The recent G20 summit did not produce a joint effort across countries to stimulate their economies and reduce the burden on central banks to sustain economic performance. Nonetheless, the G20 does build cooperation on core aspects of financial sector regulation and has succeeded in mutual encouragement of reforms needed to enhance the resilience of financial institutions. While not all countries have open capital markets, all realize that it is impossible to wall off their financial sectors from international activity. Regulatory bodies are independent of their governments in several countries, but are not independent of the economic activity in their own and other countries. The 2008-2009 financial crisis showed how deeply intertwined all our economies are and remain today. While not the top headline news of G20 summits and other meetings, cooperation on regulatory matters has enabled policy makers in all countries to exercise better oversight over activity and enhance their ability to take needed actions to preserve stability in their financial systems.

The United States and Asian economies also participate in other groupings such as the Asia Pacific Economic Cooperation forum (APEC) which was the initial regional grouping across the Pacific. The relationships and mutual understandings built in these organizations have helped facilitate the rapid reaction to international economic crisis. Officials were able to speak openly and negotiate quickly to reach common conclusions on the required policy response. Those relationships are extremely valuable, and help in discussions of non-economic issues as well.

Of course, in the end, all politics is local and each leader or government seeks to sustain its domestic support. That domestic support can be underpinned by broadening the understanding throughout an economy of the impact of international engagement—both the positive and the negative. By providing for those adversely impacted by international agreements, governments might find stronger support. If new job opportunities are forthcoming as one industry shrinks, whether from technological change or trade, workers could be given the opportunity to adapt to change. But it is this latter challenge that many of our governments, not just in the United States, have been unable to meet.

No matter the direction of the United States, Asian economies will remain faster growing than some of the United States' historically important

trading partners. Sustained engagement can generate long term benefits, if complemented by domestic policies to smooth transitions. Persuasive leadership can build the political will to bring the domestic and international agenda into a unified approach. The question is, can that political will emerge?

North Korea: A Failed State with Nuclear Weapons¹

Robert Litwak

SUMMARY:

North Korea has the potential to sell its nuclear technology to another country or terrorist group, and will soon acquire the capabilities to directly threaten the U.S. homeland. Preventing Pyongyang from engaging in nuclear terrorism necessitates a deterrent policy that threatens regime-changing retaliation in tandem with the revival of arms control negotiations to freeze North Korea's nuclear program. The challenge for U.S. policymakers will be to manage tension between the twin policies of punishment and denial. Despite significant political impediments, U.S. diplomacy should aim to negotiate a freeze on both North Korea's nuclear as well as missile programs.

POLICY RECOMMENDATIONS:

- **Learn from the Iran nuclear deal process and engage diplomatically.** As with Iran, the end goal with North Korea will be to prevent a deteriorating situation from getting worse. A complete rollback of North Korea's nuclear program in the near term is not feasible with a regime that sees nuclear weapons both as a deterrent vital to its survival on the one hand, and as a bargaining chip to extract economic concessions on the other.
- **Cooperate with China to limit Pyongyang's capabilities.** Washington and Beijing have a mutual interest in preventing a North Korean strategic breakout. Possibilities for coordinated diplomacy to freeze North Korean capabilities are high. But that will require China not just to apply meaningful pressure on Pyongyang, but also to a capping of its own influence.

NORTH KOREA DEFIES THE NEAT TYPOLOGY OF STATES that American officials have employed since the end of the Cold War. The Democratic People's Republic of Korea (DPRK) is a "failed state," where endemic crop failures have precipitated famine, and chronic fuel shortages have meant that the lights are literally out in the country.² Yet this "failed state" also possesses a small nuclear arsenal and is unpredictably aggressive—characteristics that made North Korea a charter member of the countries that the United States designated as "rogue states." The perverse incongruity of nuclear weapons and mass starvation is emblematic of the challenge posed by North Korea.

