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THE PERILS OF PROXIMITY:
CHINA-JAPAN SECURITY RELATIONS

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P R O C E E D I N G S

MR. INDYK: Good morning, ladies and gentlemen. I'm Martin Indyk, the director of the Foreign Policy program at Brookings. Welcome to you all.

You know, when Richard first told me that he was going to be writing a book about China-Japan security relations, I have to admit that I stifled a yawn. It seemed to me to be a subject of some considerable theoretical interest but I didn't imagine that it was going to be a burning issue in the relationship. Well, that was then.

Today, the China-Japan security relationship is indeed a hot topic with the recent tensions over the arrest by the Japanese government of a Chinese captain of a fishing vessel and what ensued from there, an example of the very issues that Richard Bush has dealt with in such fine detail in his latest book. And that's what we're here to talk about today. The Perils of Proximity: China-Japan Security Relations just released by the Brookings Institution Press, is the latest in Richard Bush's works. He's written four other books and a whole host of other articles, all of them relating to the complexities of issues in Northeast Asia, whether it's between China and Taiwan or the Koreas. Richard has established himself as, I think, the preeminent expert on these issues.

He started his career in public service. A distinguished career as a consultant to the House Foreign Affairs Committee -- Subcommittee on Asian and Pacific Affairs. He then became a member of the staff of the full committee, working on Asia issues. And then moved to the National Intelligence Council where he became the national intelligence officer for East Asia. And from there he became the chairman and managing director of the American Institute in Taiwan. That position is the position equivalent to an ambassador responsible for conducting substantive relations with Taiwan in the absence of diplomatic relations.

So Richard has deep experience, both on the policy level and on the

scholarly level. And we're very glad to have the opportunity to hear him make a presentation about the principle findings and recommendations of his book.

I'm also very happy to introduce to you the respondent to Richard's presentation, Ken Lieberthal. Whereas, Richard is director of our Center for Northeast Asian Policy Studies here at Brookings, Ken is the director of our John L. Thornton China Center. Ken and Richard have worked closely together in the past and it's wonderful to have them working together as directors of two sister centers, if I can call them that.

Like Richard, Ken has a distinguished resume, both as an academic and as a policy practitioner. He's written 15 books and monographs about China and U.S.-China relations. He is, I think, generally recognized both in Washington and in Beijing as a preeminent expert on U.S.-China relations. He served as professor -- dual professor at the University of Michigan, both in political science and in the School of Business Administration. He has served on the National Security Council during the Clinton Administration as the senior director for Asia. And in that position he was responsible for policy towards China in particular.

So, we have two real experts today to discuss what is a hot topic -- the Perils of Proximity: China-Japan Security Relations.

Richard.

MR. BUSH: Thank you very much, Martin, for that kind introduction. Thank you, Ken, for being willing to be the respondent. I'd also like to acknowledge the strong support of my staff from the Center for Northeast Asian Policy Studies, particularly my research assistant, Jennifer Mason. And the Brookings Press deserves a lot of credit for bringing this work to fruition, and I'd particularly like to cite my editor, Eileen Hughes.

The reading for this morning, with apologies to Ecclesiastes, is for every book there is a season. I have to confess that my two previous books sort of hit the

streets at a time when reality was either not ready for them or had sort of moved beyond them, but this time I feel very fortunate that sort of events transpired to make this a more relevant issue. I'm sorry that it happened. I confess that this time last year when the Democratic Party Government of Japan had come into office and seemed to be moving to patch up ties with China, I was getting a little bit worried that my ideas would be OBE. But thank God for a drunken fishing boat captain. (Laughter.)

In Perils of Proximity I tried to do several things. I'll talk a little bit about the incident that just occurred, but how it fits into the book is what I'd like to talk about this morning. I think that the tensions in the East China Sea are part of a larger picture of China-Japan security relations. It's not just the changes in relative balances of power and how power is exercised but it also has to do with the institutions in each government that regulate their interaction. Chinese and Japanese governments are not single actors necessarily acting with a grand strategy. There are many different actors and institutional factors at work.

There are implications in this for the United States. I will talk, as the book does, a little bit about what might happen and what should be done to reduce the perils that come or the dangers that come with proximity.

I just learned this morning in the paper in a column by Fareed Zakaria that this subject, this kind of subject is what's called a "dark swan." It refers to things that might happen that are relatively low probability but the consequences are high. So, just to run through the Senkaku Diaoyu episode, I sort of flipped the names of the islands because the U.S. government doesn't take a position on who owns them and therefore what the name is.

September 7th, a Chinese fishing patrol boat rammed ships of the Japanese Coast Guard. The episode itself was not particularly surprising because the

two countries have had a longstanding dispute. Japan has controlled the island since 1972. Over the last few years, Chinese vessels have been testing the presence of the Japan Coast Guard around the islands, and the Japanese Coast Guard has resolutely blocked any intrusion.

What was surprising in this episode was how fast it escalated after the Japanese Coast Guard arrested the crew. China protested diplomatically several times during the first week. In the early hours of Sunday, September 12th the Japanese ambassador to China was rousted from his bed and called to a meeting. China canceled long awaited talks on joint resource exploitation in the East China Sea. It beefed up maritime surveillance over fisheries and Japanese survey ships. Beijing canceled a number of government exchanges, People-to-People exchanges. It reportedly suspended or restricted exports of rare earth minerals to Japan, which are an important commodity. Japan got worried that China was starting to drill in a gas field in the East China Sea and regarded that as a violation of a tacit understanding and it began to consider countermeasures.

Even after the -- most of the Chinese crew was released on September 13th, it still kept the captain in detention and PRC protests became more strident. Japan urged high-level contacts to resolve the dispute but China declined. China then arrested four employees of a Japanese company who were in North China and rejected a Japanese ambassador's request for a meeting. This was after he had been summoned for different meetings.

