

Panel III: China's External Policy

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PAUL HSU: First of all, I have to give a compliment to the creativity of whoever, probably Richard Bush, who set the title of the session, "China's External Policy" instead of "China's Foreign Policy," so if anybody talks about Taiwan, there will not be argument on whether it is a nation or not; it is all external policy.



This session, we are not going to start with the Opium War or we are not going to start with the 1895 Sino-Japanese war resulting in Taiwan's cession to Japan. I mention this half-jokingly. I say only half-jokingly because, in formulating the external relationships of China, still there is an underlying effect from these events and a lot of Taiwanese still feel like China abandoned Taiwan in 1895. But we will not start with that. We have more immediate issues to cope with.

Having said that, the first speaker is Jing Huang, who is a senior fellow in Foreign Policy Studies at the Brookings Institution; he will talk about challenges to China's foreign policy. Yoichi Funabashi is columnist and chief diplomatic correspondent for the *Asahi Shimbun*, and will talk about China and Japan. Finally, Jae Ho Chung, professor director of the Center for International Studies at Seoul National University, will discuss China and the Korean peninsula. So let us start with Jing.

“Challenges to China's Foreign Policy”

Jing Huang, Senior Fellow, Foreign Policy Studies, The Brookings Institution

JING HUANG: Thank you very much. I would like to thank all the sponsors of this event. It is really very impressive. I am going to talk about challenges in China's foreign-policy making down the road. We know China is rising, and rising very fast. So in regarding China's foreign policy, I think two things are sure: number one, China does not want any trouble, so China wants good foreign policy because a peaceful and stable and prosperous external environment is absolutely necessary for China's sustainable



development down the road.

Also, countries around China do not want any trouble either because a stable and prosperous China is even more important for their own development. But mutual good intentions do not mean that China will have a good foreign policy because China faces enormous challenges in foreign-policy making.

Ironically, in my view, the most formidable challenge to China's foreign-policy making is not from outside China but from within China. I am talking about the rising nationalism. We all have observed in the past ten years, especially since 1994, the surge of nationalism. This has caused some trouble in China's foreign relations: for example, in China-Japan relations.

If we look closely at China's rising nationalism we see two sources: one is what I call the negative route. Another source is more positive. By the negative route, I mean all the ideas that originate from the injustices, defeats, humiliations, and other miseries China suffered at the hands of Western imperialist powers since 1840. Paul, you said do not mention it but I am mentioning it now. So this leaves a very deep-seated resentment, bitterness and which leads to suspicion and skepticism toward the Western world. It is very negative.

The positive source contributes to a newly found confidence and pride among the Chinese people, thanks to the fast development of the past 25 years. Chinese suddenly realized that they can do what the Westerners have done, and can do even better. Normally we hope that as positive nationalism rises, it can overcome the negative one, so that the Chinese will become more open-minded, rational and objective in a cooperative way in dealing with foreign affairs. But that is not the case because we know that the Chinese Government keeps reminding its people how miserable their lives were before 1949, and that it is the greatness of the Chinese Communist Party that leads the Chinese people not only to stand up, but also to step into the glorious current situation.

Of course, we can understand why the Chinese Communist Party needs to do this. It is a very essential source of political legitimacy, but the result is that, instead of using positive nationalism to overcome the bitterness and negative memories, they use the two to reinforce each other in a very, in my view, unproductive way.

So as a result, nationalism to some extent has hijacked Chinese foreign policy makers. I mean that they have been deprived of two very important traits in foreign policy making: number one is flexibility; and number two is long-term rationality. So we have this very interesting and significant phenomenon we have all observed: in dealing with countries with which China does not have historical problems -- for example, South-East Asian countries, even countries like Indonesia who have a lot of anti-Chinese riots; with India which had a war with

China in 1962 -- China's policies are very flexible and very pragmatic and also extremely effective.

But in dealing with countries like Japan, Western countries or the United States, this policy flexibility disappears and Chinese leaders sometimes become over-sensitive and over-reactive. Whenever they have a problem, they always go back to deep-seated suspicions: "Ah-ha, now you have come out to get me again." This kind of mindset always breeds suspicion and I believe it is counter-productive. Overcoming it is the first challenge to Chinese foreign policy.

I believe if China wants to have a productive, healthy and really co-operative foreign policy which is good for China and good for countries beyond China, China has to overcome this kind of negative nationalism. I know it is a great challenge. It is a most formidable challenge because, like I said, it has become a serious source of legitimacy of the Chinese Communist Party's rule.

This leads us to the second challenge, which I call the challenge of responsibility. We know China has been successful largely or essentially because it has been very positively and actively integrating itself into the current world system economically and, to some extent, politically. Since China has benefited greatly from the current international structure, in the long term, whatever is good for the world system right now is good for China. Study after study shows that China is a status quo power. We should really appreciate this enormous effort made by the Chinese Government in multi-lateral approaches, international affairs, trying to strengthen the international regions, institutions and so forth.