North Korea is on the verge of a strategic breakout. Its mastery of war-head miniaturization and long-range ballistic missile technology will allow the North to threaten the U.S. homeland with a direct attack. At the same time, though estimates vary, the *Economist* reported the DPRK has an arsenal of around 20 devices and is adding about one weapon every six weeks.³ The nexus of nuclear weapons and impoverishment has raised the specter of the cash-starved Kim family regime's selling a nuclear weapon to another irresponsible state, or even a terrorist group. As then Secretary of Defense Robert Gates bluntly observed, the North Koreans will "sell anything they have to anybody who has the cash to buy it."⁴ Preventing North Korean nuclear terrorism will require a strategy incorporating both variants of deterrence—punishment (through a declaratory policy that threatens regime-changing retaliation should the North transfer a nuclear weapon to a terrorist group) and denial (through revived arms control negotiations to freeze its nuclear program and forestall a strategic breakout). As with the other states examined in this study, the challenge is managing the tension between these twin policies.

FROM "STRATEGIC PATIENCE" TO STRATEGIC BREAKOUT

President Obama campaigned on a platform of diplomatically engaging adversary states. His inaugural address metaphor of extending a hand to unclenched fists was a stark contrast to the Bush administration's regime-change rhetoric. Dropping the "rogue state" rhetoric, Obama referred to North Korea and Iran as "outliers"—states defying international

nonproliferation norms. In practice, the emphasis on behavior change signaled a willingness to offer North Korea an assurance of regime security to seal a denuclearization deal. But the Obama administration's gesture of conciliation was met by renewed North Korean provocations to force concessions, including international recognition of the DPRK's status as a de facto nuclear weapons state. In 2009-2010, the fist remained clenched. North Korea carried out long-range ballistic missile launches, a second nuclear weapons test, an attack on a South Korean naval vessel (killing 46 sailors), and the shelling of a South Korean border island.

When Kim Jong-un succeeded Kim Jong-il after his death in December 2011, the window for diplomatic engagement appeared to open. A Johns Hopkins University study approximates the current number of North Korean nuclear weapons at 10-16 devices (comprised of 6-8 fashioned from plutonium and 4-8 from weapons-grade uranium). The report estimates that the North's nuclear arsenal (depending on the growth scenario) could range from 20-100 weapons by 2020.⁵ In addition, in early 2015, American and South Korean intelligence officials concluded that North Korea, which by that point had conducted four nuclear tests, had crossed another important threshold—mounting a small nuclear warhead on a missile capable of hitting Japan. In February 2016, a month after a fourth nuclear weapons test, North Korea launched a small satellite on a three-stage ballistic missile, but experts believe the deployment of an intercontinental ballistic missile capable of striking the U.S. homeland is years away.⁶ The North's robust development program has also included preliminary testing of submarine-launched and land-mobile ballistic missiles.

North Korea is on the cusp of a strategic breakout that poses a twin threat. Qualitatively, the North's mastery of warhead miniaturization and long-range ballistic missile technology will allow the Kim Jong-un regime to threaten a nuclear strike on the U.S. homeland in the near future. Quantitatively, the uninterrupted growth of North Korea's nuclear arsenal elevates the risk that this unpredictable regime could sell a nuclear device or weapons-grade fissile material to a terrorist group.

NUCLEAR WEAPONS AND REGIME SECURITY

For Kim Il-sung, the “Great Leader” who founded the North Korean state, domestic exigencies created an imperative for external engagement. The “Great Leader” moved to ease relations with the outside world, which meant putting the nuclear program on the negotiating table with the United States as a means of alleviating the country’s acute economic crisis. But the strategy carried the risk of political contagion that could weaken the regime’s totalitarian grip over North Korean society. The ruling elite have been insulated from the adverse consequences of North Korea’s failed autarkic policies through a “court economy” that distributes food and foreign consumer goods to the regime’s most loyal cadres.⁷ But because North Korea, unlike oil-exporting Iran, does not have a ready source of hard currency, the regime has engaged in criminal activities (including counterfeiting and drug smuggling) to sustain its court economy. This illicit pattern prompted *Time* magazine to dub Kim Jong-il the “Tony Soprano of Asia.”⁸

