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East Asia is a major centre of economic and technological development. While on the one hand the region is gradually becoming integrated through regional institutions such as APEC, ASEAN, ARF and EAS,¹ with numerous free trade agreements and economic partnership agreements buttressing the process, trends running counter to integration are also visible. Several territorial disputes exist, and the burden of history still divides nations. The security and strategic implications are critical.

*The following talk was given by Professor **Hitoshi Tanaka** on 18 October 2014 at ORF, New Delhi, on the subject of a transforming East Asia and Japan's foreign policy. This talk was a prelude to an international conference on Regional Integration in the Indo-Pacific: Prospects and Challenges held in New Delhi on 24-25 November 2014. Prof. Tanaka, currently Chairman of Institute for International Strategy at the Japan Research Institute, is a former diplomat who retired as Japan's Deputy Minister for Foreign Affairs. As one of the main intellectual architects of Japan's foreign policy over the past several years, he has been a key actor in shaping Japan's approach to East Asia, particularly policy toward North Korea and Japan's participation in the regional community building process.*

I must confess, at the very outset, that I do not represent the Japanese government. My views may therefore be somewhat different from those of the government. I have held the positions of Director General in charge of Asia and Deputy Foreign Minister. One of the most successful diplomatic policies I formulated was to invite Australia and India to the East Asia Summit. East Asia Summit today is composed of 18 nations, including India, Australia, New Zealand, the US and Russia. You may call the region 'Indo-Pacific' but I insist that we call it East Asia.

This is the situation in East Asia at present, in five points: First, there has been significant change in terms of power balance in the region; two, there has been a change in the external attitude of major powers in the region; three, there is an increased interdependency in the region; four, we face an uncertain future in the region; and five, a lack of vision in relation to East Asia persists. Let me explain these points one by one.

The changing power balance in the region is very much evident and requires little explanation. Looking forward to 2020, six years from now, if things continue going well for China, we may see ratios of 1:3:4—that is, the US would be maintaining a scale of economy four times as big as Japan, and China

1. APEC: Asia-Pacific Economic Cooperation; ASEAN: Association of Southeast Asian Nations; ARF: ASEAN Regional Forum; EAS: East Asia Summit

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probably three times as big as Japan. Japan will continue to be the third largest economy of the world but it is likely that the difference between Japan, China and the US would be 1:3:4. The whole question is how to cope with this situation. When I was Director General of Asian Affairs Bureau from 2001 to 2002, China was only one-fourth of Japan in terms of GDP. Since then, China has come a long way. It surpassed Japan in terms of GDP in 2010.

As a result of the changing balance of power in the region, the external attitudes on the part of major powers have changed as well, mostly defined by domestic evolution and a consequent surge of nationalism. First let us look at China. We know that Chinese external policy depends very much upon domestic demands. The Chinese Communist Party wants to attain and sustain economic growth so as to be able to govern the nation. This is because China has several domestic governance problems, including income disparity, worsening environment, food safety, social concerns and corruption. Whenever economic growth slows or declines, I am sure China will face huge social problems, particularly given the fact that China is now an internet community with over 600 million internet users and over 500 million mobile internet users, which means it is getting much easier for Chinese citizens to organise demonstrations and to create momentum for mass movements.

For instance, we are witnessing this in Hong Kong, we have seen it in Taiwan, and there have been many mass demonstrations even in mainland China. As long as economic growth is on the right direction, China's Communist Party is more likely to contain its citizens' frustrations. China talks about 7.5% as their target for economic growth, through what they call a "new model." Xi Jinping knows clearly that traditional methods of attaining growth may not work in the future—it cannot continue to rely on the manufacturing sector and exports. If these are to no longer be the major force for Chinese economic growth, the next step is economic reform. China is now talking about reducing the role of its state industries and making the market a central force by 2020. So, China's Xi Jinping talks about doubling the country's GDP as well as the per capita by 2020. We don't know if Chinese efforts will be successful or not, but we are quite sure that China's priority no.1 is domestic policies, in particular economic growth. If they fail, we may be seeing a much more aggressive China externally. Deng Xiaoping talked about maintaining a low-key attitude up until the time China acquires strength. China now has acquired strength and is much more aggressive. Beijing talks about the Chinese dream playing out in two ways: While they pursue a policy of becoming stronger and richer, they also talk about a new sort of model of big-power relationship with the United States. So, that is where China is. Their external attitude has been defined by domestic evolution, and this continues to be the case.

