GLOBAL GOVERNANCE

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The Trilateral Commission was formed in 1973 by private citizens of Europe, Japan and North America to foster closer cooperation among these three democratic industrialized regions on common problems. It seeks to improve public understanding of such problems, to support proposals for handling them jointly, and to nurture habits and practices of working together. The European group has widened with the ongoing enlargement of the European union. The Japanese group has widened into a Pacific Asia group. The North American group now includes members from Canada, Mexico and the United States.

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Program
Introductory Note

The 34th annual plenary conference of the Trilateral Commission was convened on April 11–14, 2003, at the Shilla Hotel, Seoul, Korea. It was the first plenary conference that was held in a non-Japanese Asian city since the inception of the Commission in 1973. Fears of SARS deprived this historic plenary of, in the end, some 45 of 175 committed members and guests, including some of the designated panelists. Nevertheless, we were able to have a very successful meeting characterized by intimate and lively discussions throughout the sessions. It was fortunate that we were able to visit the Blue House on April 12 and hear directly from President Roh Moo-hyun of the Republic of Korea about his view on Korea’s agenda and the objectives of his government.

The Seoul Plenary Conference showed three distinctive features that are quite different from any of the previous plenaries. First, it was a heavily Asia Pacific oriented conference with five of the eight sessions devoted to discussions related to this region. From the forenoon of April 12 through lunch on April 13, we had sessions on “the Socio-Political and Economic Agenda of South Korea,” “Prospect for Pacific Asian Integration,” “Japan’s Domestic and International Agenda,” “The Rise of China and Its Global Implications,” and “New Security Challenges in East Asia.” While it has been a tradition of the Commission to devote an earlier session to discussion of the domestic and international agendas of the host country, the fact that the Seoul Plenary had such a heavy concentration on the region should be interpreted as a reflection of the increased importance of Asia Pacific for the trilateral world.

Second, the Seoul Plenary will be remembered as a forum of intensive discussions of reflections on the fundamental changes in the international system and international relations since September 11, 2001, through the Iraq war in 2003. In the session on “Addressing the New International Terrorism: Prevention, Intervention and Multilateral Cooperation,” the
task force of Joseph Nye, Yukio Satoh, and Paul Wilkinson presented its discussion draft, on which Ali Alatas, former foreign minister of Indonesia, the world’s largest Islam country, commented. Full report of this task force has already been published as *Addressing the New International Terrorism*, whose introduction and conclusion are included in this volume. On the realization that the process which ended up in the war against Iraq included such fundamental issues as the new unilateralism on the part of the United States and the powerlessness of the multilateral framework, notably the United Nations, a session was organized around the theme of “Restructuring of the International Order After the War in Iraq.” Lively discussion took place in search of the way to reconstruct international order after the war in Iraq.

Finally, the plenary witnessed a chain of outstanding presentations, comments, and interventions from all the participants as usual, but, this time, it was particularly rich because of contributions from our Pacific Asian friends. One may say that they strongly impressed members from the other two regions both in quality as well as in numbers. This goes to show that the newly enlarged Pacific Asia group has proved itself to be a viable third leg of the Trilateral Commission along with the North American and European groups.

What follows is the record of vivid discussions which took place during the Seoul Plenary Conference. Presentations by panelists were condensed by the Commission’s secretariat, which is also responsible for the summary of discussions following the presentations.

In retrospect, the Seoul Plenary Conference was convened against one of the most ungenial international backdrops in the history of the Commission, e.g., imminent threats from SARS in Asia and the war in Iraq, whose conclusion was uncertain at the time of the conference. These were only two examples of the global problems. The Trilateral Commission is all the more grateful for the utmost efforts made by the Korean members and supporting staff, particularly Profs. Han Sung-Joo, Pacific Asia deputy chairman, who was appointed to be the Korean ambassador to Washington, D.C., and Lee Hong-Koo, chairman of the Commission’s Korean group.
Global Governance
Executive Summary

The 2003 annual meeting of the Trilateral Commission opened in Seoul, Korea, at one of the most uncertain times in the Commission's 30-year history. The sense of international unity that followed September 11 had given way to disagreements over the tone and conduct of the war on terrorism, and the lead-up to the invasion of Iraq had fueled an open split among the traditional allies of Western Europe and the United States. As these developments called into question the utility of many of the institutions at the core of the post–World War II international order, it seemed to many that we were in the midst of a transition to some sort of new international system, yet the eventual outcome remained unclear.

