



## **ASIA AND THE PACIFIC: RISING POWERS AND STAYING POWER**

### **NATIONAL COMMITTEE ON AMERICAN FOREIGN POLICY TRIP TO SEOUL, TAIPEI, SHANGHAI, AND BEIJING**

**OCTOBER 15 -29, 2011**

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#### **INTRODUCTION**

The report that follows is based on an NCAFP study group tour to Seoul, Taipei, Shanghai and Beijing from October 15-29, 2011. In the four cities, we met with high-ranking officials, think tank experts and business people, and were briefed by American officials. In Seoul, we co-hosted with the ASAN Institute a quadrilateral meeting (U.S., China, Japan, ROK) and a trilateral meeting (U.S., Japan, ROK). The complete itinerary can be found in the appendix. For the first time, the NCAFP included regional young leaders in the quadrilateral meeting.

The study group included: NCAFP President George Schwab, Ambassador Winston Lord, Evans Revere, former Principal Deputy Assistant Secretary of State, Ralph Cossa, President of the Pacific Forum, Donald Zagoria, Senior Vice President of the NCAFP, and Petra Dunne, NCAFP. In Shanghai and Beijing, we were joined by Ambassador Nicholas Platt.

The report that follows represents a truly collaborative product. I am indebted to all of my colleagues for their contributions to this effort.

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\*Winston Lord and Evans Revere made important contributions to this report. The report also benefits from the insights of all members of our group.

## SUMMARY

There were some central themes that emerged or were reaffirmed during our trip.

The United States continues to be welcomed in the region as a disinterested balancer among historic rivals, an attitude strengthened by the rise of China and the threat of North Korea. Countries applaud the Obama Administration's priority attention to Asia but are concerned that American political paralysis, pressure on budgets due to the deficit crisis and strands of protectionism and even isolationism could undermine our staying power.

Our alliances with Japan and South Korea are solid, and China's recent assertiveness has prompted increased security collaboration throughout the region. But nations want positive relations with the PRC because of their huge economic interests; they don't wish to choose between Washington and Beijing.

Cross-Strait relations between Taiwan and the Mainland are the most stable in sixty years. President Ma's reelection looks likely, but by no means assured, and would probably lead to continued incremental progress. A victory by the opposition, led by Tsai Ing-wen, may lead to tension and possible retrogression. On the other hand, the DPP under Tsai is increasingly realistic and the PRC has demonstrated strategic patience.

On the North Korean nuclear issue, there is a clear sense among the three allies that North Korea is determined to retain its core nuclear weapons capability but that it is important not to accept or recognize the DPRK as a nuclear weapons state and to retain the goal of complete denuclearization of the North. But while denuclearization may be a distant and elusive goal, there are steps that can be taken through the negotiating process to reduce the threat posed by the North's nuclear and missile programs. Talks can also be used to create incentives for the North to negotiate seriously.

The US-China relationship, after a rough period, has stabilized since President Hu's January 2011 trip to Washington and the Vice President's summer trip to the PRC, as well as continued efforts through the strategic dialogues. China's increasing swagger on the world stage contrasts sharply with its insecurity in confronting social and economic problems at home, reinforced by the Arab Spring and social media. This has produced increasing crackdowns and censorship.

The rising role of economic power in the world is everywhere evident, most clearly in China's growing influence. Major players, like the U.S., China and Japan, are preoccupied with domestic challenges. Hovering over the entire region is the year 2012 which will see elections or succession in almost every country. These prospects introduce caution in the near term and uncertainty in the long run.