The Japanese captain was released on September 24th, but there was a near clash of ships in the area two days later. Now, domestic politics in both places complicated things. There was an active debate among Chinese bloggers about the incident. Some called for boycotts and military deployments to challenge Japan. PRC

government did try to constrain some anti-Japan demonstrations early on and an effort by Jiao Yu activists to sail for the islands. That led one blogger to mock the government. He said, “When a foreign government behaves like a hooligan, you reason with it. When our compatriots talk reason to you, you treat us like hooligans.”

Politics was also important in Japan. The issue was front and center in the media. Polls indicated that anti-Japanese sentiment was again rising. Eighty-three percent agreed that China was an untrustworthy nation. Once Prime Minister Khan decided to release the Chinese captain, he was roundly criticized for weakness and the handling of the issue was also criticized. I actually think that Japan, in a strategic sense, was the victor in this episode, but maybe we can talk about that later.

Gradually, however, the crisis wound down. All those who were detailed on both sides were released. Diplomats sought to return relations to normal, which is their job. Premiers Wen and Khan met bilaterally in Brussels about a week ago, and there was new talk of improving communications channels and other mechanisms. It was at this point, it appears the Chinese government released some of the controls on demonstrations because this past weekend there were -- they took place in a number of Chinese cities. This is Zhengzhou and Henan Provence. And apparently they’re still going on.

Now, what’s the bigger picture here? There have been episodes in the area of the Senkaku Diaoyu for decades. Previously, this activity was done by political activists in Japan, China, Taiwan, and Hong Kong. Each was asserting its own nationalist agenda. The two governments actually learned how to contain the problem. What’s happening today, I think, and for much of the last decade, is qualitatively different. Governments are becoming involved in direct ways.

The recent incident was only one episode actually in an ongoing test of

wills in the East China Sea. This is not only true of China and Japan; it's also true of China and the United States. There is a conflict of strategic interests at play, and as I suggest, institutional factors such as civil military relations make the problem worse. The capacity of both the Chinese and Japanese governments to manage crises or near crises is not particularly high and domestic politics can foster escalation.

One of the drivers here is the growth of Chinese military power. You can see the chart here. The change in the modernity of various Chinese naval and air assets, it's basically that these assets -- these modern assets have increased by five times around -- over the last decade or their share of total assets.

China's acquisition of modern naval and air assets is in the service of a strategic objective. It wishes to gain greater control of what it calls the near seas. This is partly to create a strategic buffer, which is perfectly understandable. China also wants to complicate U.S. intervention in a Taiwan conflict and keep us out of the fight. China's greater maritime activism, however, impinges on Japan's interest in secure sea lanes of communication, which obviously are vital for an island country with no resources. So the sort of macro picture is increasingly complex.

There is also competition to exploit natural resources. There are longstanding but unproven reports concerning resources in the Senkaku Diaoyu area. Oil and gas fields east of Shanghai seem to be fairly rich and more work has been taking place there. Each side relies on international law to bolster its case. Each makes competing claims for their exclusive economic zone, and there's the sort of interesting question of whether the Diaoyu Senkakus merit an exclusive economic zone at all. There are other issues like what are China's rights in going through straits between Japanese islands and lurking in the background has been the question of potential conflict over Taiwan and how Japan might get involved in that.

There was a series of episodes during the 2000s. Both Chinese and Japanese survey vessels intruding into places where perhaps they shouldn't have been. Chinese ships sometimes made it into Japanese territorial waters. Japanese air force fighters increasingly intercepted planes of the PLA Air Force, and for a while it looked like the dispute over East China Sea gas fields was going to get militarized. Then, cooler heads prevailed and it wound down a little bit.

Each side has grown increasingly skeptical of the other's intentions. On the Japanese side, China's conventional and strategic forces are worrisome. China is concerned about remilitarization of Japan through a gradual loosening of legal and policy restrictions on the self defense forces. And the self defense forces have been improving in certain ways. Of course, each side has concerns about history. It's particularly strong on the Chinese side and public attitudes in each country are increasingly negative.

Now, I've mentioned institutional factors and this is a particular feature of this book because I sort of suggest that the chance of some kind of clash between marine forces of the two countries is increasing because of these competing interests in the East China Sea. But if there was a clash, I think that it would be processed through political systems that probably will -- would exacerbate the problem rather than allay it. One of these institutional factors is civil military relations. And we have sort of an interesting situation on each side. The People's Liberation Army asserts its loyalty to the Communist Party on a regular basis, but it does have substantial operational autonomy and a special say on national security issues. The mechanisms by which national security policy is coordinated between the People's Liberation Army on the one hand and civilians on the other seems rather limited and the most important venue for that seems to be the Central Military Commission where we have 10 generals and as of today two civilians, party general secretary Hu Jintao and vice president Xi Jinping.

Another complicating factor is that China's marine surveillance force and the fishing patrol force, which are on the front line of protecting China's maritime interests, are under civilian ministries. They're not under the PLA but it's possible and indeed likely that there is some coordination between them. In general, Japan's self defense forces are under the tight policy control of civilian officials. Whether that's good for operational effectiveness is another question. But there's an interesting phenomenon. The constraints are most explicit the further away you get from Japan. And missions like peacekeeping operations or the deployment to Iraq, there were strict rules. There are sort of rules in play for operations closer to Japan but, you know, they are more internal within the defense establishment. The Japan Coast Guard, which as we know is relevant for the Senkaku is not in the chain of command of the Ministry of Defense and the self defense forces. There does seem to be coordination between then.

