

# A Tale of Two Asias

In the battle for Asia's soul, which side will win -- security or economics?

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Whatever happened to the "Asian Century?" In recent months, two Asias, wholly incompatible, have emerged in stark relief.

There is "Economic Asia," the Dr. Jekyll -- a dynamic, integrated Asia with 53 percent of its trade now being conducted within the region itself, and a \$19 trillion regional economy that has become an engine of global growth.

And then there is "Security Asia," the veritable Mr. Hyde -- a dysfunctional region of mistrustful powers, prone to nationalism and irredentism, escalating their territorial disputes over tiny rocks and shoals, and arming for conflict.

In today's Asia, economics and security no longer run in parallel lines. In fact, they are almost completely in collision.

In the one domain, Asian economies have come in recent years to depend increasingly on China -- and one another -- for trade, investment, and markets. And this trend toward regional economic integration has been reinforced over the last four years by austerity in Europe and slow growth in the United States. But these same economies now trade nationalist barbs, build navies, and acquire new arms and power projection capabilities. With the exception of China, all major Asian states, though their economies are increasingly integrated within Asia, are tacking hard across the Pacific toward the United States for their security.

So much for the new East Asian community of which many in Asia have dreamed.

What explains the change? Put bluntly, Economic Asia and Security Asia have become increasingly irreconcilable. But where Economic Asia was winning the contest in the decade and a half after the Asian financial crisis of 1997-98, Security Asia has begun to overwhelm those recent trends.

Indeed, so powerful was the rise of Economic Asia that it had challenged even the longstanding American role in the region. Intra-Asian trade and investment took off fast with the end of the Cold War, but Asia's growing web of economic and political connections was particularly reinforced by the 1997-98 financial crisis, which hit hardest in places like Indonesia and Thailand. Across the region, elites came to view the United States as arrogant and aloof, and groped for their own solutions to regional economic challenges. The United States, which bailed out Mexico in 1994, refused to bail out Thailand just three years later, fueling perceptions that it neglected Southeast Asia. To many in Asia, Washington appeared to be dictating clichéd solutions. And, in the ensuing years, preferential trade agreements, regionally based regulations and standards, and institutions created without American involvement advanced. These have threatened to marginalize the United States over time.

But after two years of nationalistic rhetoric over rocks and islets in the East and South China Seas, Security Asia has roared back. Rampant and competing 19th and 20th-century nationalisms have moved again to the fore as pathologies that seemed frozen in time raise the specter of renewed conflict. A recent study from the Center for Strategic and International Studies reports that defense spending in China, Japan, India, South Korea, and Taiwan has doubled in the past decade, reaching \$224 billion last year. Asians have worked for decades to develop a pan-Asian identity and enhance their collective clout in

the global system. But economic integration has thus far yielded no basis for collective or cooperative security in the Pacific. Instead, the world's new center of economic gravity looks fragile and conflicted.

### **Politics Unbound?**

Could Security Asia actually overwhelm, or even destroy, the economic gains that were beginning to pull the region away from its debilitating past? Some have argued that this is a temporary phenomenon -- a cynical ploy by Asia's politicians to build support at a time of domestic weakness.

But it is too easy to write off these recent developments as the product of domestic politics. Yes, China, Japan, South Korea, and Vietnam, among others, are focused on internal economic or political developments. Seoul, for example, is in the midst of a presidential campaign. Japan's governing party faces a stiff test, and probable defeat, at the hands of a resurgent Liberal Democratic Party next year. China is in the midst of a once-in-a-decade political succession, and, what is more, Beijing has hit the upper limit of its existing growth model, which is delivering diminishing returns and threatens to become a major political vulnerability for the government. Vietnam and others in Southeast Asia face domestic pressures to supercharge their economies and reinvigorate reforms.

Yet while it is true that popular chauvinism is a useful tactic for Asia's beleaguered politicians, such tactics will yield significant costs and enduring damage. Nor are such passions easily turned on and off. Economic and political nationalism is deeply rooted in all Asian countries. It will survive and thrive even after these various political transitions are complete.