But still, China has to realize, as its role and influence increase in international politics, which is good for China, its responsibility also increases. I said the Chinese leadership has realized this -- that is why especially after 1997, they have tried to make sure that China's development will be economically constructive to regional development. But in terms of the much larger responsibility, political responsibility, I think there is some catch-up to do over there.

I'll just give you one example, very quickly: the Taiwan issue. We understand that Taiwan is in every Chinese person's blood. I am a Chinese myself. I understand that. We also understand China's claim that the Taiwan issue is an internal affair of China. But the problem is that the way Beijing solves the Taiwan issue will have enormous international implications.

Therefore, in solving the Taiwan problem, the Chinese leadership has a huge responsibility because this problem, if handled badly, could have disastrous implications, not only for China and Taiwan, but for the entire region. Therefore, China needs to listen to other people's voices, respect other countries' interests, and consult and discuss with some others on this issue.

I agree with Professor Jia Qingguo's point: that is, in order to solve the China-Taiwan problem, China has to improve itself, and make itself better. But I want to add that in order to solve the Taiwan issue peacefully and on good terms, China has to improve its international position on this issue, which means that China really has to talk to countries around China; not just the United States but other people like ASEAN, Japan, Singapore, Thailand, and so on and so forth, because everybody has a huge stake in this issue.

Now this leads us to the third challenge as in we also very unclear about China's foreign policy making. I call this the challenge of policy transparency. We know human beings always live with problems. We always have conflicts of interest. We always have some unhappiness among us. When these things happen, I think mutual confidence or mutual trust is very important in getting problems solved. We know that when China has problems with other countries, which is inevitable because China is developing so fast, international institutions or international regimes are very important in solving these issues. But mutual confidence is also important. In building mutual confidence, of course personal relationships among the leaders of the involved states are very important, and I know that China's leaders traditionally have been very smart in this. They invest a lot in developing personal relationships with other leaders.

But that is not enough. Far from enough. It is more important to keep policy making transparent so that people know where you're coming from and how and why you want to do certain things. To a large extent, in my view, skepticism and a lack of trust and confidence come from a lack of understanding; not the policy per se, but ambiguity on how the policy is produced, and, in making policy, how leadership relations are defined and clarified. I think China needs to do that.

But, having said all of this, we notice that from Deng Xiaoping to Jiang Zemin to Hu Jintao, Chinese leaders have made enormous effort to try to make their policies more transparent, and they have made great progress.

But my point is that this lack of policy transparency is not a problem that can be solved by human effort. It is a system-induced problem. In other words, in order to make China's policy more transparent, and therefore to give China more mutual confidence in problem-solving with other countries, China needs a fundamental, substantial but gradual evolutionary political reform of its political system; reform which would not only formalize or institutionalize the policy making process but would also encourage broad participation of the members of Chinese society in public policy making.

In conclusion, China faces huge challenges in foreign relations down the road. The means by which China overcomes these challenges of course is enormously important, but I will argue that China's leaders should focus on their own shortcomings and the weakness of the system so that China's foreign-policy

making can be more rational, more objective, and more understandable, if not always totally acceptable to others. Thank you.

PAUL HSU: Thank you. Yoichi.

“China and Japan”

Yoichi Funabashi, Columnist and Chief Diplomatic Correspondent, Asahi Shimbun

YOICHI FUNABASHI: Thank you, Paul. I wish I could copy the pattern of Jia Qingguo's “wish lists,” but let me instead do a sort of reality check on the Japan-China relationship. Actually, it has deteriorated to a great extent – to an alarming degree, in my view – and I would just like to share some of my concerns about that and the prospects for the relationship with you today.



But before getting into that, let me first touch on a little bit of the brighter side: the economic interdependence between two countries. We have now more than 30,000 Japanese companies operating in China. More than 80 per cent of those companies have now reported profits. Therefore, the China-threat perception, at least in economic terms, which was very vocal and pronounced about three or four years ago, has almost all disappeared right now.

There are many Chinese now living in Japan, about 300,000 and younger Chinese business entrepreneurs are emerging. Some of them have even made IPOs of their corporations. There are some rising stars, some have formed new overseas Chinese-Japanese, overseas Chinese associations, and many of them are professors, commanding high respect.

Actually, I helped a publishing house, one of the most authoritative, respected publishing houses, to print a Sino-Japanese dictionary about three years ago. I was told that out of the 400 some authors of that dictionary, half of them are Chinese now teaching and doing research in Japan. So they are very much now forming an intellectual landscape in Japan's intellectual activities. They have made a great contribution. This is just a part of their story. You should also see this as part of the Sino-Japan relationship.

But having said that, you cannot deny that the political relationship at best has stagnated, and actually has seemed to deteriorate. One of the problems certainly is the history issues, the unresolved history issues, I should say. Prime Minister Koizumi has visited the Yasukuni Shrine four times since he became

Prime Minister in 2001. The more he seems to visit the shrine, the more popular he seems to become in Japan, perhaps because of China's expressions of outrage.

There are many Japanese people who feel very uncomfortable about the pseudo-religious veil under which these visits are staged, and there is strong opposition among many Japanese to the Prime Minister's visits partly because of this compromising of the constitutional clause to separate the church from the state.