North Korea’s nuclear intentions must be viewed through the prism of regime security. The nuclear program is, at once, a driver of the country’s international isolation and the primary source of its bargaining leverage with the outside world. Does the Kim regime regard nuclear weapons as a deterrent capability vital to regime survival or as a bargaining chip to extract economic inducements from the United States, South Korea, and Japan? An International Institute for Strategic Studies study of North Korea’s WMD programs concluded, “The historical record suggests that the answer is both, and the emphasis that Pyongyang places on one or the other varies with domestic conditions and external circumstances.”⁹

Since conducting its first nuclear test in 2006, North Korea has demanded that it be accepted as a nuclear weapons state—a condition flatly rejected by the Bush and Obama administration. After the NATO intervention in Libya in 2011, North Korea said that Qaddafi had been “tricked into disarmament” in 2003 through a U.S. assurance of regime security.¹⁰ In 2013, the Kim Jong-un regime declared that its nuclear arsenal was “not a bargaining chip” and would not be relinquished even for “billions of dollars.”¹¹ Nonetheless, North Korea has pursued negotiations in response to an internal crisis (such as the famine in the 1990s) to extract additional aid from South Korea, Japan, and the United States. As a seasoned U.S.

negotiator put it: North Korea does not respond to pressure, but without pressure North Korea does not respond. The question is whether the combination of coercive diplomacy and revitalized diplomacy can forestall North Korea's imminent strategic breakout.

ASSESSMENT AND IMPLICATIONS

The North Korean nuclear crisis is embedded in the broader issue of regime survival. Though the privations of North Korean society have led to periodic predictions of regime collapse, the Kim family regime has proved remarkably resilient. The dilemma is that the regime-change and proliferation timelines are not in sync. Though the threat posed by North Korea derives from the character of its regime, U.S. policymakers cannot wait for an indeterminate process of regime change to play out while the Kim Jong-il regime achieves a strategic breakout.

Underlying the Obama administration's offer to Pyongyang of normalization of relations for denuclearization was an assessment that the nuclear and societal-change timelines were not in sync and that the two issues therefore needed to be decoupled. The Obama administration sought to test North Korea's intentions by offering a structured choice to obtain a nuclear agreement curtailing the DPRK's capabilities in the near-term; it relegated the internal process of societal change to play out on an indeterminate timetable. North Korea's second nuclear test in May 2009 was a direct rebuff to the new U.S. administration's overture. Pyongyang's hardened position indicated an emphasis less on using its nuclear program as a bargaining chip to extract concessions than on obtaining international recognition as a *de facto* nuclear weapons state. Secretary of State Hillary Clinton, reiterating the U.S. objective of denuclearization, rejected Pyongyang's nuclear assertiveness: "Its leaders should be under no illusion that the United States will ever have normal, sanctions-free relations with a nuclear armed North Korea."¹²

The Pyongyang regime has been able to defy the international community because it has also been able to defy its chief patron, China. The North Korean nuclear test in 2006 crossed what Western analysts widely viewed as a Chinese red line given Beijing's logical apprehension that Pyongyang's

provocative action could drive Tokyo and Seoul to reconsider their non-nuclear status. The Kims have likewise rebuffed Chinese calls for economic reforms and have maintained the North Korean economy's "military first" orientation. In North Korea expert Andrei Lankov's succinct judgment, "Reforms mean death."¹³ Kim Jong-un has maintained this defiant rejection of economic reform, while a senior North Korean official told the Chinese in May 2016 that the country's policy of expanding its nuclear arsenal was "permanent."¹⁴ Against the backdrop of the Kim regime's political intransigence and military advances, Secretary of State John Kerry called North Korea "the most important proliferation problem" in East Asia and underscored that China has "the most leverage" to address it.¹⁵