Just take the Vietnam-China relationship. Nayan Chanda wrote in his classic history of Indochina, *Brother Enemy*, that events after the fall of Saigon demonstrated that "Instead of being the cutting edge of Chinese Communist expansion in Asia that U.S. planners had anticipated, Vietnam proved to be China's most bitter rival and foe."

"History and nationalism, not ideology," he noted, powerfully shape Asia's future.

Just as these nationalisms threatened ideologies of Communist solidarity in the late 1970s, so do they now threaten ideologies of pan-Asian integration. Economic Asia is increasingly at risk.

Look, for example, at the recent events in China: As protestors took to the streets this fall in dozens of Chinese cities, Japanese businesses were attacked, thousands of China-Japan flights were canceled, and Honda, Toyota, Panasonic, and other popular Japanese brands closed factories. Sales of Japanese cars in China fell nearly 30 percent in September. The Chinese government, which aspires to a prominent role in international institutions, allowed nationalist passions to overwhelm expansive global ambitions: Beijing scaled back its participation in the 2012 Annual Meetings of the International Monetary Fund and World Bank simply because they were held in Japan.

The ghosts of history are visible elsewhere too. South Korea and Japan have traded nationalist recriminations over even tinier rocky islets. The result is that America's Northeast Asian allies, despite a robust trade relationship and a powerful shared interest in countering North Korean threats, could not sign even a straightforward intelligence-sharing agreement to enhance cooperation in the face of a common threat from Pyongyang.

## **Asia's Schizophrenia**

Such developments belie much of what has been written about Asia's recent evolution. Many have argued, for instance, that Japanese strategy is now motivated principally by *realpolitik* instincts -- specifically a desire to balance rising Chinese power. But if this is true, then it is difficult to understand Tokyo's festering spat with South Korea.

What is more, Tokyo has long been an exemplar of Economic Asia and a motive force behind the quest for greater regional economic integration. Postwar Japan, a strong U.S. ally with a powerful sense of trans-Pacific identity, has incubated a variety of pan-Asian regional ideas and ideologies, especially with respect to Asian monetary integration. It was Japanese officials who in 1997 proposed the establishment of an Asian Monetary Fund, which helped give rise to today's Chiang Mai Initiative of bilateral swaps among ASEAN Plus Three countries (the ten Southeast Asian members of ASEAN, plus China, Japan, and South Korea). And it was Junichiro Koizumi, a prime minister with especially robust ties to the United States, who helped to push forward a China-Japan-South Korea trilateral mechanism and, with a competitive eye on China, other trade arrangements on the basis of ASEAN Plus Three.

Amazingly, even amid this autumn's high geopolitical drama over contested islets, talks among Beijing, Tokyo, and Seoul for a trilateral free trade agreement rolled along. The same phenomenon can be seen in Southeast Asia. As fears of confrontation rose last summer, ASEAN Plus Three, which includes the South China Sea's three most vocal antagonists (China, Vietnam, and the Philippines), announced a strengthening of the Chiang Mai initiative through pledges that double the arrangement's size to \$240 billion in the event of another financial crisis and the establishment of an implementation office. In November, ASEAN and six partners (Australia, China, India, Japan, New Zealand, and

South Korea) launched negotiations for a Regional Comprehensive Economic Partnership that could be worth \$17 trillion in trade and will be a counterpoint to Washington's preferred pact, the Trans-Pacific Partnership (TPP).

## **Strategic Dilemmas**

It is difficult to avoid analogies to Europe in 1914. Norman Angell's 1910 bestseller, *The Great Illusion*, argued that war would prove impossible because Western economies were so interdependent as to make conflict suicidal. But Thucydides' rationales why men go to war -- interest, honor, and fear -- have tended to prevail in international history.

The current push and pull between Economic Asia and Security Asia thus raises a number of powerful questions.

For one, Asia's major multilateral institutions have proved to be almost irrelevant to practical problem-solving. Is it, therefore, time to rethink these experiments in regional architecture?