## SEOUL

1. The U.S.-ROK alliance is in the best shape ever. This is the result of geopolitical realities, China's recent one-sided support of North Korea, North Korean provocations, solid U.S. backing of the ROK in the face of those provocations, and the excellent personal chemistry between presidents Obama and Lee. The alliance has been further solidified by the recent highly successful State visit to Washington by ROK President Lee Myung-bak and the U.S. Congress's ratification of the KORUS Free Trade Agreement (FTA). Moreover, there is strong public support for the alliance in both countries and Washington and Seoul are largely on the same page in dealing with North Korea. In the coming months, the main focus of the alliance partners will be to maintain relations at this high level as both countries face presidential elections in 2012. South Korea's center-left opposition, the Democratic Party (DP), recently won the Seoul mayoralty and hopes to turn that victory into a win in next year's National Assembly and presidential elections. Meanwhile, the DP is flexing its political muscle by trying to block ratification of the KORUS FTA in the ROK National Assembly. If the DP succeeds in this effort, it would cast a pall of uncertainty over an otherwise bright picture of bilateral ties.
2. Our discussions confirmed that there is growing potential for trilateral cooperation between the United States, the ROK and Japan. Japanese Prime Minister Noda visited Seoul at the time of our trip and a senior Japanese official participating in our conference told us that Noda represents a younger generation of leaders in Tokyo who has a strategic view of the Korean peninsula and its importance to Japan. Still, ROK-Japan relations, although improving, remain the weakest link of the trilateral relationship because of history, textbook, and territorial disputes between the two, and it is still unclear whether the two sides will be able to move beyond these issues and forge the strong, strategic partnership that both parties seem to agree they need.

The atmospherics surrounding the U.S.-Japan alliance have improved, thanks to the significant aid provided by the United States after the March 11 earthquake and tsunami and also due to the efforts of a new Japanese Prime Minister, who is managing bilateral ties and thorny base-related issues more effectively than his predecessor. However, those issues remain unresolved and there is still a perception that weak leadership and divided politics are detracting from Japan's ability to play the role of a strong and reliable U.S. ally in the region.

3. The rise of the ROK is one of the most important and most under-recognized issues in the region. The ROK is now the 12<sup>th</sup> largest economy in the world, an important trading partner of China, Japan and the United States, a key actor in the

G-20, which it recently hosted, and the host of an important nuclear summit next year. The ROK is also increasingly self-confident and eager to play a broader regional and global role. The U.S.-ROK alliance is changing to accommodate this transformation, and the U.S.-ROK partnership is becoming more balanced and more global in nature.

4. ROK policy towards North Korea is changing. The ROK has separated its approach towards the North into three parts: denuclearization talks, North-South relations, and humanitarian concerns. The absence of a North Korean apology for last year's two attacks has not deterred Seoul from supporting current efforts to explore the possible resumption of Six-Party denuclearization talks, and the ROK government has made clear that the North's failure to convey an apology would not, in itself, prevent the resumption of those talks. The ROK has been eager to play a direct role in denuclearization talks with the North, and the DPRK appears to have accepted this principle by meeting twice with the ROK's Six-Party negotiator.

On the other hand, any significant improvement in North-South relations, or even serious bilateral dialogue, seems to be conditioned on the North's making some act of contrition for the two attacks last year, although Seoul has allowed continued cooperation at the Kaesong Industrial Complex and even a visit by the leader of the ROK's Grand National Party to Kaesong to occur even though there has been no apology. Meanwhile, new humanitarian aid to the North has also been de-linked from the apology issue –further evidence of a South Korean policy shift. However, in Seoul we heard deep skepticism about whether the North really needs substantial food aid, and there are some in Seoul who regard food aid as a political, not a humanitarian, issue.

Meanwhile, Seoul has not ruled out a possible summit with the North Korean leader (President Lee himself has said he is open to such a meeting, under the right conditions), although the ROK government does not appear to be pursuing a summit at this time. Organizing a North-South summit would be a major challenge since ROK President Lee is entering his last year in office and because the memories of last year's sinking of a ROK warship and the shelling of a ROK island are still strong in the South.

The ROK deeply appreciates that the U.S. stood by it during last year's attacks and the U.S. supported the ROK government's strong message to the North that further provocations would be met with force. This may have given the ROK government the confidence to adopt a more flexible approach to the North. Also affecting the ROK government's approach is the South's election schedule. The ROK government may believe it is important to demonstrate a more moderate posture towards the North as a way of appealing to the significant number of

South Korean voters who see the ROK government's policy as having been too "hard line."

Also affecting the ROK's approach is the fact that key ROK officials see the North needing a period of stability to allow its succession process to move forward. We heard the view that sanctions are having an effect on the North, that the North realizes it has paid a steep price for last year's military provocations, and that the major anniversary year of 2012 (the 100<sup>th</sup> anniversary of the late Kim Il Sung's birth) means that Pyongyang must focus on delivering the better life it has promised its people. All of this may compel the North to moderate its behavior, although there are divergent views in Seoul as to whether it will make any difference in the North's unwillingness to denuclearize.