China has long viewed an uneasy status quo in North Korea as preferable to change. A so-called "hard landing"—regime collapse—would, at minimum, create a refugee crisis for risk triggering a conflict on the Korean peninsula. Alternatively, a "soft landing"—peaceful reunification between North and South Korea—would end North Korea's status as a buffer state and leave China with a formidable pro-Western regional power on its border. Facing unacceptable alternatives, Beijing made a strategic decision to prop up the vulnerable Kim family regime through economic assistance via food and fuel, and investments in politically connected North Korean trading companies. China turned a blind eye to UN sanctions adopted after the 2006 and 2009 nuclear tests by allowing the transshipment of North Korean military goods and technology to Iran, and by serving as the primary conduit for luxury goods to maintain the lavish lifestyle of the regime's elite. An International Institute for Strategic Studies study suggested that North Korea had increasingly become "a de facto satellite of China."¹⁶ China's sustaining assistance has allowed the North Korean regime to avoid the hard choice between impoverished *autarky* and destabilizing *integration* into the international system. In so doing, Beijing effectively undercut the ability of the international community to bring meaningful pressure to bear on Pyongyang to alter its conduct. Will North Korea's imminent strategic breakout alter China's strategic calculus?

The projected growth of North Korea's nuclear arsenal creates an increased risk of nuclear terrorism. Since 9/11, North Korea has both offered assurances that it would not transfer nuclear weapons to terrorists and

threatened to do so. In 2005, two years after the U.S. invasion of Iraq to topple the Saddam Hussein regime, a North Korean vice foreign minister warned that the regime had no plans to transfer but would not rule it out “if the United States drives [us] into a corner.”¹⁷

Director of National Intelligence James Clapper warned about “the possibility that North Korea might again export nuclear technology.”¹⁸ Though information about North Korea’s record of nuclear exports is scant, two prominent *state-to-state* transfers are known: first, in 2001, the Pyongyang regime sold uranium hexafluoride (the feedstock for centrifuges) to Libya via Pakistan’s A.Q. Khan; and second, in September 2007, the Israeli Air Force bombed a nuclear reactor in Syria (not yet operational) provided by North Korea.¹⁹ The urgent threat is that North’s increased production of weapons-grade uranium potentially creates “a new cash crop” for the financially strapped regime.²⁰

After North Korea’s nuclear test in 2006, the Bush administration declared that the Kim regime would be held “fully accountable” if it transferred nuclear weapons or material to states or non-state entities. An alternative to calculated ambiguity would be an explicit red line: the deliberate transfer of WMD capabilities by a *state to a non-state actor* could trigger a non-nuclear, regime-changing response from the United States. Such a stance, which goes beyond current U.S. declaratory policy, could prove an effective form of *deterrence by punishment*. Further advances in nuclear forensics—the ability to attribute fissile material to its country of origin—would bolster the credibility of this threat.

Tightened UN Security Council sanctions, passed in March 2016 after North Korea’s fourth nuclear weapons test, requires states to inspect all cargo passing through their territory to or from the DPRK.²¹ This interdiction measure, in tandem with sanctions curtailing North Korea’s access to funding and technology for its nuclear program, falls under the rubric of *deterrence by denial*. As with the four other major UN sanctions imposed on North Korea since 2006, effectiveness depends on Chinese enforcement, which has been tepid. China has turned a blind eye to the DPRK’s sophisticated procurement network utilizing front companies and transshipment arrangements to import sensitive dual-use (i.e., civilian and military) technologies prohibited under UN sanctions.²²

The most effective form of deterrence by denial would be an agreement, such as that concluded with Iran, to curtail North Korea's nuclear capabilities. Though U.S. and North Korean diplomats met secretly to discuss a possible resumption of negotiation, a diplomatic impasse has persisted over Pyongyang's non-starter insistence that the DPRK be recognized as a nuclear weapons state.²³ Yet, "strategic patience" has resulted in acquiescence as North Korea builds up its nuclear arsenal and makes substantial progress in miniaturizing warheads and acquiring an intercontinental ballistic missile capability.

With North Korea on the verge of a strategic breakout, the United States should pivot to serious diplomacy. The objective should be to prevent this quantitative and qualitative breakout by negotiating a freeze on North Korea's nuclear and missile programs. Siegfried Hecker, former director of the Los Alamos National Laboratory, calls these goals the "Three No's": (1) no new weapons (freezing North Korean production of plutonium and enriched uranium); (2) no testing of weapons or ballistic missiles; and (3) no exports of nuclear technology or weapons.²⁴ A freeze would preclude the additional testing that North Korea still needs to master miniaturization and reliable long-range missiles.