For instance, the Democratic Party of Japan (DPJ), the major opposition party, has taken an official position of opposition to the Prime Minister's visits to Yasukuni Shrine, and it has come up with an alternative: to build a national non-religious facility to commemorate and honor the dead for public service.

Nonetheless, again people do not seem so unhappy with Koizumi's visits because the message that he sends out to China is something which resonates to many Japanese. The day before yesterday there was a report in *Asahi Shimbun* about an opinion poll on whether the Japanese public supports Prime Minister Koizumi's visits to the Yasukuni Shrine. 39 per cent support the visits while 38 per cent oppose them, so it is completely split there.

Then years ago, I think perhaps the support level would have been 10 to 15 per cent. It has increased. This issue was the major issue during Koizumi's meetings with Hu Jintao and Wen Jiabao this week and last week. This is unprecedented for two Chinese political leaders in a row to raise this issue directly and to ask a Japanese leader in a very abrupt manner not to go to the shrine. This has perhaps made it more difficult for Koizumi not to go.

I am not so sure that he received this message from these and other meetings. I hope personally that he did and I have written on several occasions that he should not go. But it is still too early to tell and it will depend on the general direction and how the nature of the relationship between the two countries will develop in the next year or so.

In a way I think that the Yasukuni Shrine is a sort of symptom rather than a cause of the problem between Japan and China. We have many serious new challenges apart from Taiwan. Territorial issues, struggles for oil and gas, and also maritime tensions have bubbled as each side has felt itself more vulnerable due to dependence on Middle Eastern oil, and the struggle for Siberian gas, oil, and uranium.

Maritime issues now have developed a security dimension in the last week. The Chinese government formally expressed regret that a Chinese submarine violated Japan's territorial waters. So this is a new source of tension between the two countries.

Two political undercurrents have been emerging in Japan. One is the business community's demands for a more conciliatory and friendly stance toward China; top Japanese business executives now demand that Koizumi should not visit the Yasukuni Shrine. It is unprecedented for us to see the usually more timid Japanese industrial captains making their request in such clear terms.

One top executive of an electronics company recently made remarks to the effect that the biggest risk the Japanese business community confronts in China is Koizumi. This created an uproar, but the sentiment is shared by many Japanese business executives.

Whether this business pressure will translate into political pressure remains to be seen, but my guess is that businessmen will be increasingly more vocal as they find their economic lifelines more closely tied to China over the next decade.

Another undercurrent is identity politics, which are particularly visible and pronounced among the younger generation of Japanese politicians. Chinese nationalism is not dissimilar to the phenomenon we are witnessing in Japan. And I do not think that this is an old-fashioned pre-war type militaristic nationalism, but is much more identity-based as Japan has been exposed to globalization. More vulnerable parts of society have aspired for assurance, and as is often the case, many have turned to tradition and religion. Shinto is not a genuine religion according to some scholars, but it has been acceptable as such.

That 38/39 per cent split that those who support that Prime Minister's visit to Yasukuni Shrine is very much concentrated among people over 70 and in their 20s.

So by concluding I just want to make one comment. So far both governments have tried to compartmentalize their politics from economics. So far it has not worked really well. The separation cannot be assured in the long term and I think that it requires robust leadership and initiative from both sides to overcome their history issues. Thank You.

MR PAUL HSU: Thank You. Mr Jae Ho Chung?

“China and the Korean Peninsula”

Jae Ho Chung, Director of the Center for International Studies, Seoul National University

JAE HO CHUNG: Thank you, chairman. The topic assigned to me is China and the Korean Peninsula. I think this is a huge issue with so many events happening and with so many diverse opinions available. Presenting it within ten minutes is a daunting challenge indeed.

There are so many debates; first is about why China has given up the idea of “peaceful rise,” or at least why the leadership has stopped using this term. But regardless of the debate I think it is very clear that the rise of China has been most conspicuous over the Korean Peninsula. First, I think the expansion of China’s economic influence over the peninsula has been mind boggling.

In 2003 China for the first time surpassed the United States as South Korea’s number one export destination. This year I think China is widely expected to be South Korea’s number one trading partner, excluding the trade with Hong Kong and Macau. As of 2003 -- we still do not have the year-end figure for this year so I will use 2003 data -- 15.2 per cent of South Korea’s total trade was with China. If you look at the data in the last three years, actually South Korea’s trade dependence on China increased at an average rate of 2 per cent per annum.

If we use that figure to project the trend for 2010, it will be most likely be 30 per cent, which means South Korea will almost become part of China’s economic sphere. So there are some concerns being voiced in Korea with regard to this economic dependence on China.



The situation may be much more serious for North Korea, which relies so heavily and one-sidedly on China for its food, energy and other needs. Second, the rise of China has also begun to entail some sort of confrontational dimension. Back in year 2000, we had this garlic battle between South Korea and China. It was announced to us at the time was that it was a harbinger of what was forthcoming; in other words the South Korea-China relationship is becoming more of the normal partnership rather than the so-called special relationship that has been existing for the last decade, or so since the normalisation in 1992.