ROK interlocutors seemed to agree that the uranium enrichment (UE) program has created a problem that will be difficult, even impossible, to solve, since eliminating all of the North's UE capabilities would require a highly-intrusive verification mechanism that would never be accepted by the North. Many also agreed that key elements of the plutonium-based nuclear program (the 5-megawatt reactor, fuel fabrication facility, reprocessing facility, fresh fuel rods, some fissile material) as well as elements of the North's medium-and long-range missile program, might be discussed in a new round of Six-Party Talks and that a deal to freeze and/or eliminate some of these might be achievable.

5. In Seoul, there was a clear sense among the three allies that North Korea was determined to retain its core nuclear weapons capability, permanently if at all possible, but that it is important for the United States, the ROK, and other participants in the Six-Party process not to accept or recognize the DPRK as a nuclear weapons state and to retain the goal of complete denuclearization of the North. We all recognized that while denuclearization may be a distant and elusive goal, there were steps that might be taken through the negotiating process to reduce the threat posed by the North's nuclear and missile programs. Talks can also be used to create incentives for the North to negotiate seriously, and to create disincentives for the North to engage in future military provocations. The three allies agreed that the "pre-steps" being demanded by the United States of North Korea (including freezing its nuclear and missile programs, stopping its uranium enrichment operation at Yongbyon, reaffirming its commitment to the September 19, 2005 denuclearization accord, and allowing IAEA inspectors to return to Yongbyon to monitor the freeze) are an appropriate and necessary way to test Pyongyang's seriousness about denuclearization and to allow the denuclearization process spelled out in the September 19<sup>th</sup> agreement to resume quickly.

In a quadrilateral meeting (United States, China, Japan, ROK), the allies were united in criticizing Beijing for shielding Pyongyang in the wake of its

provocations and generally siding with North Korea rather than being an honest broker. Chinese participants cited the need for stability on the peninsula, and said that the North was becoming more open to reform and flexible on negotiations. The Chinese believe that there should not be unrealistic preconditions for resuming Six Party talks and that the way forward was “action for action.”

During the trip the second round of US-DPRK talks took place in Geneva with seemingly little real progress, and Chinese leaders visited the North. The parties seemed to be inching forward towards a possible resumption of multilateral denuclearization dialogue, but it remains uncertain when this might occur.

6. There was keen interest but realism among all parties participating in the quadrilateral meeting in exploring the potential for multilateral cooperation in Northeast Asia on both traditional and non-traditional security issues. Several participants in our quadrilateral conference expressed the view that at a time of a global economic slowdown and a crisis of governance in many countries, there is a need for concrete cooperation. China, Japan and South Korea have just established a Secretariat in Seoul to explore the potential for trilateral cooperation. One participant divided the potential for quadrilateral cooperation, including China, into three categories – areas in which the three allies and China had common interests, e.g. terrorism, environment, piracy; areas in which the three allies and China had mixed interests, e.g. North Korea, Iran, Pakistan; and areas in which the three allies and China had conflicting interests, e.g. promoting human rights and pressuring rogue regimes. Obviously the potential for cooperation is highest in the first two categories.
7. The United States remains the honest broker in the region. Put another way, the United States is the least mistrusted party in a region where traditional rivalries, conflicting interpretations of history, and territorial disputes remain the order of the day. Territorial and historical issues continue to impair relations between China and Japan, China and Korea, and Japan and Korea, while the United States is widely seen as an actor without territorial ambitions and one that maintains good relations with all the parties. There is general agreement, or at least a grudging acknowledgement in the case of China, that the United States is well placed to help guarantee the security of the region.

The Obama Administration deserves much credit for its three-year emphasis on ties with the region. The administration’s rhetoric, senior-level visits to the region, high-profile participation in regional dialogues (including the East Asia Summit this year), and increased military deployments in the region have underscored the fact that the U.S. is and will remain a regional power. This enhanced U.S. profile has been generally welcomed in the region, especially by U.S. treaty allies, but also by other regional actors who see the United States as a

balancer to a rising China. While those actors certainly welcome a strong U.S. presence, they are also mindful of the need to avoid being put in a position to have to choose between the United States and China because of economic interests. Nevertheless, they welcome a strong and engaged United States. Chinese assertiveness in 2010 has driven many countries in the region closer to the United States and has left lingering apprehension about China's posture as it continues to become stronger.