Let us now take Japan. Japan is seen to be moving toward a conservative and more nationalistic mindset. This is probably a result of the frustration Japanese people have suffered for two decades, which we call the two 'lost' decades. The Japanese economic growth stagnated, and the political situation was unstable. Up until Prime Minister Abe after Prime Minister Koizumi, we had one prime minister each year. Apart from the frustration Japanese people felt in relation to the volatile domestic political situation and the economic stagnation, we also began to see the big giant at our doorstep: China surpassing Japan in terms of economic strength, etc. This added to the frustration. It explains the current Japanese anti-Chinese sentiment and to some extent the anti-Korean sentiment. Clearly the public atmosphere has changed in Japan. So, a more conservative nationalistic policy is a result of the domestic evolution.

Look at the United States. The US today is known for being very divisive, with two polar extremes: The poor and rich, the conservative versus rebels—in particular the fundamentalist concepts such as the Tea Party. I think one of the very crucial reasons why the US has become so divisive and so concentrated on its domestic affairs is because of the two wars it has had to fight. It took seven to eight years for the US to withdraw troops from Iraq. It was not a successful war, that is obvious. Quite strong anti-war sentiments have developed in the US. All those fundamental conservatives like the Tea Party talk about reducing the military budget as well, previously a taboo in the case of the conservative party in the United States. So, the social chemistry has changed. President Obama declared he would withdraw troops from Iraq and Afghanistan, which he is doing. Moreover, we notice that the US threshold to use military power has gone up—it hesitated very much to commit its military capability in the Middle East, in particular regarding Syria.

I don't think the country's absolute power has declined. The US continues to be the largest superpower and probably the only superpower. We had a considerable discussion in New York about a month ago, about 40 public intellectuals gathered in Long Island, and we talked about the future of the United States and its leadership in the future. We concluded that the US cannot be replaced by China—possibly in terms of GDP, but not in terms of total power, military power, technological power, soft power, etc. The question then is how to create a structure in which the leadership of the United States is supported by the rest of the world. It may not be an easy task.

In any case, even US policy continues to be defined by domestic trends, something which is likely to be truer in the coming two years.

Indeed, I am here to learn what is occurring in Indian domestic policies and what shape they will take; we are looking at India very, very attentively because there is all of a sudden a very strong opportunity for Japan to engage with India. Prime Minister Modi has been doing very well so far, and we have seen a strengthening of relationship between Japan and India. The same is true for Japan and Australia and Japan and ASEAN in general. It is quite unfortunate that we have a very difficult relationship with Korea. We very much hope to fix ties with Korea. I wrote an article just yesterday, explaining that there is a very strong need for us to first mend our relationship with Korea before we do so with China. I am not entirely sure how things will evolve, of course. In any case, the second important issue is the changing external attitude on the part of major powers defined by domestic change and transformation.

The third point—interdependency. The increasing number of free trade agreements in the region are proof of this reality. It was I who initiated the Japan-Singapore free trade agreement, the first free trade agreement Japan signed, when I was Director General for Economic Affairs in the Japanese foreign ministry. Yes, there has indeed been a very significant increase of interdependent relationships in the region. In fact, you cannot deny the fact that at the bottom of it all, there is a strong current of interdependent relationships among the nations in the region. Therefore, nobody wishes to destroy everything, nobody wishes to spoil interdependent relationships because ties have to do with domestic economies, external attitudes are being determined by domestic changes, and the key domestic factor is economy. Therefore, nobody wishes to annoy this interdependent nature of relations. There may be an

opportunity for Japan to talk about the improvement of relations with China; the basic reason for this, I assume, is likely the importance of the interdependent relationship between Japan and China.