North Korea's strategic breakout would be a game-changer not only for the United States, but would also have adverse consequences for China (such as U.S. deployment of THAAD antimissile system to South Korea). The United States and China have a mutual interest in preventing a North Korean strategic breakout. This conjunction of interest creates the political space for coordinated diplomacy to freeze North Korean capabilities. That will require China applying meaningful pressure on the Kim Jong-un regime—not to promote regime collapse (with its attendant negative consequences for Beijing), but to accept a capping of its capabilities.

The nuclear agreement with Iran is a relevant precedent. As with Iran, the goal of reinvigorated nuclear diplomacy with North Korea would be to buy time and prevent a deteriorating situation from getting worse. Negotiating with North Korea has its pitfalls: Pyongyang has cheated on past agreements and any American concessions, such as providing sanctions relief in return for a freeze, will be characterized as propping up an odious regime. While North Korea has stated that it is "not interested" in an Iran-type

deal and that its situation was “quite different,” Chinese Foreign Minister Wang Yi stated that the nuclear agreement concluded between Iran and the world’s major powers (the P5+1) in 2015 was a “positive reference” for negotiations with Pyongyang.²⁵

A Harvard Kennedy School study on preventing nuclear terrorism laid out alternative futures for 2030: a “high-security scenario” in which North Korea’s nuclear capabilities have been “verifiably eliminated or capped at a low level, pending elimination”; and a “low-security scenario” in which the North “continues to expand its arsenal, to well over 100 nuclear weapons.”²⁶ A complete rollback of North Korea’s nuclear program in the near term is not feasible with a regime that regards nuclear weapons both as a deterrent vital to regime survival and as a bargaining chip to extract economic concessions. That policy duality for North Korea has its analogue in the United States’ twin strategy of deterrence—a “punishment” variant that threatens regime-changing retaliation should a North Korean-origin nuclear weapon or weapons-grade fissile material be transferred to a terrorist group; and a “denial” variant (through a negotiated freeze) that requires North Korean compliance and entails U.S. concessions (i.e., sanctions relief) that are potentially regime-extending.

A former senior U.S. official once quipped: problems have solutions; dilemmas have horns. North Korea’s nuclear challenge poses a dilemma because it is embedded in the broader question of the North’s societal evolution. For the United States, managing this tension (as it works toward a negotiated freeze of North Korea’s program) will require Washington to decouple the nuclear issue from the question of regime change and rely on internal forces as the agent of societal change.

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Going Beyond Sanctions to Denuclearize North Korea

James Person

SUMMARY

While denuclearization should remain the goal of U.S. policy, freezing North Korea's nuclear and ballistic missile programs should be a priority. However, sanctions alone will not be enough to get North Korea to freeze these activities.

POLICY RECOMMENDATIONS:

Recognizing the limits of sanctions on North Korea:

- Washington should remain willing to negotiate with Pyongyang if talks offer a serious prospect for achieving the goal of freezing the nuclear and ballistic missile programs.
- Only direct talks with North Korean leaders have any chance of changing North Korean policy.
- Additional sanctions that will hurt the North Korean people but do little to stop further development of nuclear and ballistic missile programs without the complete buy-in of China.
- The United States must engage directly with the DPRK and maintain pressure.

THE UNITED STATES HAS LONG SOUGHT TO OUTSOURCE its North Korea policy to China, beginning in the late 1970s as Washington prepared to normalize relations with Beijing, declassified U.S. records suggest. This approach reflects a poor understanding of the relationship between China and North Korea, exaggerates the docility of Pyongyang to Beijing, and enables China to reassert its traditional hegemony in the strategic region and directly challenge U.S. strategic interests. Without a doubt, China has more leverage and access to North Korea than any other country. However, that leverage does not translate to the ability to, at will, influence North Korea's policies. U.S. policymakers should consider three critical factors as they seek a resolution to the North Korean nuclear conundrum.