Against this backdrop, discussions at the April 11–14 meeting revolved around three core themes. The Trilateral Commission recently expanded beyond Japan to include members from throughout the Pacific Asian region, and the Seoul meeting marked the first time that the annual meeting had been held in a Pacific Asia country other than Japan. Therefore, it was fitting that a major focus of the discussion was on topics related to Asia and the prospects for regional integration. Likewise, the looming showdown with Pyongyang over its nuclear weapons program was clearly in the forefront of the discussants' minds, and the prospects for a peaceful resolution were a recurring theme throughout most of the sessions. And finally, the shape of the international system after the war in Iraq emerged as the central topic of the meeting, as participants urged a renewed commitment to international cooperation in combating global terrorism, seeking deeper and more just economic liberalization, and overcoming the animosity that had emerged in transatlantic relations.

Towards a New Pacific Asia Regional Order

The international and domestic agendas of three regional powers—South Korea, China, and Japan—and the prospects for further Pacific Asia integration were taken up in the first series of sessions. The meeting began with an address by President Roh Moo-hyun in which he outlined his
vision of making the Republic of Korea the “hub of logistics and business in Northeast Asia.” The key, he asserted, is for the nation to enhance its capacity to meet global economic standards, specifically by improving transparency and corporate governance. In keeping with this, one goal of his administration will be to advance Korea’s ranking on Transparency International’s Global Transparency Index from 40th place to around number 20. Meanwhile, in regards to North Korea’s nuclear ambitions, he stressed the willingness of his government to provide support for North Korea when it becomes a responsible member of the international community.

In a later session, Joongang Ilbo publisher Hong Seok Hyun and former Finance Minister SaKong Il discussed the challenges facing President Roh after his dramatic election victory. Hong focused on the president’s personality and beliefs, arguing that despite his liberal ideological tendencies, President Roh is ultimately a pragmatist and his slim margin of victory will ensure that he hews to a moderate course. SaKong Il, for his part, concentrated on South Korea’s economic agenda, noting that the reforms implemented after the Asian financial crisis have led to a sea change in the country’s economic structure. Still, he added, further reform is needed, and the overarching goal should be to make the entire country into the “most business-friendly zone in the region.”

In the session convened to discuss the rise of China to regional and global prominence, Chinese foreign policy analyst Wang Jisi outlined China’s international strategy, explaining that at its core is a conviction to avoid becoming entangled in potential conflicts that do not directly affect the country’s vital interests. This necessitates efforts to avoid confrontation with the United States as well as a commitment to maintain manageable relations with Taiwan. The one exception to this conservative stance is the issue of Pyongyang’s nuclear weapons program—Beijing regards a nuclear-armed North Korea as a critical threat and finds itself sharing more common ground on this issue with Washington than with Pyongyang.

Heinrich Weiss and Wendy Dobson added their thoughts on China’s economic and political rise to Wang’s formulation, with Weiss noting that it is widely understood by everyone involved that domestic political reform will unavoidably follow the current economic reforms. Meanwhile, Dobson counseled prudence to policymakers pushing for a revaluation of the renminbi, warning that the still immature structure of China’s domestic financial institutions makes it perilous for the country to pursue this course and maybe even impossible to control such a process if
launched. Still, she argued, the Chinese leadership’s justifiable reluctance to undertake such policies should not deeply hurt the country’s trading partners since China is actually not a major source of global deflation and, on other counts, it has demonstrated its commitment to act as a responsible member of global economic institutions.

The session devoted to Japan featured two Diet members who took up the topic of their country’s international agenda. Upper House member Keizo Takemi outlined two trends that are helping drive a more assertive international involvement: the growing conviction among younger political leaders that Japan should be better prepared to exercise political and military power in the Asia Pacific region and the increasing desire of many younger Japanese to take individual action to help improve the lives of the less fortunate around the world. The willingness to play a more active role in security issues is reflected in the determined stance of the country’s leaders not to accept the acquisition and possession of nuclear weapons by North Korea and a commitment to use all means necessary to prevent it. At the same time, the growing ambition of many of the younger generation to participate directly in international cooperation activities is manifesting itself in the increased overseas presence of Japanese non-governmental organizations, particularly those whose efforts are in keeping with the concept of human security.