The bad news is that although there is a strong demand for a continuing U.S. presence in the region, the political paralysis in Washington and America's fiscal challenges are fueling regional talk about U.S. decline and concern about U.S. staying power.

## TAIPEI

1. President Ma Ying-jeou proposed a "peace accord" with China as our delegation arrived in Taiwan, and we were the first foreign delegation to meet with him after his announcement. The peace accord proposal took many in Taiwan by surprise and seems to have been driven largely by domestic political requirements, although there was also a clear understanding that the announcement would have important implications for cross-Strait ties. In the first public opinion poll after Ma's proposal, some sixty percent of the Taiwanese people favored the concept of a peace accord with the Mainland. By proposing it during the ongoing presidential election campaign, Ma may have sought to remind the Taiwanese people of the cross-strait instability experienced during the DPP presidency of Chen Shui-bian from 2000 to 2008, and of the fact that he has brought stability and predictability to cross-Strait ties during his presidency. The peace accord proposal was accompanied by careful caveats indicating that any such proposal would have to be supported by the Taiwanese public and by the legislature and that it would not necessarily be concluded or even negotiated during a second presidential term by Ma.

When Ma announced the peace accord concept, he was immediately attacked by his main political opponent, Democratic Progressive Party leader Ms. Tsai Ing-wen, who accused Ma of selling out Taiwan's sovereignty and putting Taiwan on a slippery slope to reunification. The strength of Tsai's attack appeared to put Ma on the defensive, and the President reacted by suggesting he might be willing to put the accord before the people via a referendum as one of several ways to secure popular approval. This move changed the debate from the virtues of a peace accord to the topic of a referendum, and it appeared to do some damage to Ma.

2. The substantial reduction in cross-strait tension during the past three years since Ma was elected clearly works in his favor. Cross-strait relations are now the best in 60 years. In this period, Taiwan and the Mainland have reached an agreement on restoring the “three links” (direct trade, post and telecommunications), signed 16 bilateral agreements, agreed on an Economic Cooperation Framework Agreement (ECFA), increased tourism, carried out educational and cultural exchanges, and resumed government-to-government dealings via quasi-official bodies such as the Straits Exchange Foundation (SEF) and the Association for Relations Across the Taiwan Strait (ARATS). All of this was made possible by agreement on a key but ambiguous formula, the so-called “1992 Consensus,” which both the KMT and the PRC say means that there is “One China.” An important difference, however, is that the two sides do not agree on what “One China” means. The bottom line is that the ambiguous “One China” formula rules out Taiwan independence and this is sufficient for Beijing, at least for the foreseeable future, and allows the cross-Strait status quo to continue.

For Ma, the KMT, and (according to longstanding, consistent polls) the vast majority of people in Taiwan, the status quo remains the preferred option, since the pursuit of de jure independence would incur the wrath of the Mainland, and there is little appetite for reunification. The status quo also allows Taiwan to exist as a de facto independent entity, albeit one whose international scope of action is limited. For many in Taiwan, the status quo buys valuable time for stability, during which Taiwan’s “soft power” might help to encourage social and political change in the Mainland and move the PRC away from its authoritarian political model.

3. In the upcoming Presidential election in January 2012, Ma is likely (but by no means certain) to win a second term and, if he wins, cross-Strait relations will likely continue to improve, albeit at a slower pace. Ma has noted that there is much work to be done, including consolidating the agreements achieved in ECFA and he pointed to the just concluded nuclear safety agreement and ongoing negotiations on an investment treaty. There is still little support in Taiwan for cross-Strait political dialogue at this point, and Ma will likely want to be cautious on both political and security issues if the election results do not give him a strong mandate. Ma is ahead of his DPP rival Tsai Ing-wen by about 4-5 points in recent polls. The Taiwan economy is in relatively good shape, people like cross-Strait peace and stability, and Ma is regarded as a clean politician. Still, the election is too close to call as of this writing.

A victory in the Presidential election by the opposition Democratic Progressive Party led by Tsai Ing-wen cannot be ruled out. While Ma’s election campaign focuses on peace and prosperity, Tsai highlights socio-economic issues and inequality. The DPP has not focused on cross-Strait issues in the current electoral

campaign except to say that it desires stability and would not abrogate ECFA or any of the agreements already signed with the Mainland. The DPP also shows awareness of the risks of alienating both the Mainland and the United States, as former President Chen Shui-bian did in the period 2000-08. And Tsai herself is a moderate by DPP standards (even though she is not so regarded by the Mainland).