One dimension of this confrontation is, of course, the history controversy that has just erupted this year; I am sure everyone in this room is clearly aware of

it. There are so many different versions as to why this controversy has erupted. Some people argue that the motivation of local governments in Jian City or Jilin Province, which wanted to promote tourism by claiming two parts of Korea history, are to blame.

Some other people argue that it was simply a mistake by a lower level official at the foreign ministry in China which elevated a proverbial part of Chinese history onto its website. Still others argue that it is a meticulously drawn plan on the part of the Chinese Central Government; these people present a few other pieces of evidence. For instance, there was the South Western project, which was intended to incorporate Tibetan history into Chinese history.

There was also a project which sought to substantiate the ancient dynasties like the Xia and the Shang. Whichever version is accurate, the whole episode in my view is not over. I think it is simply hibernating, just waiting for the right time to resurface.

This whole episode has a very big impact on the minds of the Korean people. Of course, we talked about this in the morning session. If you look at the public opinion surveys in the last ten years, you can see the trend: younger Korean generations tend to regard China more favorably and hold high expectations, as compared to their views toward United States.

But after this controversy, although it has been only a few months and only two or three public opinion surveys have been conducted in Korea, we begin to see a clear decline in younger generations' favorable views of China. Of course, public opinion fluctuates all the time so it is difficult to say whether this pattern will last. More important, it seems to me, is the residual of this controversy on the minds of Korean intellectuals. I have talked to quite a number of people around me and they all seem to wonder, "If China treats us like this now, how is it going to treat us in 20 years?"

So I think the controversy will have some lasting impact on the perceptions of China among Korean intellectuals. North Korea's silence on this controversy is very, very strange given the fact that North Korea has always emphasized self-reliance and nationalistic sentiments.

Third, I cannot talk about China and the Korean Peninsula without talking about North Korea's nuclear problem. The rise of China has been most visible in the context of the North Korea nuclear conundrum. Compared to its position on the first crisis in 1993/1994, China has certainly become much more proactive and engaging, particularly since March 2003. In addition to the new proactive attitude, China's position on the issue has also evolved significantly in my view.

If you look at the official publications and Chinese newspapers on the issue, in 2003, China had three principles on North Korea's nuclear problem.

The first one was stability on the Korean Peninsula. The second one was sustaining a nuclear free peninsula, "wu he hua." The third one is emphasis on the use of peaceful means. But now, in December 2004, China has four principles, with a slightly different order. The first one is defined as a nuclear free Korea. "Wu he hua" has become the number one principle. Second is the emphasis on the use of peaceful means. Third is the maintenance of peace and stability on the peninsula. They have added a new principle, which is the need for due consideration for North Korea's security concerns.

The first one, "nuclear free Korea," is a message for North Korea. The second principle, the emphasis on peaceful means, is a message for the United States. The third one, peace and stability on the Korean Peninsula, is a message for both the United States and North Korea. The newly added principle, due consideration for North Korea's security concerns, is a message for all other five parties in the six-party format.

What I would like to point out at this point is the intensification of discussions and debates within China with regard to whether or not there is a need for China to readjust its relationship with North Korea, beyond dealing with the North Korea nuclear problem.

China is liberalizing at a rapid pace. But if you want to publish pieces, social science pieces in official publications, you have to somehow go through some sort of review process. I am not sure whether that is the right term or not but last year and this year we know of at least three different incidences where prominent scholars have talked about the need for China to readjust its relationship with North Korea. One at CASS, one from Renmin University, and one from the Tianjin Academy of Social Sciences.

Why is this happening? Is this some sort of indicator of a changing atmosphere in the policy community, if not the policy itself? I think it is very possible some stealth changes are in the making in China's policy towards North Korea, if not simply only towards North Korea's nuclear problem. Only time will tell but I think South Korea will closely monitor what will transpire, particularly between the U.S. and China and their cooperation over the resolution of the North Korea's nuclear problem. I'll stop there.

MR PAUL HSU: Thank you. I will make a few remarks before going to the floor. I gather from the three distinguished speakers' comments that many issues are relatively short term, but a longer-term issue is nationalism. I just feel it will gradually develop into a nightmare if there is Chinese nationalism versus Japanese nationalism, and Chinese nationalism versus American nationalism, and Indonesian nationalism versus Chinese nationalism. In Taiwan, maybe some Taiwanese nationalism coming up is another type of nationalism. We will be living in a world without any peace.

So how do we overcome that? It has become a pretty serious issue. I'm not trying to scare you but these are some issues we have to deal with. What I'd like to do is maybe, like the first session, talk about expectations for American foreign policy, our wish lists for American foreign policy. I don't know whether we should do a wish list for China's external policy or foreign policy. Frankly I do not see any distinction.

Then, can I raise a question to all three of you: "In terms of priority, what will be the most important concern for China's external policy from our perspective?" Anyone can start on that.

JING HUANG: Yes, I think it depends on what context we are talking about. In general, I think sustainable development is still of primary concern because not only does China need it, but also the Chinese Communist Party needs it. It is their essential source of legitimacy right now.