Finally, in Japan, there are sort of episodes that occur from time to time that suggest that the senior military officers are not sort of completely in agreement with Japan's sort of post-war sense of itself and on matters of history. Also in the sort of institutional area there's a question of domestic politics, mutual public attitudes are negative. In China this is driven by history and a narrative of victimization. It's also bolstered by the patriotic education campaign, which has gone on for two decades. And there -- when Chinese with moderate views suggests that maybe China should lighten up a little bit on Japan and the history issue, they're quickly ostracized. In Japan there has been a gradual decline in positive use towards China since the Tiananmen incident. You probably can't see this slide but there was a sharp drop off of Tiananmen and a stabilization and then around the middle of this decade negative attitudes became much stronger. There was a return to some balance a year or so ago but I suspect the gap has widened.

Some other factors. The Japanese government is pretty leaky. And so when things happen in the security field, somebody in the defense establishment finds a way to get word of it to the media. The Japanese media is intensely competitive and it tends to view security issues in zero sum terms. Chinese nationalism is a double edged sword. It is directed outwards at Japan but it sometimes turns on the regime as well, which is why the regime is sort of concerned about it and often tries to keep it under wraps.

Finally, some Japanese nationalists have a new and unique capability. They have the capacity through cyber warfare to attack Japanese entities directly. So when there is an episode, Japanese companies or Japanese government agencies have increased attacks from China's cyber warriors.

Then there's the issue of government decision-making. I'll run through these points. If you have specific questions we can take them up in the Q&A. In each country the central decision-making bodies are collective. Within both the PRC and Japanese senior leaderships, personalities are very important. In this regard, just look at these four people: Jiang Zemin had a very different personality from Hu Jintao and Koizumi Junichiro had a very different personality from his successor -- one of his successors, Makudo Yassao.

In each country the ruling party has mattered but in different ways. In each, the line agencies, like the Ministry of Foreign Affairs and others have a lot of jurisdiction and are highly turf conscious. In each, intelligence communities are balkanized. Coordination among agencies is a problem and both systems find it difficult to address policy issues through coordination through these agencies along. There has to be a top-down element. These factors make it hard to fashion good responses to routine challenges. They make it harder in a situation of crisis or near crisis.

So to sum up the core argument of the book, I think the trajectory of Chinese and Japanese maritime activities in the East China Sea indicates that we will have more episodes like the recent one, and not less. Institutional factors at play suggest that just because the two governments have contained these episodes and don't want a crisis doesn't mean that they can contain incidents in the future. As I say, neither side wants a true crisis but each may be hard pressed to avoid one in the event of a really serious clash. And these institutional factors would be at play. Leaders would receive information from below that's not necessarily accurate. They would act in the context of this complex security dilemma that's at work between them. Act on the basis of mutual fear. They would act in a political environment where the public is demanding both firmness and action and each set of leaders will rely on support bodies that themselves are collection of agency reps making coordination difficult.

Now, what are the implications of the United States? Particularly with the Diaoyu Senkaku islands it proposes -- it poses a serious dilemma because our commitment to Japan is to defend territories under Japan's administrative control. So even if we take -- our government does not take a position on who owns the Diaoyu Senkaku, technically we are still obligated to defend them. And in this recent episode, Japan was able to get a reaffirmation of that commitment.

In any clash that could not be immediately contained. Therefore, Tokyo will look to the United States for help in standing up to any Chinese coercive diplomacy. Obviously, we seek good relations with both countries. We don't want to get drawn into any conflict between them, certainly not one over some small islands. We would prefer not to put our commitment to Japan to the test on such an issue. But not responding in this scenario would impose serious political costs for U.S.-Japan ties and raise broader questions about U.S. credibility.

What to do about this dark swan situation, a situation where the probability of something really bad happening is pretty modest but the consequences are very bad. I spend the last chapter of Perils of Proximity making a variety of suggestions, starting with the easier and more concrete. I think the two governments need to reduce the most likely source of conflict, and that is fairly unregulated interactions of Coast Guards, Naval, and Air Forces in the East China Sea. And there are a variety of conflict-avoidance mechanisms that could be employed. The Incidents at Sea Agreement that we had with the Soviet Union during the Cold War is a good example and it could be updated for the current situation.

Second, the two militaries need to continue and expand their exchanges and dialogues. These have resumed in the last few years after the departure of Prime Minister Koizumi but, you know, there is the tendency that they get suspended when minor tensions arise. And that needs to stop.

Third, the two governments need to accelerate efforts to reach a follow-up agreement to actually begin carrying out joint development in the East China Sea. They were about to do that and that's been suspended in the current situation.

These are relatively easy steps. In an objective way they've been hard to take, but even more difficult are initiatives that would remove the underlying sources of tension. That would involve, fist of all, I think, some sort of intermediate or final resolution of the Senkaku Diaoyu dispute. There should probably be a broader and mutually acceptable approach to resource exploration in the East China Sea. In my dreams I would like to see each country remedy the institutional factors that can turn small incidents into crises or near crises. And also in my dreams I would hope for mechanisms that would ameliorate the mutual trust fostered by China's rise and any strengthening of the U.S.-Japan alliance.

So, thank you very much for your attention. I look forward to your questions, but first I welcome Ken's commentary.

Ken.

MR. LIEBERTHAL: Good morning. Thank you very much, Richard. It's really a pleasure to have a chance to help celebrate the publication of your book and to comment on it and on some related issues.

The book, as Richard just laid out, takes a relatively narrow focal point. That is to say the potential for Sino-Japanese crisis in the East China Sea and then it employees an extraordinarily wide array of building blocks to analyze that problem and to produce recommendations. The building blocks include deep analysis of decision-making structures and processes in both countries, the pressure on each leadership by their respective publics, and their performance in managing previous crises, among other things.