Pan-Asian regionalism has failed to quell Asia's nationalist demons, and existing institutions, including those that involve the United States, have been largely missing in action throughout the turmoil of recent years. Last summer, ASEAN cohesion collapsed at a meeting in Phnom Penh, with the Cambodian chair at loggerheads with Vietnam and the Philippines over how sharply to confront Beijing. The new East Asia Summit (EAS) has done nothing to consolidate an agenda in between its annual meetings. And the ASEAN Regional Forum (ARF) has, similarly, become an arena for accusations and counterclaims. Indeed, the ARF is perhaps the most pregnant example of institutional failure. ARF is Asia's leading security forum, yet all of the major sources of prospective conflict -- Korea, Asian maritime claims, China-Taiwan, and India-Pakistan -- are largely off the table.

Revisiting Asia's regional institutions could help to fashion mechanisms better able to address the real problems while buttressing the U.S. position. Inertia and "process-centered" rituals continue to predominate at regional meetings. Diplomats rack up frequent flyer miles but little else.

Certainly, it can be useful for heads of state to meet regularly. But it would be wise for a group of like-minded countries, including the United States, to think through a modest but substantive operational agenda for the next EAS meeting to decide priority issues. Then, depending on the issue, leaders could ask that ARF or the Asia Pacific Economic Cooperation (APEC) forum, or another relevant body, follow up with practical actions. This would begin to inject greater relevance into regional institutions and more connectivity among them.

### **Whither Washington?**

A second question concerns the American role in Asia.

The U.S. role as Asia's security provider has been reinforced even as the region's economy has become increasingly pan-Asian, with the U.S. role shrinking in relative terms. This begs the question of whether the U.S. security role is sustainable without a significantly increased American economic profile in Asia, not to mention substantially greater leadership from Washington in driving regional trade and investment arrangements.

At present, Washington faces two strategic dilemmas:

First, the triumph of Security Asia would benefit the United States by assuring its centrality. After all, Washington is Asia's essential strategic balancer and is becoming more so against the backdrop of growing Chinese naval power and projection capabilities. The

dilemma, then, is that a security-dominant Asia will, at the same time, be a vastly more volatile region. And such volatility and instability are precisely what the United States has worked for two decades to avoid.

Washington could find itself navigating uncomfortably between competing territorial claimants. It will find it difficult to avoid choosing sides not just on matters of principle, such as freedom of navigation, but also on this or that specific sovereignty claim -- for example, in the South China Sea between China and the Southeast Asian countries whom it has courted (some of whom have disputed claims with one another). An American president could ultimately find himself pulled into a military conflict over tiny shoals to which the United States has no claim.

A second dilemma is that Americans seek a stable, dynamic Pacific Rim for the long term and, in that sense, need Economic Asia to prevail. But economically, Asia is increasingly pan-Asian, meaning that American centrality could actually shrink as trade and investment patterns come to further reflect intra-Asian economic and financial integration.

U.S. economic involvement in Asia is growing in absolute terms but receding in relative terms. Trade with the United States comprises a diminishing share of nearly every East Asian country's total trade. Yet the U.S. response has been deeply inadequate. Thus far, Washington has focused mainly on security "rebalancing" to the exclusion of economic rebalancing. Asians are providing ever more economic public goods to one another, while the U.S. role in this sphere has ebbed.

If present trends persist, America will only continue to recede. Thus the United States needs to raise its economic game in the region. And that will require revitalizing the U.S. economy and fiscal fundamentals. More than any factor, these could make a difference in



demonstrating that the United States has staying power in Asia for the long term.

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If history is any guide, it may take a crisis or game-changing shift for Asia to move more fully onto the positive path of Dr. Jekyll. Greater American involvement with Economic Asia will help. But there are few scenarios likely to produce a more dramatic shift through which Economic Asia could overwhelm Security Asia.

If China stumbles in its efforts to rebalance its economy, concerns will mount that China is falling into the middle-income trap, potentially risking its political stability. That could bring Asians together through a shared interest in avoiding a downward spiral in China. Similarly, a sudden collapse of North Korea could threaten all of Asia, precipitating a sobering crisis and leading nervous Northeast Asians to work together to manage the transition to a reunified Korea.

But Dr. Jekyll faces a very uphill battle. Even under such dramatic scenarios, nationalistic responses could ensue, leading Mr. Hyde to prevail.

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