I think this is an easy question, but it's also difficult because China's top priority can change in different contexts. For example, if you talk about the Taiwan issue, everybody in China will tell you that it is a core interest of China, that it is their top priority. If you talk about the Korean issue, I think Jae Ho gave a very good explanation of China's shift of policy from "peace and stability" to "nuclear free" and it depends on whom you talk with and whom Chinese talk with. That is my understanding about this.

YOICHI FUNABASHI: What worries me most about China in terms of external policy is the internet. The internet in China is a sort of rugged form of public opinion and even the Chinese Government has seen some cases where they cannot control it. I think eventually this may lead to more polarization of Chinese society.

But at the same time it poses serious risks not only to the Chinese Government but to China's partners on how to deal with these, in some cases, virulent forms of xenophobic nationalistic sentiment. But on a more serious note I think China's policy toward Taiwan is the most serious challenge we all confront and we all know that we do not have easy, ready-made answers.

I hope that Chinese political leaders appreciate the changing nature of Taiwanese society and the democratic experiment. We always talk about that not upsetting the status quo, or changing the status quo. In policy terms, particularly strategic terms, I think this "do not change the status quo" has a lot of relevance and significance. But a democratic experiment in a living society that is a living space, full of ideas, with firm believers in many ideas, simply cannot be contained.

So you have to accept it as such and think about how to accommodate and how to compromise so that it should not upset international relations. This

requires very wise leadership and constant attention from the surrounding countries.

JAE HO CHUNG: My answer is two-fold with a temporal dimension. In the short term, I think we would really like to see China continue its genuine cooperation with South Korea over the North Korean nuclear problem. Actually, many diplomats involved in the negotiations over the years seem to think that China has been very genuine in sharing information on North Korea as well as on the cooperation with the U.S., so I hope that continues.

In the mid to long term I think we really hope to see China sustain a very good relationship with the U.S. so that we will not be put in a very delicate dilemma. As I see it now, Korea is entering into a sort of bifurcation phase. In terms of security we are still highly dependent on the U.S. under this alliance structure, but in terms of economy we are increasingly more dependent on China. So how we balance these two priorities will be a really important issue for us down the road.

MR PAUL HSU: Now we have a good 30 minutes. Are there any questions from the floor? Yuan Ming, first.

QUESTION: Yes, Yuan Ming from Peking University. I really enjoyed those fascinating presentations. In my view, we are talking about globalization and all sorts of things, and two trends in the global scene: integration versus fragmentation. I don't know how long it will continue but certainly we have to pay attention to that.

Now I myself always get confused with fragmentation and very local-oriented politics. Of course, we are talking about nationalism but I do worry about this very local-oriented political trend which will certainly bring a lot of damage to the broad scene. I would like to hear your response and I hope to be educated by any of you or all of you. Thank you.

YOICHI FUNABASHI: It is very difficult to educate Professor Yuan Ming, but let me humbly share some of my thoughts on how to address these new challenges and deal with these issues.

I think your point is very important, and perhaps what we are witnessing here throughout Northeast Asia is what you mentioned, fragmentation. I think we also find ourselves in a much more precarious situation as the United States is seemingly not paying enough attention to the region.

I still believe in the United States playing the role of a stabilizing force. But it has been somewhat shaken, particularly since the advent of the Bush Administration and 9/11. We just cannot permanently count on the United States to provide that full-fledged stability function for the region.

I think that it is so urgent and imperative for Asian countries to strengthen regional cooperation in a framework so that we can address those more locally-driven forces and maintain that international relations are better relations. Given the current Sino-Japan relationship, a lack of cooperation is miles away but I think that we should pursue this regionalism, and develop building blocks and strategies to cope with these issues caused by globalization.

PAUL HSU: Anybody else?

JING HUANG: I think to some extent that all politics are local, so political leaders have to manage local politics to be successful. They have to play on nationalism as seen in Japan and China and Taiwan and South Korea. That's a given.

So to overcome this kind of fragmentation or negative impact on nationalism, I think that there are two things we need to do: number one is what Yoichi just touched on -- institution-building. People don't trust each other, people don't like each other, but what manages people's international behavior is not good intentions or good policies, but international regimes, just like national institutions.

If you look at East Asia, between China and Japan and also between China and Taiwan, we are shocked by the lack of institutional live channels of communication. We're shocked by the lack of institutional regimes to handle trouble.

We talk to each other constantly but we do not have institutions to formalize whatever we achieve every time in the communication. Every time a relationship will collapse, start all over again.

And do Chinese trust Japanese or do Japanese trust Chinese? I say no. They do not trust each other. Do Chinese trust Americans or the Americans trust Chinese? No, they do not trust each other. But it is the treaties and institutions, it is the rules that keep them talking to each other and amend their behaviour. That is one thing we need to do.

And secondly, I think it is the kind of cooperative approaches not just by the government because we are in an area where society is getting bigger and bigger and the government is getting smaller and smaller. We need some private corporations also to get into this kind of non-government cooperation. Again, if you look at East Asia we are shocked by the lack of non-government cooperation on the society level. I think these are two areas where we should try to make some effort.