First, China and the United States have very different interests on the Korean peninsula and in East Asia. While China prefers a nuclear-free and more compliant North Korea, it is not willing to bring the DPRK to its knees to achieve this goal. China's leverage over North Korea, which is primarily gained through the economic lifeline it provides, is a double-edged sword. Cutting off this lifeline could lead to state and societal collapse in North Korea. This is the last thing Beijing wants. It would invite instability on China's borders and precipitate a refugee crisis in Northeast China. The collapse of North Korea would also be a national security nightmare for China, which would then have to live with a U.S.-allied unified Korea on its border at a time when Beijing aspires to be the primary security actor in East Asia.

Second, there are limits to China's leverage, despite North Korea's economic dependence. In any unequal alliance relationship, there exist clear limits to the ability of the patron ally to influence, at will, the policies of the protégé. One of the major lessons of the Cold War is that smaller, dependent countries were able to pursue their own interests despite pressures from patron allies. Protégé allies on both sides of the Cold War conflict often exhibited a far greater degree of autonomy than had been previously assumed. Throughout the 1950s and 1960s, both South Korea and Taiwan, two key anti-communist allies of the United States, were utterly dependent on the U.S.' economic and security assistance. Yet, U.S. officials, to their great frustration, were unable to impose their will on either Syngman Rhee or Chang Kai-shek. Indeed, so limited was the ability to restrain South

Korean and Taiwanese officials that U.S. officials even feared becoming entangled in conflicts instigated by their allies. As Victor Cha has argued, the need to “constrain” anti-communist allies in South Korea and Taiwan led to the development of the unique “hub and spokes” security network that continues to exist in Asia today.¹ China’s ability to utilize its support to North Korea to influence Pyongyang’s policies throughout the Cold War was similarly limited. The same remains true today.

Third, and perhaps most importantly, declassified Cold War-era records from the archives of the former Soviet Union, East Germany, Mongolia, Romania, and others—all former allies of North Korea—reveal that North Korea’s relationship with China has been fraught with tension and mistrust. As early as the Korean War, Pyongyang viewed Beijing’s interference as heavy-handed.

In the late fall of 1950 the so-called Chinese People’s Volunteers, who had taken command of field operations in Korea, vetoed North Korean proposals to continue offensive operations against U.S. and South Korean troops in 1951. Consequently North Korean leaders blamed Chinese military officials for failing to reunify the Korean peninsula, even though Chinese forces had in fact rescued the DPRK from certain annihilation.

During the war disagreements also arose over control of North Korea’s railroad system. Chinese forces prohibited their use for anything other than military operations, including reconstruction after battle lines stabilized, a decision North Korean officials disputed, especially as many trains, standing still, fell prey to U.S. bombs.²

After the war, North Korea’s founding leader Kim Il-sung (grandfather of current leader Kim Jong-un) demoted and arrested key officials in the ruling Korean Worker’s Party (KWP) who had close ties to the Chinese Communist Party (CCP), despite the continuing presence of tens of thousands of Chinese People’s Volunteers in the DPRK after the Korean War armistice.

In December 1955, Kim introduced the concept of “*juche*,” an expression calling for the establishment of an autonomous national subjectivity, as a method of minimizing Chinese and Soviet influence on political, economic, and cultural developments. The next year, more pro-Chinese and pro-Soviet party officials were purged for challenging Kim’s autarkic

economic development strategies and personality cult at a plenary meeting of the KWP.³ This time, however, Beijing and Moscow dispatched a joint Sino-Soviet party delegation that forced Kim Il-sung to convene a new meeting, reappoint purged officials, and release two others from prison to accompany the delegation back to China. Decades later Kim was still simmering with resentment in conversations with foreign communist leaders from Bulgaria and Mongolia.⁴

Relations between Pyongyang and Beijing briefly improved in the early 1960s when the North Korean leadership had a falling out with Moscow, whose leadership of the Communist world China was by then disputing. But by the mid-1960s, during China's Cultural Revolution, Kim Il-sung became a direct target of criticism for China's Red Guards for allegedly "sitting on the fence" in the ongoing Sino-Soviet split. China's leaders, who were in disarray, tolerated and even abetted these attacks. Relations deteriorated to the point where the Chinese and North Korean militaries clashed in the vicinity of Paekdu Mountain in 1969. According to a 1973 conversation between Kim and Bulgaria's Todor Zhivkov, on another occasion Chinese troops crossed into North Korean territory and occupied a town. Kim ordered an attack, but the Chinese slipped back across the border.⁵