And the results, as we've seen recently, frankly, are not reassuring. Although neither party wants conflict, the chances of incidents escalating to conflict are greater than most people would assume. And given the U.S.-Japan alliance and extensive U.S.-China relationship, America has vital interests in this and in how any incident would play out.

Richard's book, frankly not at all to my surprise, treats all of this with thoroughness, judiciousness, and candor at a degree or at a level that is really very impressive. So as I read the book I thought, you know, I'm an old academic. Who do you recommend this book to? And the answer is it should be read by all analysts and scholars because it demonstrates the extraordinary array of factors that in reality are likely to drive outcomes in areas of potential conflict. It really highlights the importance of having a real specialist and scholar take on an issue like this so it's not just conflicting

claims but it's what will influence the perception of the issue, how the issue actually works out dynamically in each country, and then what might be done to at least begin to ameliorate the downside problems.

All of this, of course, created a problem for me. As I read the book I thought to myself, holy cow, this is terrific. And he covers everything. I don't disagree with anything significant, so what should I talk about? And I decided to do what all people do in this kind of situation, which is to somewhat change the topic. (Laughter.)

So I've had to, for other reasons, frankly think about the broader but related I want to stress topic of how Japan can adapt to the rise of China. and I thought that making some comments on that might help to contextualize the discussion that we'll have having of Richard's book for the remainder of this meeting.

So let me address that somewhat broader topic. I think as you think about Japan's adapting to the rise of China, to me at least you have to think in terms of three relative certainties and three uncertainties that Japan confronts. The relative certainties for understanding the context for Japan's managing a rising China is first of all that Japan will have very limited room in the future for major state-funded initiatives. Economically, Japan is likely to maintain a high per capital GDP but it is very unlikely to experience very substantial GDP growth. Demographics dictate that the labor force will shrink. In fact, the labor force is already shrinking, and the number of elderly will rise, thereby increasing health and pension demands on the Japanese government. And Japan's large debt overhang is going to be a major drag.

Secondly, politically -- therefore, by the way, for example, it is not realistic to think in terms of Japan substantially adding to the number of people in military uniform as you go forward. Politically, factual divisions and institutional weakness will likely make it -- I'm sorry, will make it unlikely that Japan will undertake the major reforms

that could significantly enhance economic growth.

And thirdly, socially, cultural norms should prevent Japan from turning to immigration to mitigate its serious demographic problems.

So those to me are the three relative certainties in the context. I don't see any of those being -- having a substantial likelihood of coming out differently from the way I just suggested. But along with these three relative certainties, Japan faces three very large uncertainties that will affect or should affect its thinking about its future policy toward China.

First, what will be China's own future trajectory? Will the PRC be able to sustain its rapid growth and assure social stability even as the core pillars of its growth model to date are becoming increasingly unsustainable? When I say the core pillars, what I'm referring to here are an abundance of very cheap labor, an environmental cushion so we can destroy the environment as we develop and then clean up after we've developed, the social tolerance for large-scale corruption and rapidly increasing inequality, and international tolerance for ongoing increases in China's exports to other countries. None of those has reached a full cliff that it is falling off of but all of them are becoming -- the margins in each of those have diminished quite a bit recently and will continue to do so I suspect in a very substantial fashion.

So it's not fully clear what China's future growth rate is going to be and its level of social stability as it pursues and tries to sustain that growth. Also, how soon will China develop a consensus on its global responsibilities to go along with its newly found global clout? China now -- the way I typically put it is China now is a country of global impact but it is not yet a global player. And until you get to the latter part there's a lot of uncertainty out there as to the implications for Chinese foreign policy.

So uncertainty number one, what will be China's own future trajectory?

Uncertainty number two is how will the U.S. and China get along? The U.S. faces severe fiscal challenges. One of the advantages of being at Brookings is you get to hear colleagues talk who really know what they're talking about in a wide array of areas, and I will say what I've heard about the future of the U.S. fiscal situation is, to put it mildly, depressing.

So the U.S. will face severe fiscal challenges, but I think it will still remain, without question, the world's strongest country for at least the next several decades.

Japan in that context has to consider two possibilities. One is that American policy, because America will remain the strongest country but not the strongest by as much as it has been accustomed to in the past, the American policy may be forced to accommodate to an increasingly multi-polar world with China emerging as the major beneficiary of that.

Or secondly, and alternatively, that the U.S.-China relationship will become deeply antagonistic, raising threat perceptions on both sides.

The third uncertainty is what will happen on the Korean Peninsula. North Korea is the biggest potential spoiler to every scenario for the future of Northeast Asia to my mind, and the array of possibilities on the Korean Peninsula within a five year period is utterly extraordinary.

And frankly, no one knows how this is going to come out, but one has to figure in a wild card dimension to this that is really fairly daunting. What is rarely mentioned but I think is also feasible is that South Korean politics have the potential to return to a far more accommodating sunshine policy-type approach to North Korea after the next presidential election. So the Korean Peninsula's situation is a huge uncertainty as Japan thinks about the future.

So with all of this, these three relative certainties and three severe uncertainties, what recommendations are there for how Japan should strategize around coping with a rising China? It seems to me that Japan's economic prospects and demographic challenges require ongoing substantial investment in China. I cannot think of a way that Japan does well economically if it does not have access to the economic opportunities in China and using China as part of its global corporate strategy.

So this requires ongoing substantial investment in China, but as Japan thinks about that investment I think it should also be very careful to pursue where it can diversification strategies including or involving India, Indonesia, and elsewhere. It should avoid exclusive reliance on China for strategic resources. As we have just seen with their rare earth metals, a cutoff by china which I understand is in fact still in place. And it should think in terms of how to leverage Japan's excellence in the many managerial and technological areas, such as energy efficiency, where China is relatively weak and therefore you can maximize Japanese-Chinese interdependence. In other words, it's not just Japanese dependence on access to China but Chinese dependence on Japanese capabilities.