QUESTION: Philip Snow. Mr. Funabashi mentioned the struggle between China and Japan over Siberian oil and gas and I would like to ask Mr. Funabashi and Professor Jing Huang what effect they think the apparent victory of Japan over China with respect to the routing of the Russian oil pipe line will have on relations between the three countries?

YOICHI FUNABASHI: First, I don't think it has said yet. I think the Russian Government will announce on the 15th of this month, but even then it may not be final.

Actually, it is not bad policy, perhaps bad diplomacy on the part of Russians to play Japan against China for many years to come. I don't think that either will be a victor. I think that both will be a loser, in my view.

If they engage in this cutthroat competition for Russian Siberian oil, I think will be a missed opportunity for both Japan and China because this is an area in which they can cooperate in win-win, and they have actually not been able to do it.

Just remember the way that European Union has evolved over the past half century. It started from coal and steel cooperation. We feel keenly vulnerable on oil and gas. Both depend on so much oil and gas from Middle Eastern countries as well as Russia. So there is much room to cooperate. So, that's my answer.

QUESTION: Mr. Tanaka, 21st Century Public Policy Institute in Tokyo. I have one question for Professor Chung.

I want to know whether public policy intellectuals in Korea perceive Korea's economic dependence on the U.S. As you mentioned, China is the number one destination for exports and imports. However, China depends upon the U.S. market, so through exports to China, the Korean economy also depends on the U.S. market. It's a reality of international finance and economic architecture in this period. So, do policy intellectuals in Seoul have such a concept?

JAE HO CHUNG: Of course, I am aware of that dynamic but I'm not quite sure whether that is shared by many in the intellectual community. But then again, you have to think of course China is highly dependent on the U.S. market, but the U.S. may not be willing or able to exert direct influence over South Korea as China could do towards South Korea in this particular area.

Let me give you an example. In the year 2000, there was this garlic battle and the value of the garlic trade was only about \$9.5 million. But beyond that there was a political consideration because there was a General Assembly election coming up. The South Korean Government somehow had to relieve the

discontent of the farmers in Korea, so they decided to take on China and they applied safeguards against garlic imported from China.

But, what China did was to simply ban the import of (inaudible) and mobile phones from South Korea which amounted to about US\$520 million -- over 53 times the value of the garlic trade. That really sent chills down the spines of Korean Government officials. Within four weeks the South Korean Government succumbed to the pressure of the Chinese.

That amount really is nothing compared to the overall trade. So whether or not China relies on the U.S. market, what I'm trying to say is that trade dependence itself can be very, very threatening and much of it can actually be translated into the diplomatic influence of China over Korea. That was the point that I was driving at.

PAUL HSU: The gentleman like me, with gray hair.

QUESTION: Thanks very much. That should be a compliment. I just wonder if any one on the panel could comment on the dynamic behind the talks of late that heads of state in this region are going to have their own summit meeting. Clearly the Prime Minister of Japan doesn't seem to be throwing it; he should have been on the receiving end. So, who has really been pushing this case? The Singaporean Prime Minister? Chinese politicians? What's the dynamic behind this?

YOICHI FUNABASHI: Yearning and aspiration have emerged for East Asian regionalism over the past more than a decade. This is nothing new. As was discussed in the morning session, we have had Mahathir and the others who have pushed for this idea, but have suffered many setbacks.

This time, perhaps for the first time ever, we see a better chance for realizing this goal. I think that the epicenter is in China as China develops its economic trade and markets so phenomenally. I think the Japanese Government still is ambivalent as they were in the face of Mahathir's EAC proposal in the early 1990s. I think this reluctance to embrace and support this East Asian community has actually caused Japan to play a reactive role as China has played a more active role.

I think Japan always has had to be mindful of the United States's response to this East Asian-only enterprise and, as Jim Steinberg in this morning's session mentioned, their concern has become to be more pronounced.

I met with Mitchell Reiss, the Director of the Policy Planning Staff at the State Department about three days ago in Tokyo. He also expressed his serious concern about an East Asian summit because, as Jim said, they may exclude the

United States. So, as an ally to the United States, this really is a factor that Japan always has to take into account.

But there also has emerged some nervousness on the part of Southeast Asians about this China-driven East Asian summit, particularly in Vietnam and Indonesia. So, even though it will launch, it faces a very rocky road.

QUESTION: I am Wong Nam, policy graduate from the University of Hong Kong. I have two questions, the first is to Dr. Jing Huang. You said the third challenge facing Chinese foreign policy is that foreign policy making should be transparent. But it seems that in China foreign policy making is still, if not totally under the control of the government, it's at least under strong control of the government. So how do you think the reform process is going to happen? Is it an initiative by the government or is it forced by external factors? Or if there is an internal/external linkage? How do you evaluate this kind of linkage?

My second question goes to Funabashi-san. You said that China's expression of anger when dealing with Koizumi's visit to the Yasukuni Shrine enhanced the public support of Koizumi, like when China's military exercises enhanced the popularity of Lee Teng-hui in Taiwan's election in 1996.