Fourth is the considerable uncertainty going forward into the future. I am a bit worried because the question of East Asia may not be discussed separately from global issues. For instance, there has been the issue of Ukraine. Russia may be trying to regain strength, and it may consider Ukraine as the last resort, given the many things it has lost since the end of the Cold War: East Europe has gone to West and even Baltic states have joined NATO or become a part of the European Union. So, with a strong nationalistic sentiment in Russia, Putin wanted to say very clearly that Russia will not give up Ukraine. Therefore, unless the West decides to make Ukraine somewhat neutral and not a satellite under too much Western influence, Russia will continue to make things difficult.

Now Russia is moving towards East Asia, and is developing a closer relationship with China. I am not entirely sure if China wholeheartedly welcomes this or not, but what is taking place in the region is closer ties between China and Russia. Now, China talks about various institutions such as the AIIB [Asian Infrastructure Investment Bank]. In the past, China talked about the Chinese dream. As I said earlier, it consisted of two things: One, China becoming richer, and two, China constructing a new model of big power relationship with the United States. China now talks about establishment of the AIIB, the concept of which is very different from what we call the 'Washington Consensus,' manifested in institutions like the World Bank, IMF and ADB. If you look at the very basis of those banks, they talk about conditionality, about contribution to better governance, about environment standards and labour standards. Therefore, clearly by lending money, by supporting public infrastructures, they would like to see better governance. I don't think China has interest in this. The AIIB is to do with lending money to expand public infrastructure—clearly, there is a basic difference in terms of concept here. This is only one example. The interesting question is where India is situated in relation to this. Theoretically speaking, this is a question of ideology, of whether democracy is at the bottom of these institutions. India wishes to support evolutions towards democracy, therefore the new bank should fulfil, in some capacity, the mission for better governance.

A very interesting question here, which does not only have to do with AIIB, is a question of India in the context of the making of an East Asian order in the future. This is a question of uncertainty. All nations wish to become advanced, but at the same time the United States, Japan and Australia would wish to have democratic governance in the region as well as development. It is not something that we would impose on those nations, but it should be the long-term objective. So, all these strategic issues combined with some element of ideology may translate into an East Asia that is quite divisive in the future—and therefore, there is considerable uncertainty regarding the future of East Asia.

That leads to my fifth keyword, lack of vision. We used to talk about East Asia Community. I wrote a big essay calling for East Asia Community to be joined by ASEAN+3—Japan, China, Korea, Australia, New Zealand, India. It turned out to be just impossible because China has become too big, and when you talk about East Asia community you imagine something like the European Union. The European Union is based on the basic concept that sovereignty can be pooled at the centre. I can't think of a situation where

our sovereignty will be shared/pooled in one place in East Asia, because each country has got different governance systems, each country has got different values, each country is in a different development stage—in short, there are significant diversities in East Asia. So, unfortunately at this juncture nobody talks about a common regional vision for the future. Rather, as I discussed today, external policy is guided by domestic evolution, so there are no objectives in the region for the future. I believe something like multilayered functionalism could be a guide to developing a future vision. By multilayered functionalism, I mean that let us promote many functions in the region, let us make sure—again as I have already said, interdependent relationships are indeed one of the very important factors in the region, which nobody wishes to destroy—to basically promote interdependent relationships that would be a very strong element for maintaining peace and stability in the region. The whole question is which functions of interdependent relations in the region we should promote.