To date James Soong's candidacy seems to be drawing votes equally from the KMT and DPP. Most observers agree, however, that if Soong stays in the race, he will hurt Ma more.

4. All three sides of the cross-strait triangle, the United States, the PRC and Taiwan, now maintain good relations and are developing a "triple-win" situation. With cross-strait relations at a historic highpoint, U.S.-PRC relations (to be considered more fully in the next section) are improving since the Hu Jintao-Obama summit of 2011, and U.S.-Taiwan relations are also improving. In the near future, Taiwan seems likely to obtain visa-free travel for its citizens going to the United States. Higher level visits by U.S. officials to Taiwan may also be in the offing. And it may be possible in the near future to make trade progress on concluding a bilateral Trade and Investment Framework Agreement (TIFA) once an ongoing dispute over imports of U.S. beef is resolved. Also, during our visit, Taiwan officials seemed quite pleased with the recent USG decision to upgrade Taiwan's aging fleet of F-16 A-B aircraft. The upgrades are part of \$18 billion worth of arms sold by the Obama Administration to Taiwan in the past three years, which Taiwan officials pointed out was larger than during the eight years of the Bush Administration.
5. Taiwan is gradually increasing its international space. It continues as an observer in the World Health Assembly and has obtained visa waiver treatment from more than 124 countries for its citizens (3-4 times the number that Beijing enjoys). It is holding free trade talks with Singapore and has concluded an investment treaty with Japan.

Taiwan believes that other countries are becoming more flexible in dealing with it in the wake of ECFA. But Beijing continues to be cautious on such dealings and constrains Taiwan's participation in organizations it has already joined because of "One China" concerns.

6. There is some concern in Taiwan, as elsewhere in the region, about the possibility of U.S. decline and about U.S. staying power. Many read with anxiety articles published in U.S. journals suggesting that the U.S. may have to abandon Taiwan in order to appease a rising China. We reassured all the Taiwanese officials and think tank experts with whom we spoke that the leaders of both U.S. political parties and public opinion believe it is in America's self-interest to remain a

strong power in the Asia-Pacific region and to maintain its commitments to Taiwan under the Taiwan Relations Act. We also stressed the importance of our shared values with Taiwan: democracy, rule of law, freedom of the press, independent judiciary, etc. We said that opinions to the contrary were a tiny minority.

## **SHANGHAI AND BEIJING**

1. It is important to understand the overall context of U.S.-China relations, indeed relations with the whole region, as the background for our October 2011 trip.

First, the year 2012 will see Presidential elections in the United States, Taiwan and the ROK and a leadership succession in China. There will also be elections in Russia, a possible transition in North Korea, and continued uncertainties about Japanese leadership. There are as a result a great many unknowns in the macro political environment.

Second, the role of economics in world affairs is growing. China's rise is having a huge economic impact as it becomes the number one or two trading partner of most of the countries in the Asia-Pacific region. The global economic slowdown is also having a big impact on the region, including China. Many observers are keenly interested in whether or not the Chinese economy can manage a "soft" landing. Meanwhile the U.S. is gridlocked, Japan is recovering from disasters and the Eurozone crisis hovers over the world economy.

Third, China and the United States, as well as many of the other countries in the region, are preoccupied with domestic issues. China's challenge is to move from an export-oriented economy with high savings rates to an economy more focused on domestic consumption. China is also beset by major domestic problems, which include corruption, inequality, rapid urbanization, environmental degradation, the need for political reform, etc.

Fourth, the rise of China and its rivalry with the United States is having a major impact on all the countries of the region, none of which want to have to choose between the two great powers.

Finally, the Obama Administration has placed a large emphasis on America's engagement in the Asia-Pacific region. But America's economic stagnation, budget woes, and political paralysis are casting doubt all over the region on America's staying power.

2. China projects a sharp contrast between increased confidence on the world stage and growing insecurity at home. Confidence emanates from double-digit economic growth and China's greater role on the global stage. Insecurity is the product of domestic and social unrest as well as many international developments, including the Arab spring and the rise of social media. As a result the Chinese leaders are increasing their crackdown on political dissent and tightening censorship.

There is general agreement between China and the United States that the relationship between the two great powers is crucial and mixed - a relationship marked both by competition and cooperation. Neither side wants to see the competitive elements grow into confrontation and both understand the importance of managing the differences as well as cooperating on common problems.