So it seems that China is always facing this kind of dilemma or paradox. But obviously when facing this kind of issue China has to adopt a certain stance. In Taiwan we see that China is now playing the U.S. card to contain Taiwan independence. So do you see a better policy that China can pursue if Koizumi continues to visit the shrine? Thank you very much.

JING HUANG: Yes, I think that's a very good question. I think that the essential solution or motivation for policy transparency has to come from within China. Of course, external pressure always helps but it has to come from within China. I believe the Chinese leaders themselves realize the importance of policy transparency but the problem is that it is not the sort of matter that they can solve personally. It is, like I said, a system-induced problem so it does require gradual but substantial reform of the political system.

But then the next question is: how can they do that? Because we know that power is the most addictive draw; once you've got it, you never want to give it away. I think the big change in the past 20 years or past 10 years in China has two dimensions. Number one, as Professor Wang Shaoguang pointed out, is that previously, the Chinese society was very diversified. Number two is that the distribution of power amongst Chinese leaders is very equal. There will never be a dominant leader like Mao Zedong and Deng Xiaoping, so Chinese leaders are more and more equal to each other.

So therefore when there are differences among Chinese leaders they have to go and solve those differences through confidence building and compromise

making. In order to do that they need some formal policy making structure, not only for policy consistency but also for policy outcome stability.

So I think that's a very good means to employ to get policy transparency. A very good example is the (inaudible) episode, but it takes time and patience.

YOICHI FUNABASHI: Thank you very much for raising that question. There are some Japanese who have felt that enough is enough and they have supported Koizumi's visits to the Yasukuni Shrine. There are very bruised and twisted and wounded sentiments behind this support, in my view.

I think that they feel that they Chinese leadership, particularly Jiang Zemin, has been seen to use the quote/unquote history card against Japan in order to extract some diplomatic concessions whenever they find it necessary. True or not, that perception is held very widely. So, as I said, they do not feel too unhappy to see Koizumi standing tall against China whenever China raises its voice against Koizumi's visits.

I don't know how to deal with this but this basically this is more a Japanese problem than a Chinese problem, so I have been thinking of how Japanese political leaders really should address or redress this issue rather than how the Chinese leaders should deal with it.

But perhaps even though political leaders on both sides in the early 1970s were wise enough to normalize the relationship, putting that history behind while not forgetting, they did not take further steps for long-term reconciliation, unlike the United States and Japan in San Francisco Peace Treaty. The San Francisco Peace Treaty stipulates trust and reconciliation.

I think that for the vanquished and the victor this San Francisco Peace Treaty was really a chance to start over with a new relationship. I hope that leaders from both sides will explore ways for trust and reconciliation, beyond normalization.

QUESTION: Ok-nim Chung from Korea. My question is to Professor Huang. What is China's perception and possible response to the close mutual alliance? Particularly the theater missile defense system, into which Japan decided to pour \$10 billion for a decade; also Japan and the United States will deploy the anti-ballistic missile from next year on. Is it acceptable to China or is it considered a trigger for North Korean nuclear issues?

JING HUANG: Yes, I think that's a very good question. I think of course the Chinese Government and Chinese leadership are not happy with that. But also they have to face reality: the U.S.-Japan alliance is not something China can control. Moreover, China's attitude to the U.S.-Japan alliance is very complicated. I just published an article last year and wrote that China's dilemma is that the

Chinese realize that the whole strategic balance, the whole security framework in the Asia-Pacific is based on the two alliances the United States has in East Asia. Basically China has been taking a free ride. In this development China really does not figure very much in the security issues except on Taiwan. Of course, that's another issue.

But on the other hand, China also realizes that the worst thing that can happen to China is if the United States gave Japan what Japan really wants. It may (inaudible) the normal state which through independence: diplomatic independence and political independence.

So, given that China has to some extent tolerated the kind of relationship between the United States and Japan that you mentioned, as long as the United States is in the driver's seat, China will continue to tolerate it. In other words, as long as Japan is dependent on the United States on those issues, China does not worry that much.

OK-NIM CHUNG: Even though Taiwan is incorporated or integrated into that theater missile defense cooperation in an unofficial way? This is my speculation.

JING HUANG: The key words are "unofficial way." So, as long as it's not official, China can at least pretend not to know it because it will bring about a very complicated international –dilemma. China's position on the Taiwan issue is not to make it complicated, and keep it as simple as possible. That may be good, it may be bad, but I think right now it's more good than bad.

QUESTION: I've got questions on long-term demographic trends which could potentially impact China and Japan and their security situations. The questions are long-term by nature, a little speculative, and I don't know if you've given much consideration to them. In the Japanese case today the population is about 125 million. By about 2050 most demographers think it will be around 100 million, roughly 30 to 40 per cent of which will be retirees; in other words, shrinking rapidly.

Given that and the question marks about the U.S. security guarantee, Mr. Funabashi, do you think there is a likelihood that Japan will devise its own nuclear security option at some point? And, in the Chinese case, a huge gender imbalance is in the brewing for a variety of reasons but the upshot is, again in the next generation, we're going to have literally tens of millions of men who can't get married. So, what happens when you've got a country with tens of millions of frustrated young males?