Strategically, Japan's goal must be to sculpt a strategy to prosper in a dangerous neighborhood that it cannot dominate militarily. All right? That's a real problem. And it seems to me that Japan should therefore do four things. One, promote the development of dispute resolution mechanisms with China to help both sides fashion compromises on such issues as operationalizing the 2008 agreement on principles for cooperation in the East China Sea. For details on how to do that, read Richard's book. (Laughter.)

Second, they should develop crisis management mechanisms, because crises will occur, in order to prevent incidents from establishing. Again, read Richard's

book.

Third, avoid an exclusively pro-U.S. policy if Sino-American tensions grow. Because I think an exclusive tilt to the U.S., I mean, dramatic tilt -- will side with the U.S. given that it's hard to bridge the divide between them would likely prove counterproductive. China plays too important a role in Japan's economic prospects to make strategic antagonism toward Beijing other than a very high cost policy for Japan. For Beijing, too, but also for Japan.

But moving too far from the U.S. would give China too much leverage to bend Japan to its own priorities. So Japan needs to find a way to maintain viable relations on both sides, even if the other two parties get themselves into deep trouble.

And fourth, I think Japan should encourage construction of a security community in Northeast Asia in which the major players are Beijing, Tokyo, and Washington, but also with a very substantial role for Seoul. This community would convene regular meetings at the head of state and ministerial levels and produce an eventual formation of supporting secretariat to facilitate its work. In other words, it should become gradually more institutionalized over time.

Now, I think it should focus on developing rules for routine naval and air operations. Right now it's shocking to see the extent to which those rules -- there are not commonly accepted rules by both sides, and I might add by the U.S. Navy, vis-à-vis China in the region. Consult on security perspectives and planning; promote energy security, which is an issue of extraordinary importance to all of the players involved here; and work together on common, especially nontraditional security threats. And my view is Jon Yong should be invited into this grouping if at all only when it has absolutely given up its nuclear program.

So in other words, this community's existence should become an

incentive -- an additional incentive for North Korea to get out of the nuclear business and otherwise move along without them.

I think improved Japanese relations with South Korea and enhanced inoperability with U.S. force both would strengthen Tokyo's hand in this kind of Northeast Asian security community and frankly if this community cannot come about and relations with China become an increasing problem, then this approach would provide a fallback strategy should China prove unwilling to participate. In other words, drawing closer to both Japan -- I'm sorry, to both the United States and to South Korea.

Let me -- having thrown that out on the table, let me conclude simply by reiterating my bottom-line about Richard's books. Number one, given the scope of its topic, he covers it magnificently. So therefore, I could not talk about it and add anything. The book is, in fact, a masterpiece of the analysis of what factors create the potential for a crisis, the likely dynamics of crisis development, and the resulting policy implications. So whether you are interested in the particular instance, you know, the particular issue of the East China Sea or not, this book is valuable both on that substance and on how you should really think about this kind of problem which is by no means limited to the East China Sea. So I want to congratulate Richard. A really terrific effort.

Thank you.

(Applause.)

MR. BUSH: Thanks.

MR. INDYK: Thank you, Richard and Ken. Let me start -- we've got about 40 minutes for Q&A. I'll take the prerogative and start by asking you a short question and then a longer one.

The first one is you said at the outset as you started to discuss the islands dispute that you thought that Japan -- if I heard you correctly -- that Japan had

come out the winner in this particular crisis. I thought that was counterintuitive. From my just cursory reading in the press, it looked like China had flexed its muscles and Japan had backed down. So explain your conclusion.

MR. BUSH: Well, thank you. And thank Ken for your comments.

I think one can say from a tactical point of view, maybe China came out ahead. Japan, you know, released the captain of the fishing boat before any legal action. It's in the interest of China to play it up as a victor. It's in the interest of the Japanese media to play it up as a defeat. But look at what Japan gained. First of all, they had a renewed commitment from the United States about our -- with respect to these islands. They demonstrated that they still have control there and they still have the power to maintain that control.

Most important, I think they, through their handling of this issue, they painted a picture of a China that was belligerent and aggressive and a picture of a Japan that was firm but knew when to back down to keep things from escalating out of control. And this is in a context of other things that are going on in East Asia where China doesn't look so good there either. So I think from a kind of strategic point of view they did well.

MR. INDYK: The second question is simply to ask you to respond to Ken's architectural device here of a security framework in the ways that he developed it and the role for Japan. I wonder what you thought of his prescriptions there.

MR. BUSH: In an optimal world, I think that this is an excellent idea. Creating these security communities is one way of mitigating the sort of underlying tensions that exist when some powers are going up and others are going down. I'm a little bit skeptical of whether China would like to get drawn into such a community, if only because it reduces its freedom of action or it reduces the freedom of action of certain parties within the Chinese regime. I think that Japan, as the weaker party, would

probably welcome such a thing. It may be that through a kind of bottom-up process of confidence building measures, conflict avoidance mechanisms, addressing specific problems that this community could emerge.

I happen to think that continuing problems with North Korean will pull China, Japan, and the United States and Seoul together to face that challenge. I hope that sort of over the medium term China sees the value of it as well.

MR. INDYK: Ken, in terms of the China-Japan-U.S. triangular relationship, China's rise creates a potential you referred to of China and the United States working more closely together. They're already allies with security commitments and so on but working more closely together to counter China's rise. And as I've heard you say before, that produces -- that has the potential to produce a reaction in Beijing that in fact the United States and its allies in the region are seeking to contain China and reduce its ability to protect what is in its national interest. Tell us a little bit about that dynamics and how -- whether that becomes a dangerous dynamics.