I talk about security, national security, and I do not see any possibility of regional hard security architecture in the region because there are different threat perceptions. India may have a different threat perception than Japan, China has different threat perceptions, Korea has different threat perceptions. When there is no single common threat perception, there is no such thing like hard security architecture like NATO, so let us forget about it. It will continue to be bilateral, trilateral type of security networks: For example, we are going to enhance US-Japan-India, US-Japan-Australia and hopefully US-Japan-Korea. It is not a matter of containing China, but it is a very legitimate concept of strengthening our national security by forming bilateral and trilateral security cooperation—this is one function of interdependent relations that we should promote. But at the same time, this function must be matched by confidence-building measures, in particular with China. Otherwise, you will continue to have very sharp tensions with China. You don't know what accidents may happen—for example, there are talks going on, Xi Jinping has come to India, but a few days before or after there has been an exchange of fire and the Chinese military enters the picture. Why are they doing this? Some say that Xi Jinping is targeting the military for their anti-bribe campaign and the military is trying to make sure that they have power, and so they are demonstrating this power. I don't know. But the fact remains that these type of things happen often. But isn't it very dangerous if it does happen over Senkaku? I am sure Japan will reply appropriately. You cannot deny the fact that this sort of actions on the ground may trigger a limited confrontation. So, I think it is desirable and advisable for us to avoid this vulnerable situation. There is a very strong need for confidence-building mechanisms. I would hope to have it between Japan, the United States and China. There may be a logic for including Korea as well because this is indeed militarily significant in Northeast Asia. Confidence-building mechanisms is the second function we need to enhance.

The third function we need to enhance is rule making. We talk about interdependent relationships, we talk about navigation in the high seas, we talk about various issues which directly relate to interdependent ties in the region. Why don't we create rules one by one—economic investment rules, intellectual community rules—and also talk about TPP [Trans-Pacific Partnership]. TPP will turn out to be, I hope, very, very significant. It not only talks about tariffs, it talks about rules, it talks about rules of the open advanced market. I am sure in 10 years or even by 2020, China will join the agreement because Chinese dislike being excluded from various schemes. It also happens to coincide with Xi Jinping's reform plan to get rid of vested interests of state industries: The TPP talks about the definition of state industries, subsidies and all

sorts of things. So, the TPP may be one of the core means for setting up economic trade rules and investments in the region. But at the same time, there is a strong hope on my part that we can conclude RCEP [Regional Comprehensive Economic Partnership] as soon as possible. A press report I saw the other day said that India is a problem in relation to RCEP; I don't know, but again, economy is important, no question, but at the same time strategic importance of economic gathering, economic groupings, economic rules would be equally important. So, I would hope that TPP-RCEP would become two core vehicles for rule-making efforts in the region.

Fourth, there is a vital need for us to cooperate on energy. Think about this: Energy is the key for international stability. We are witnessing very many changes in relation to energy supply, energy demand, the method for creating energy and all sorts of things. The shale gas revolution in the United States will have very strong geopolitical impacts. No question, China has got the largest reserve, but at this juncture there is no technology to make it possible for China to get shale gas and oil. There is the question of safety of atomic energy, given the Fukushima incident. I was amazed to see the evolution that is taking place on the ground for the safety of nuclear power plants. Japan is quickly acquiring nuclear safety technology. There is no reason why that type of nuclear technology will not be shared by the region because there are many plans to create nuclear facilities in China and in several parts of this East Asian region. So, I think there is a need for very precise energy cooperation in the region. I would hope that this is to be commissioned to East Asia Summit because East Asia Summit has got the right membership. We can talk about energy development in Siberia, in Russia, and about shale gas as well. So, East Asia Summit is being discussed as the primary forum for strategic issues—but again, there is no point of making an abstract argument in relation to strategic issues. The concept of 'strategy' is being defined by such issues like energy, and I do think that the East Asia Summit will focus on energy cooperation in the region.

I would very much like to see the Japanese Prime Minister Abe talk about a future vision of East Asia. As I said, his viewpoint may be a little bit different. He is a politician, I am an ex-bureaucrat. So, there is no point of comparing the policies of perception. But what is important is that he has done a remarkable job in terms of some of the functions I have talked about, regarding national security, stronger cooperation with India in terms of security, with Australia as well, and also in terms of the budget. But there is a missing element, which is the relationship with neighbouring nations, in particular China and South Korea, and the future vision of East Asia as a region. Unless China and Japan come to an agreement for our common stakes, we cannot shape the desired East Asia. So, that is going to be one thing which I would very much like to see Prime Minister Abe develop.



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