YOICHI FUNABASHI: A nuclear option issue. I don't think Japan will opt for nuclear defense because it doesn't pay. First, Japan's dependence on the nuclear reactor is more than 30-some per cent now. According to the Japan-U.S. nuclear peace cooperation, I think it's article 14, if Japan prepares for nuclear weapons,

then all the technology and facilities that the United States has provided Japan should be returned to the United States. The Japanese nuclear power stations would collapse immediately.

We cannot afford to do that as China and India now are participating in that global energy market, and the Kyoto protocol issue is now so urgent.

Apart from that, if Japan would show its interest in developing nuclear weapons, I think immediately Japan will be the single biggest villain rather than North Korea. The North Korean nuclear issue would immediately become a Japan issue.

I think it will be really detrimental to peace and stability and security in Northeast Asia. Japanese (inaudible) is very much concentrated in the Tokyo and Osaka areas. With the security and economic nerves are so much concentrated in the few big metropolitan areas, Japan is vulnerable to nuclear retaliation. So, it simply doesn't pay.

JING HUANG: Okay, on the marriage issue, I don't think that's a problem because a human being tends to marry off. So as long as we keep what Professor Wang Shaoguang said, social mobility, we can always have women come from different places to marry the men. There are other things worse than marriage.

For example, we already have a lot of women from Vietnam marrying Chinese men in Guangxi and Yunnan. I think we need this globalization. Really, I don't think that's a problem.

Another thing I don't think is a problem is that if a million young men who cannot find a wife are concentrated in Shanghai or Beijing, that would be a problem. But if these million young men are spread all over China they're invisible.

PAUL HSU: Can we extend five minutes, no more than five minutes, I think if a short question, short answer, maybe we can take three.

QUESTION: Lucy Cummings, University of Hong Kong. In your views who are the five most influential people in Chinese foreign policy within China?

JING HUANG: It depends who gives the answer. From my point of view, Hu Jintao, Wen Jiabao and right now Li Zhaoxing, and maybe some military people are the most important. But it depends on what issue we are talking about, because foreign policy is not a simple issue. Foreign policy making is more like balance keeping. It's not issue driven. So that's why if you talk about trade issues for example, Wu Yi or some other people may be more important. If we talk about security issues, maybe military people will be more important. So it depends on which issue you are talking about.

QUESTION: This is Liu Shyh-Fang from Taiwan. I want to ask Professor Jing Huang: in the past when we heard about the Taiwan issue, the Chinese Government always said that it is a domestic issue, an internal issue, and that nobody can interfere. But nowadays we see President Hu telling President Bush, "Hey, you have to teach Taiwan, tell them how to do things." Can you see why there is a kind of a change? It seems that the Japanese Government has a similar situation. China's policy toward Taiwan may never change, but what do you think about the strategy? Has it changed?

JING HUANG: I don't think that China changed its view on Taiwan. I would argue that the situation has changed. For the first time in history the U.S. and China have overlapping interests on the Taiwan issue. In other words, because of the pushing of the envelope by Taiwan independence supporters, Taiwan independence has gained momentum so all of a sudden you find that the U.S. and China want the same thing across the Taiwan Strait: stability. That pulls them together. It is because of this backdrop that China correctly believes that the U.S. may be more effective in putting pressure on Taiwan, and that it also serves America's best interests to do so. For example, just a couple of days ago, President Chen Shui-bian made a statement and China did not say anything, but the U.S. will come out and say, "He will have to explain what's going on."

PAUL HSU: Okay, I think time is up. Let's give the panels a big hand. I turn the floor over now to Richard Bush.

RICHARD BUSH: Thank you very much, Paul, and thank you all for coming. I think we've had a very productive discussion, but since I was involved in designing the program I am the least objective observer. You're far more objective than I.

I am completely objective on the many people to whom I'm grateful for this effort. Let me say there are going to be some people I leave out, I'm sure, but you know who you are and please accept our appreciation. First of all, I'd like to thank the audience for your participation and your probing questions, and I'm impressed that so many people stayed to the end. It's usually not the case. We owe a lot to the U.S. Consulate General, particularly Rich Stites. I want to thank the moderators, the presenters, the CNAPS current and past Visiting Fellows and members of our advisory council. I want to thank my colleagues at Brookings, particularly Sharon Yanagi and Kevin Scott, who have been working literally day and night for a long time; Brookings owes them a lot. And finally, I'd like to thank the Asia Society Hong Kong Center. An outfit like Brookings could not prepare a conference like this at long range without a really outstanding local partner and Mary Lee Turner and all of her staff have been that outstanding partner. We hope that we can collaborate with you again.

A lot of people were involved in that and I shudder to make any invidious distinctions but I do have to acknowledge Ann Honarvar, on whom we placed a big burden and who bore it gracefully and skilfully and we couldn't have done it without you.

So thank you all for coming. We wish you a good evening and a pleasant holiday coming up.

(Conference concluded)