MR. LIEBERTHAL: Well, it clearly is a dangerous dynamics. It's interesting. If you go back to President Obama's trip to Beijing last November and look at the joint statement that was issued there, that was the most authoritative major statement put out by our governments jointly since the third communiqué back in 1982. So this is a serious thing to examine.

And to my knowledge, for the first time the two governments jointly acknowledged that one of the major problems in the relationship is a lack of mutual trust. Basically, what we anticipate the other side's goals are vis-à-vis us over time. And that that was a problem that needs to be worked on. I agree with that completely. It's somewhat ironic that since then mutual trust has deteriorated significantly and the narrative in China now that I hear everywhere from people who I know, you know, over

many years basically had a very strong desire to see a strong U.S.-China relationship and so forth, is that the U.S. is really acting now to constrain China and disrupt its rise.

And the basic assumption is the hegemon cannot tolerate the rise of a truly competitive power. And with that assumption that there is a capacity to put almost any American action into this narrative in the sense that it's all part of some sort of conspiracy in one way or another to bog China down, divert it from what it ought to be doing, give it responsibilities it isn't prepared to take on, and rally countries around its periphery to call for a bigger U.S. presence to offset China's growing powers.

In that context, it is relatively easy to admonish the U.S. and Japanese governments that even as they build capacity to deal with the stronger China, they have to keep in mind that the ultimate goal here is to have a community of interest in the region. That all of us are highly interdependent. I mean, these three countries have enormous interdependence. Not only economically but on a lot of security issues. But it is very hard to do that when you have the fundamental assumption on the part of one of the players that all of this was a conspiracy. Right?

I don't want to caricature it but there's really a strong kind of tide of thought in that direction among a broad spectrum of -- not only at a popular level but elite level in China. So to me one of the really tough issues, and I will say I don't know the answer to this, but one of the issues we all need to think about a lot more is how do you address that concern in China in a credible fashion?

I can tell you, for example, if you don't mind a slightly long answer to a quick question, but let me just add one point to it to give you an idea of how meddlesome this is. President Obama came into office. He decided to bring China to the top table in terms of being our partner on global issues. Right? I mean, to treat China basically as an equal. You have arrived. We regard you as a major player. So whether it's nuclear

proliferation around the world or recovery from economic and financial crises, or climate change with Copenhagen coming up that December, whatever it is we want to talk to you as an equal. All right? And what was the Chinese interpretation of that? It's simply part of the American effort to hold China down. They're trying to get us to take on obligations on a global level where what we have to do is concentrate on economic development, social stability, and defending sovereignty. Right?

So, in an effort to meet a longstanding Chinese concern while not being treated as an equal, this is a new narrative to indicate how this is, in fact, anti-agonistic. How do you get something like that? I think we need to focus pretty serious attention on that issue.

MR. INDYK: And on the Japanese side, you highlighted trends there that were also negative in terms of attitudes towards China. And I wonder how this kind of feeds into that kind of negative dynamic in the triangular relationship.

MR. BUSH: Well, Japan faces the same dilemma that the United States does. As Ken has laid out, Japan is both economically dependent and interdependent with China. It has probably greater concerns about the security trajectory because it's in a situation of proximity.

MR. INDYK: Front line.

MR. BUSH: Yes. And there is a debate within the Japanese polity about what to do about China that is probably more polarized than ours is. I do think that if the goal here, as Ken is suggesting, is to shape China's trajectory in a way that's constructive for the international community rather than destructive. Both Japan and the United States are going to be more successful if they do it together. And particularly, sort of for the United States to work with Japan on this gives Japan more confidence, that it doesn't need to sort of appease and accommodate.

MR. INDYK: Okay. Let's go to your questions. Please, two things. One, wait for the microphone. And second, identify yourself. Actually, a third thing. Make sure there's a question mark at the end of your statement. We'll start here.

MR. ROSMAN: I'm Gil Rosman at Princeton and the Woodrow Wilson Center. And my question follows up on what Ken started to talk about at the end. The Chinese narrative on what's going on. If you look at the last month, isn't there a stunning contrast between the way the Chinese have described this conflict and the way the Japanese have where you get former Japanese ambassadors, such as Togo, and Kitaoka making constructive suggestions for how to reduce tensions along the lines you're suggesting and you get the Chinese narrative overwhelmingly saying this is a conspiracy that all the other sides call and that it's consistent with the Chinese narrative of the Cheonan incident and other situations where we're getting this sort of heady arrogance and assertiveness that makes the positive suggestions that are coming out of this conversation seem quite out of touch with what's happening. So the evenhandedness in some of the presentation seems to me to be a little unfair given what's been happening lately. Do you agree?

MR. BUSH: Do you want to go first?

MR. LIEBERTHAL: I thought --

MR. INDYK: No, you --

MR. BUSH: Okay, fine. (Laughter.)

First of all, Gil, it's wonderful to have you in Washington. Welcome.

I guess I'd be worried about the phenomenon that you cite if China was doing well on other azimuths of its foreign policy. But it's not. I think you cite the Cheonan incident as one place where China's really hurt its interests. It's undermining its equities in Southeast Asia. China-India relations are not so good. The cross-strait

relations are doing pretty well but that's in a way an exception that proves the rule.

So although you have this rather extreme narrative, I expect that, and I hope actually, that the leadership will recognize that the sort of course that it's been on for the last year to 18 months is actually hurting China's interests in a serious way and that there needs to be a course correction. This is not easy when you are in the lead up to a leadership transition. I grant it's not easy when perhaps the PLA feels more assertive, but China has -- over the last two decades has demonstrated capacity to steer its foreign policy and make course corrections so I expect and hope they'll do it in this case.

MR. INDYK: Need for course correction?