The period 2009-2010 was a bad one for the relationship. The United States believed that the downturn in relations was caused by China's growing assertiveness on the world stage; China attributed it to other factors. Both sides acted to stem the decline and the result was a successful summit meeting between President Obama and President Hu Jintao in January 2011 and a successful visit to China by Vice President Joseph Biden. These visits were accompanied by expanded exchanges, with a military and a regional track added to the Strategic and Economic Dialogues. All of this has helped to stabilize the relationship, to demonstrate that we have many areas of common interest, and to put our differences into perspective.

3. The main issues we discussed with our Chinese interlocutors were cross-strait relations, the Korean peninsula and the South China Sea. Other issues were covered at lesser length.

Cross-strait relations are now the most stable in 60 years (for reasons discussed in the Taiwan section). But below the surface our talks in China revealed elements of fragility. The near term future course of cross-strait relations rests on the outcome of a presidential election in Taipei that remains too close to call. Mainland officials showed uncertainty that Ma's KMT would win, and were clear that a Tsai Ing-wen victory would be a setback both to cross-strait and possibly to U.S.-PRC relations. Ma's peace agreement is generally regarded as a premature election ploy (and perhaps a bungled one at that) to be treated with great caution in any case. If Ma wins, the prospect is for continued gradual progress in implementing current agreements. The PRC could live with this, and was in no hurry to discuss a peace accord. If Ma loses, the process could unravel. That said, our Mainland interlocutors showed themselves to be sophisticated about Taiwan politics (a high ranking official said to us in private that he understood that the DPP represents 40 percent of the Taiwan electorate), practical about tactics, and

patient on strategy. Indeed several spokespeople assured us that Beijing would continue to stress peaceful development and incremental progress so long as there were no risks of independence. However, one senior PRC official laid down an ominous marker that a victory by Ms. Tsai and the DPP, assuming the DPP does not accept the “1992 Consensus”, would destroy the basis for future cross-strait cooperation and remove the foundation for the many cross-strait agreements achieved during President Ma’s term of office. The U.S. side pointed out that Tsai is relatively moderate (the Chinese disagreed) and said it was essential for Beijing not to take punitive measures if she were elected. The period between the January 14<sup>th</sup> election and the May 20<sup>th</sup> Inauguration should be used to explore whether a modus vivendi could be reached. We also reiterated in Beijing, as well as Taipei, that the U.S. will continue to encourage reconciliation across the Strait and accept any eventual political outcome peacefully chosen and supported by the people of both sides. In contrast to all previous visits, there were few complaints about U.S. policy on Taiwan. While the PRC principle of being against arms sales was maintained, there was generally a low-key resignation to the recent package including upgrades to Taiwan’s F-16s. Coupled with satisfaction in Taiwan, it is clear that the Obama Administration successfully threaded the needle on this delicate issue.

4. On North Korea and the nuclear issue, there were no surprises in the Chinese position. Beijing remains close to North Korea and supports the North Korean position of restarting the Six- Party Talks without preconditions and then proceeding on the basis of “action for action.” Our Chinese interlocutors said it was “unrealistic” to expect North Korea to agree to take significant steps towards denuclearization in advance of the actual restart of Six-Party Talks and urged the U.S. to reconsider its insistence on “pre-steps.” Chinese officials argue that the North Koreans are becoming more flexible as a result of domestic and international pressures, that they are ready to undertake reforms, and that denuclearization remains a long-range project. They said that North Korea is becoming less “hard line” than in the past, although they acknowledged that the changes in this regard are “subtle.” While full denuclearization of North Korea remains a far-off prospect, they argued that in the interim it is imperative to maintain peace and stability on the Korean peninsula. One senior PRC official opined that the current structure of the Six-Party Talks, while essential to conducting dialogue and negotiations, will be inadequate to the task of actually resolving the nuclear and other issues until the leaders of the U.S. and the DPRK are able to become engaged. He stressed the importance, in particular, of finding a way to engage directly with the North Korean leader, who remains the sole person in the DPRK capable of making the big, strategic decisions necessary to achieve denuclearization.