Relations showed signs of improving again by the early 1970s, and China even apologized for its behavior, but Kim's trust in the Chinese leadership was never restored. Kim, during an April 1975 visit to Beijing, reportedly tried to enlist Chinese help in a renewed bid to liberate South Korea. Deng Xiaoping, however, emphasized that China would not commit itself because the PRC was facing the tremendous challenge of promoting socialist economic reconstruction at home.⁶

Deng's policy of modernizing the Chinese economy led Beijing down a very different path from Pyongyang's as China abandoned revolution for a place in the existing international system. Especially when trade with South Korea became a priority—even before the end of the Cold War—Beijing's policy promoted stability in the Korean peninsula.

Since the Cold War, China retains real leverage on North Korea because of North Korea's economic dependence, even though the countries' international stances have continued to diverge. Economic leverage, however, does not enable the Chinese leadership to impose policy directives upon

North Korea at will—precisely what North Korea most resisted throughout the Cold War.

More creative diplomatic solutions would use all available instruments, including the United States' own under-appreciated influence—North Korea has been trying to speak to the United States since 1974. The United States can sit down with foes and hammer out a deal, as is demonstrated by the Iran nuclear agreement, however imperfect. Similar robust engagement with North Korea is needed to prevent the emergence of conditions under which North Korean leaders feel that military adventurism is the most effective way to achieve their diplomatic, political, and economic goals.

While denuclearization should remain the goal of U.S. policy, freezing North Korea's nuclear and ballistic missile programs should be a priority. However, sanctions alone will not be enough to get North Korea to freeze these activities. In considering North Korea and sanctions, we should be mindful of five points:

- North Korea has lived under sanctions-like conditions since the Korean War armistice in 1953. They have developed the ability to make do with little;
- Under such sanctions-like conditions, North Korea was cut off from advanced technology from the West. Moreover, they didn't even have regular access to advanced technology from fellow communist countries. When relations were poor with Moscow, the Soviets and their Central and Eastern European satellites reduced their supplies of advanced goods to North Korea. China wasn't able to supply advanced technology. North Korea responded with a lot of ingenuity and with a lot of reverse engineering;
- North Korea is a unique case when sanctions are concerned because it is not integrated into the international economic community. North Korea even resisted integration into the socialist economic bloc, the Council for Mutual Economic Assistance (COMECON) during the Cold War because it feared the exploitation of advanced socialist countries. This fact limits the effectiveness of many sanctions;

- If push comes to shove, the North Korean regime will mobilize human and material resources to make up for the lack of outside aid, goods, trade, etc.
- If things get really bad, the North Korean regime is willing to sacrifice a segment of the population, as long as the Kim regime and its patronage network remains intact.

Recognizing the limits of sanctions on North Korea, Washington should remain willing to negotiate with Pyongyang if talks offer a serious prospect for achieving the goal of freezing the nuclear and ballistic missile programs. U.S. officials should also recognize that only direct talks with North Korean leaders have any chance of changing North Korean policy. And whenever the DPRK cheats or violates agreements—and they will—the United States should not withdraw, nurse its bruised ego, call the North Koreans names, and apply additional sanctions that will hurt the North Korean people by curtailing the humanitarian work of NGOs but do little to stymie the further development of nuclear and ballistic missile programs without the complete buy-in of China. The answer is for the United States to directly engage the DPRK and to maintain pressure.

NOTES

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About the Contributors

ROBERT DALY is Director of the Kissinger Institute on China and the United States at the Wilson Center. Previously, he was Director of the Maryland China Initiative at the University of Maryland. Prior to that, he was American Director of the Johns Hopkins University-Nanjing University Center for Chinese and American Studies in Nanjing. He began work in U.S.-China relations as a diplomat, serving as Cultural Exchanges Officer at the U.S. Embassy in Beijing in the late 80s and early 90s. After leaving the Foreign Service, he taught Chinese at Cornell University, and he also directed the Syracuse University China Seminar. From 2000 to 2001 he was American Director of the U.S.-China Housing Initiative at the Department of Housing and Urban Development.