MR. LIEBERTHAL: Well, first of all, I agree with Richard's evolution of China's foreign policy recently. You know, the Chinese have a long tradition of when you have an issue that concerns China's sovereignty and there's a crisis that blows up around some specific thing, you know, that we just saw in this instance, they do not indulge in nuance. Their public stuff is all at a moral level. This is a fight between good and evil and, you know, they really go overboard on it.

Having said that, usually in the wake of a crisis they then quietly try to move it to a different place and engage much more constructively. So to me the question will be whether we see that in the wake of this crisis. There's some early indications but we have to see whether it's sustained or not. But I think their public reaction to this -- Gil, you would know better than I because you've gone over this kind of thing for so many years, but my sense is the public reaction to the crisis itself is very much in character.

I would add, by the way, just one more point to Richard's notion with which I very much agree that China won tactically and lost strategically on this. Their cutting off a rare earth metal exports was frankly one of the dumbest moves I've ever

seen Beijing make because having spent, you know, the better part of two decades getting into a position of convincing others that they were a reliable supplier and therefore others would get out of the business, they now have every major country scrambling to develop alternative sources of supply which they will over the coming few years and China will be behind the eight ball. It's just astonishing that that kind of decision was taken in Beijing.

MR. INDYK: Also, doesn't it weaken their own talking point when it comes to needing a reliability of supply for their own purposes from other countries?

Yes, please. Wait for the mic.

MR. HEROD: Judd Herod, documentary filmmaker.

To use your term "coercive diplomacy," if China were to exercise coercive diplomacy vis-à-vis Japan, does Japan have the military fore structure to resist that before or check it before military -- before outright hostilities were to ensue?

And the second part of my question I believe was already answered but I'll ask it anyway. If China did exercise coercive diplomacy, is it conscious of the negative -- the potential negative impact that it has on the other major players in the region, mainly India and Russia?

MR. INDYK: Okay. We'll have Ken answer the second question. Do you want to answer --

MR. BUSH: Sure.

MR. INDYK: The military?

MR. BUSH: A few years ago some smart Asia experts in Washington considered basically your first question and looked at what would happen if there were a Senkaku Diaoyu crisis that was worse than this current one. One where the navies of the two countries got involved, not just the Coast Guard-like entities. And the conclusion was

that if it actually came to a conflict that Japan's navy is still much stronger than China's is. And they would win a tactical victory. Whether it would be a strategic victor because of the implications of the relationship is another country.

MR. INDYK: Another question.

MR. BUSH: You know, Japan has the strongest navy in Asia, still. China is catching up, but so it would be at least a close-run thing.

MR. LIEBERTHAL: Well, specifically, on India and Russia, I don't think either of them needs a lesson in Chinese coercive diplomacy since they both have had enough experience that they don't' have blinders on.

But there is a little bit of a puzzle here. The Chinese I think up until sometime in the latter part of the 1990s generally seemed to be fairly oblivious to the extent to which their actions sometimes created the problems they were trying to avoid. In other words, other countries are seeing China as a threat and therefore, taking countermeasures when the Chinese kind of haven't though that through.

Starting in the late '90s they became very sensitive to this. And you saw it in their discussion of what they call the China threat theory. Right? And so they really developed a very sophisticated, wide-ranging diplomatic strategy to explain how China could rise without posing a threat to others in the process. And that undertook a lot of bilateral or multilaterally diplomacy in support. And in fact, we're quite successful.

The puzzle is why in the last two years or so, the people who were guiding that policy seem to be heading in the opposite direction or others are -- change in policy is not quite clear what's happening internally but the last two years have been almost a case study in how to undo the diplomacy of the last decade. And this is without a change of leadership in China. So I think all of us are kind of sitting around to see whetherthis is a temporary operation or whether something more fundamental is

occurring that we really need to adjust to.

MR. INDYK: If it were more fundamental, what would be occurring?

MR. KIEBERTHAL: : Well, this is the first time--since I'm not in the government I can answer a hypothetical question. Right?

This is the first time in modern history that China feels strong enough to begin to take the initiative in the international arena. Not to take it as a given that it reacts to and tries to protect its interest, but where it might be strong enough to actually shape some outcomes or begin to shape outcomes. And we'll have to see whether they then begin to act in a hegemonistic fashion.

I actually had a very high Chinese official say to me a few weeks ago in Beijing that -- because I raised these questions of him. He's a specialist in foreign affairs. Not a think tank. Someone who actually has power. And he gave a very interesting answer. He said, you know, China recognizes the U.S. is much stronger than China. China isn't going to try to bully the U.S. I mean, don't worry about that. That's not going to happen. If it ever happens it won't be for a very long time. My worry is that we are going to start acting like a bully with regard to smaller and weaker countries and it's going to destroy our moral standing in the world. He said that's a real danger.

MR. INDYK: But if that were the case it wouldn't be Japan that they picked on in that kind of hypothetical scenario.

MR. BUSH: Well, I think there would be some who would say that China should challenge Japan. A friend of mine from Hong Kong was visiting an area of China where there are naval bases and the taxi driver who was driving him around said, oh, all those ships, they look good but they're just junk. We don't use them. We should be using them against Japan, against others.

To come back to your previous question, I think that one place where

you might see a significant change is in the documents that will be associated with the next party congress in 2012 because there will be a sort of intense process of formulation for what is said about China's foreign policy going forward. And so, you know, will they stick with peaceful development, which is the current formula? Will they modify it in some way? If there is going to be a debate about which course China should take it could be played out there.

MR. INDYK: Interesting. Let's take a question out of the back, please.

SPEAKER: Thank you. My name is (inaudible) Company, Washington, D.C. office.