Meanwhile, Lower House member Yasuha Shiozaki focused on Japan’s economic reform efforts, explaining that the country’s major task lies in overcoming the anti-market, inward-looking trends that have appeared, both domestically and in its international activities. Warning that recent years have seen a reemergence of government intervention in financial markets, Shiozaki called for a renewed political commitment to pursue domestic structural reform and a deeper national commitment to open markets and globalization.

The prospects for Pacific Asian integration were taken up by former Philippines Finance Minister Jesus Estanislae and Singaporean scholar Wang Gungwu in a later session. Estanislae spoke about the future of economic integration, arguing that regional trade liberalization efforts may have reached the point of diminishing returns although there is fertile ground for future cooperation in the areas of finance and development. In particular, he advised that the regional agenda be expanded to include areas such as macroeconomic risk management, financial supervision, and corporate governance practices. Where Estanislae focused on the economic aspects of regional integration, Wang turned his attention to the sociocultural dimension. Noting how political legitimacy in many
Asian countries is steeped in traditional value systems, Wang concluded that modernity and the political integration it can usher into the region cannot be stable or meaningful if built on the denigration of the roles of religion and spirituality.

**REBUILDING TRILATERAL COOPERATION**

Five additional sessions focused on global issues central to the eventual shape of the emerging post–September 11, post–Iraq War international system. In one of these sessions, former U.S. Trade Representative Carla Hills urged the leaders of rich countries to resist pressure to restrict trade and to redouble their efforts to successfully complete the Doha Round at the World Trade Organization (WTO). Noting that the extended period of global growth that began in the mid-19th century and continued through to the start of World War I was followed by an era of trade restrictions and then World War II, she warned that the Doha Round is in peril and that the outcome of these talks will help determine the fate of the global economy for the next quarter century. Meaningful steps by rich countries to integrate poor countries into the global economy are far overdue, she declared, and this round represents our best chance for success in this venture.

Meanwhile, Peter Sutherland, former director-general of the WTO, tackled the transatlantic split over the war in Iraq, arguing that an abject failure of basic diplomacy was a major contributor to the current divisions between the two sides, which share far more than divides them. Noting that both Europe and the United States must examine their failures or else risk repeating them, he traced the rapid rise of mutual antipathy that threatens to become embedded in public opinion. It is critical, he warned, that both sides commit themselves to strengthening the transatlantic partnership and come to a full realization that unilateralism is not a sustainable option in our interdependent world.

Former Korean Foreign Minister Han Sung-Joo and former U.S. ambassador to Korea Stephen W. Bosworth outlined the security challenges in East Asia, focusing particularly on the tensions on the Korean peninsula. Comparing the 1993–1994 North Korean nuclear crisis to the current one, Han argued that, this time, the options for responding to Pyongyang’s actions are more limited and the situation is more urgent. Characterizing regime change in North Korea as unrealistic and a military response as deeply problematic, he recommended a multi-layered dialogue with North Korea that is built on close coordination among the
United States, South Korea, and Japan and that allows them to communicate their intention to use a mixture of carrots and sticks to reward and punish North Korean behavior. In the end, he noted, any comprehensive resolution is likely to involve a package deal, one that participants in the subsequent discussion period seemed to feel would be a “larger medium-sized package” of aid and incentives, in contrast to the “small package” that emerged from the 1993–1994 negotiations.

Bosworth explained the importance of analyzing the crisis within the context of a profoundly changed regional security framework, particularly in light of recent significant shifts in the U.S. security role in Asia. Changes over the past few years, many of them emerging from within the region, have driven U.S. thinking about regional security policy in unforeseen directions. As a result, he argued, we should continue to see U.S. bilateral alliances in Northeast Asia diminish in importance and U.S. strategic focus in the region shift toward Southeast Asia. Regardless of the eventual outcome of the North Korean crisis, one probable result is that, by the end of the decade, there are likely to be few if any ground troops forward-deployed in South Korea and Japan.