SHIHOKO GOTO is the Senior Associate for Northeast Asia at the Wilson Center's Asia Program. She is also a contributing editor at *The Globalist*, and a fellow of the Mansfield Foundation/Japan Foundation U.S.-Japan Network for the Future for 2014 to 2016. Prior to joining the Wilson Center, she was a journalist writing about the international political economy with an emphasis on Asian markets. She received the Freeman Foundation's Jefferson journalism fellowship at the East-West Center and the John S. and James L. Knight Foundation's journalism fellowship for the Salzburg Global Seminar. She obtained her BA from Trinity College, University of Oxford and MA in international political theory from Waseda University.

MICHAEL KUGELMAN is the Senior Associate for South Asia at the Wilson Center's Asia Program, where he manages research, publications, and programming on the region. His main specialty countries are India, Pakistan, and Afghanistan. He is a columnist for *Foreign Policy's* South Asia Channel and for *War on the Rocks*, a website devoted to national security analysis.

Additionally, he is a regular contributor to the *Wall Street Journal's* Think Tank blog. He has an MA in international relations from Tufts University's Fletcher School, and a BA from American University.

ROBERT LITWAK is Vice President for Scholars and Director of International Security Studies at the Woodrow Wilson International Center for Scholars. He is also a consultant to the Los Alamos National Laboratory. Dr. Litwak served on the National Security Council staff as director for nonproliferation in the first Clinton administration. He is the author of *Iran's Nuclear Chess: After the Deal* (2015) and *Outlier States: American Strategies to Contain, Engage, or Change* (2016), and has held visiting fellowships at Harvard University's Center for International Affairs, the International Institute for Strategic Studies, the Russian Academy of Sciences, and Oxford University. He is a member of the Council on Foreign Relations, and received a doctorate in international relations from the London School of Economics.

MEG LUNDSAGER is a Public Policy Fellow at the Wilson Center, focusing on international economic and financial issues. Previously, she served as the United States' Executive Director on the International Monetary Fund Executive Board from 2007 to 2014. At the IMF, she focused on achieving lasting reforms in European crisis countries, securing adequate IMF resources, supporting low income countries, and strengthening IMF oversight of exchange rate policies. She negotiated increased emerging market representation at the IMF and promoted enhanced ethical standards and internal oversight functions. As deputy assistant secretary for trade and investment at the U.S. Treasury Department from 1996 to 2000, she negotiated multilateral financial services agreements and aspects of China's entry into the World Trade Organization. She also analyzed portfolio allocation decisions of institutional investors as an Atlantic Fellow in London. She has a Masters in International Economics from the University of Maryland and a BA from American University.

JAMES PERSON is Deputy Director for the History and Public Policy Program and coordinator of the Hyundai Motor-Korea Foundation Center for Korean History and Public Policy. He is also editor of the North Korea

International Documentation Project (NKIDP) *Working Paper* Series and co-editor of the Cold War International History Project *Bulletin* and History and Public Policy Program Critical Oral History Conference Series. He received his Ph.D in modern Korean history from George Washington University, M. Phil from Moscow State University, and BA from George Washington University.

SANDY PHO is a Program Associate for the Kissinger Institute on China and the United States at the Wilson Center, where she manages projects that focus on the Sino-U.S. bilateral relationship, China-U.S.-ASEAN relations, and U.S. foreign policy in the Asia Pacific. In this capacity, she is responsible for research, grant management, and Congressional outreach. She is also the editor of *The Month in U.S.-China Relations* newsletter and *The Weighing the Rebalance* policy brief series. Pho received her BA from Arizona State University, and graduated from the London School of Economics and Political Science and Peking University with a dual MSc in International Affairs.



Asia Program

Woodrow Wilson International Center for Scholars
One Woodrow Wilson Plaza
1300 Pennsylvania Avenue NW
Washington, DC 20004-3027

www.wilsoncenter.org