I have a question to Mr. Lieberthal. You mentioned to the recommendation to Japan, the third recommendation, don't stick to the position attaching to U.S. when U.S. and China are in trouble; it's going to be counterproductive. So Japan should play a balanced role. What kind of role could you elaborate? Like a arbitrator or interpreter or just step sideline? And what would be the U.S. reaction if Japan doesn't follow strictly to the U.S. position when the U.S. is against China? Thank you.

MR. INDYK: Thank you.

MR. LIEBERTHAL: Thank you. I mean, I hope it's clear this was very much of a hypothetical. And the -- I've seen some in Japan advocate that they ought to basically stand tall with the U.S. That's where our future lies. You know, and allow the relationship with China, if necessary, to deteriorate quite a bit, you know, if the U.S. relationship with China becomes more antagonistic. I just don't see how Japan can do well if that's the policy that they follow. And so I think it's just -- you can see the temptation but it does not take a sufficiently, I think, a wide range and a nuanced approach to how Japan itself can thrive. So to my mind Japan should avoid that temptation.

Then you raise a very good question. Therefore, what should it do? How much can it, in fact, ameliorate U.S.-China problems? And there, you know, I'm not sure because I'm not, you know, for Japan to be a kind of interpreter of each to the other presumes that Japan understands each of the others very well. And I'm not sure that that is likely to be the case.

MR. INDYK: And has a relationship of trust with both sides.

MR. LIEBERTHAL: Yeah. Yeah. And so I think Japan in that case should simply seek not to -- not to contribute to the tensions in the other relationship and follows its own course. And to my mind that course would have to include a substantial security relationship with the U.S. But never forget that Japan's economy and also its security depend in no small part on its capacity to deal in a reasonably constructive fashion with China.

MR. BUSH: I would only note that Japan has done this before during the Cold War when U.S. relations with China were quite hostile. Japan in various ways tried to distance itself a little bit from the U.S. containment policy and promote its economic interests vis-à-vis China. And in the end, Japan established diplomatic relations with China seven years -- six years before the United States did.

MR. INDYK: Let's take a question up here.

SPEAKER: (Inaudible), National Security Archive. I have a question and it's related somewhat to what the high Chinese official told you. You make a very strong case for the building of a security community in North Asia. You didn't mention, and no one else mentioned here ASEAN.

MR. LIEBERTHAL: I'm sorry?

SPEAKER: ASEAN.

SPEAKER: ASEAN, with which the U.S. has been increasingly

engaged. So has Japan. For very much the same reasons that you enumerated here as important in building the Northeast community. Farther afield, next year we'll have the 60th year anniversary of ANZUS, the alliance with Australia and Japan. It goes back to the Korean War, to the Peace Treaty with Japan. What do you see as the significance of building up these relationships within the context of Japan's adaptation to the rise of China as you call it?

MR. LIEBERTHAL: Well, you know, if you take, for example, ASEAN Plus One and an ASEAN Plus Three that's existed for -- in other words, this is the ten ASEAN countries. The plus one is the plus China and the plus three is plus China, South Korea, and Japan. They have regular meetings. This is a fairly institutionalized process. I think that Japan should do what it has begun to do, which is to be deeply engaged with ASEAN as a whole. Also, to build ties to India. It is now rapidly increasing its economic ties in India and improving diplomatic relations with India. And cultivate good relations with Australia. I frankly don't know what Japan is doing with New Zealand if anything. I just have a problem with it. I think they should avoid though casting this as some sort of, you know, alliance of democracies or something like that because that then makes it explicitly anti-China. Right? And the object here isn't to be anti-China; it's to be well integrated with and have strong relations with all the key players in Asia. Throughout Asia, that encourages the best behavior on the part of everyone.

So I think this is -- I think they're already beginning to do -- they've done for some years but they recently -- there's been an uptick, especially with regard to India. They're doing what they should be doing; they just have to be careful about the narrative that explains why they're doing it.

MR. INDYK: Richard, do you want to jump in?

MR. BUSH: No, it's open. That's fine. Take another question.

MR. INDYK: I have a question about Taiwan.

MR. BUSH: Okay.

MR. INDYK: Because you said in your presentation that it was kind of lurking there. The issue was lurking. But tell us a little more about how does Taiwan play in the relationship between Japan and China?

MR. BUSH: The lurking comes from the period from 1995 to 2008 when China feared that Taiwan's leaders were going to take steps to permanently separate Taiwan from China and that was a big driver for the military build-up. Taiwan had its own fears about Chinese intentions. The United States and Japan became concerned that the two sides of the strait would somehow miscalculate and sort of slip into some kind of accidental conflict. Ken and I were involved in one of those episodes. And so U.S. policy and Japanese policy was to try to tamp down this possibility and Japan, of course, was concerned that it might get drawn into a war in which the United States was fighting China.

That situation doesn't exist now because leaders in China and Taiwan are taking a very different approach to their relationship. It's reduced tensions, reduced the possibility of conflict to low levels. It's not out of the question that we could return to the past. I don't think it's terribly likely but it could happen. Japan is starting to have another worry and that is that this process of reconciliation between China and Taiwan will go too quickly. And that it will result in some sort of political union between the two. And then you add to that the fear on the Japanese part that somehow the People's Liberation Army will be operating out of Taiwan, particularly in the naval area and that then threatens sea lanes of communication. I think that all of this is what lawyers call an imaginary horrible, and that there are a lot of obstacles to sort of a quick rush to unification.

But it's sort of a dual fear and, you know, I think it's -- there's an opportunity for -- this is one area where the United States and Japan need to sort of talk more seriously together about what the threat is and what it's not.

MR. INDYK: Okay. Ladies and gentlemen, I think we'll close it there. Thank you again for coming. And please join me in congratulating Richard on the publication of his latest book, The Perils of Proximity, and Ken for participating in this."

(Applause.)

MR. BUSH: Thank you very much.

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