5. On the South China Sea and maritime issues, Chinese officials were prickly and annoyed by what they regard as an American effort to stoke rivalries between China and the ASEAN countries over territorial and maritime issues. Vietnam and the Philippines were stirring up trouble. China, they said, always had respect for freedom of navigation which was the only American concern. They did not understand why the United States had raised this issue. For China, the South China Sea disputes concern territorial integrity, potential resources and peaceful sea lanes. The Chinese argued that the U.S. was supporting Vietnam and the Philippines. Our group countered that American policy on this issue had been consistent throughout the years, i.e. freedom of navigation, peaceful settlement of disputes, and neutrality on claims. This policy was not directed at China.
6. We touched on a variety of other issues both with our Chinese interlocutors and with Americans in Beijing.

On the economic front, we heard that most American companies doing business in China were making money but were increasingly worried about their long range prospects because of lack of respect for intellectual property rights, discrimination in favor of domestic firms, subsidies to key Chinese enterprises, currency distortions, forced transferred technology, etc. The once united business front promoting positive Sino-American relations could be fraying.

We had a lively discussion with senior officers at the PLA's Academy of Military Science on the whole range of U.S.-PRC relations and there was genuine interest on both sides in continuing this dialogue. It was agreed this was the weakest link in our relations. Our interlocutors seemed more open for exchanges on these issues than the traditional PLA foot dragging. We agreed at this and other meetings that the United States and the PRC had many shared concerns – global and regional peace and prosperity, terrorism, climate change, anti-piracy efforts, drugs, the environment, stability in key areas such as Central Asia. One of our PLA interlocutors made the point that our two countries had a common interest in “strategic stability” and economic interdependence. Another characterized the U.S.-PRC relationship as “good but not very good”, but that high-ranking military official also agreed that the U.S. and the PRC had a shared interest in global peace and prosperity.

On Pakistan we cited American recoil against its duplicity on terrorism while the Chinese stressed the India factor. Both saw common interests in monitoring stability in Afghanistan and combating terrorism and drugs. The U.S. side stressed the importance of the Iran issue but there was no real exchange on this problem.

We heard from many sources about the growing importance of the media and public opinion in China, and the need for the Chinese government to pay attention to this in formulating policies.

7. On China's domestic front, we were struck by the vivid contrast between China's self-confidence on the international stage and its insecurity at home. The new leaders of China in 2012 will face immediate short term problems – inflation, the potential for asset bubbles, bad bank loans, local debts, the prospects for a “soft landing,” – as well as massive long range problems – urbanization, regional disparities, inequalities, pollution, the transition from an export to a consumption-led economy. In the near term, the political tightening and increased censorship is most likely to continue. The growing number of demonstrations on a slew of issues, the agitation of the Internet and the Arab Spring are ramping up concerns among the leaders.
8. At the macro level, this increasing tension between economic reform and the need for comparable social and political reforms is the single largest question mark for China's future. As for our bilateral relations, both countries will seek stable, positive relations but will continue to hedge against worst-case scenarios.

## **CONCLUSION**

We heartily endorse the Obama Administration's focus on Asia and the Pacific, which is paying dividends. These efforts should be shielded to the maximum possible extent from coming budget cuts and protectionist appeals. The APEC and East Asia summits provide further opportunities for strengthening our regional ties, including progress on shaping the Trans-Pacific Partnership.

The United States should continue to bolster ties with and between Japan and the ROK but also seek ways to encourage quadrilateral cooperation with China on regional and global issues. On North Korea we should maintain the closest collaboration with our allies, urge China to be truly an honest broker, and be prepared to reopen Six Party Talks once requisite conditions are met, although we should be careful to keep expectations low about what these talks can accomplish.

Washington should remain neutral in Taiwan's elections but continue our support for improved relations across the Strait and acceptance of any eventual political outcome so long as it is reached peacefully and with popular approval. We should step up our unofficial relationship with Taiwan in areas such as a visa waiver program, cabinet-level visits, and progress on trade.

With China, a continued increase in exchanges at all levels of dialogue represents the most promising means to increase the positive elements in what is bound to be a mixed relationship for the foreseeable future. Every effort should be made to strengthen the weakest link, military relations and military-to-military dialogue, both to avoid incidents and explore large strategic issues. While human rights cannot control our ties, it must remain a credible part of our agenda with an increasingly repressive regime.

Finally, foreign policy, more than ever, begins at home. Our influence in Asia and the world will rest fundamentally on our ability to break the political gridlock in Washington and reinvigorate our inherent economic and social assets.