A variety of measures to combat the new form of terrorism characterized by al Qaeda were proposed by Joseph Nye of Harvard University; Yukio Satoh, president of the Japan Institute of International Affairs and former Japanese ambassador to the United Nations; and Paul Wilkinson of St. Andrews University. (The papers that were discussed in this session have been compiled separately as Addressing the New International Terrorism; therefore, the texts are not included in this publication.) While noting that terrorism has a long history, Nye, Satoh, and Wilkinson argued that September 11 was a dramatic manifestation of a “new terrorism,” one that is truly transnational in nature, reflects the desire and potential to wreak destruction of a greater magnitude than before, and is motivated by absolutist and grandiose goals rather than limited, political intentions. The struggle against this strain of terrorism will be a long and arduous one with no definitive victory, they predicted; therefore it would be a mistake to suspend civil liberties indefinitely. What is needed, instead, they asserted, includes more coordinated multilateral civilian cooperation, stronger actions to stem the proliferation of weapons of mass destruction, global steps to delegitimize the deliberate use of force against noncombatants, and major international efforts to resolve issues and conflicts that create sympathy and support for terror groups.

In the meeting’s final session, Ambassadeur de France Jacques Andréani, former French ambassador to the United States; former Speaker of the
U.S. House of Representatives Thomas Foley; and Tokyo University professor Akihiko Tanaka presented views from each of the Trilateral regions on restructuring the international order after the war in Iraq. Andréani set out by assessing the damage done to international institutions by the disagreements over the war in Iraq, concluding that too much has been made of the weakness of certain organizations such as the European Union, and that other institutions, particularly the United Nations, are now all the more important for the United States if it is to succeed in Iraq. He concluded by calling for the United States and Europe to work together to strengthen the Atlantic alliance but cautioned that U.S.-Europe relations need to be built on a respect for the autonomy of Europe.

Foley, meanwhile, maintained that the key to understanding the United States and its new approach to security issues is to comprehend the dramatic impact of September 11 on the American consciousness, an impact that is not fully understood by even most of the closest partners of the United States. Now, he argued, the fundamental changes in American thinking of the past two years dictate that, in order to garner U.S. consent, any new international system will have to avoid critically limiting the ability of the United States to deal with direct and immediate threats to its security. On the other hand, the United States must realize that it cannot effectively fight a war against terrorism without multilateral cooperation. This need, he noted, gives rise to hope that the international community will be able to find some sort of middle ground between the differing approaches of small ad hoc coalitions and broad-based multilateralism.

In closing the session, Tanaka, a political scientist, theorized about what exactly had changed in the international system as a result of the war in Iraq. Disputing the conventional wisdom of the day, he contended that it is “too hasty to conclude that a totally new order is emerging after the war in Iraq” and that, in actuality, very little has changed in terms of power relations or norms of international behavior. In his view, power relations in the near future will continue to consist of complex interactions centered on the United States and involving the United Nations and several major powers. At the same time, international norms, which have gradually been evolving to justify intervention to halt genocide or deal with failed states, have not shifted far enough to completely legitimize intervention against totalitarian or authoritarian regimes. In the post-Iraq world, he concluded, the United States still needs international collaboration, international politics remain as complex and messy as before, and diplomacy still matters.
Towards a New Pacific Asia
Regional Order
The Sociopolitical and Economic Agenda of South Korea

The 2003 Seoul Meeting marked the first time that the Trilateral Commission Plenary has been held in a Pacific Asia country other than Japan. Less than two months after taking office, President Roh Moo-hyun welcomed the participants in a meeting held at the Blue House. Later that day, the topic of the Republic of Korea’s future prospects was taken up by newspaper publisher Hong Seok Hyun and former Finance Minister SaKong II in a regular plenary session. A full text of President Roh’s remarks follows, as well as condensed versions of Dr. Hong’s description of the sociopolitical challenges facing the president and Dr. SaKong’s overview of the nation’s economic agenda.

Roh Moo-hyun

It is a pleasure for me to wholeheartedly welcome you on behalf of the Government of the Republic of Korea. I am very pleased and honored to host this gathering of internationally renowned figures on this fine spring day. The Trilateral Commission has contributed to promoting international understanding through exchanges and high-profile discussions over the past 30 years. Your wisdom, fervor, and formulation of useful policy alternatives have been of great help in solving various problems facing the international community. I applaud you and have great respect for you. I am aware that the theme of the Seoul meeting is peace and prosperity in East Asia. I have high expectations for these discussions and hope to see substantial achievements.

About 40 days have passed since the launch of the new administration in Korea. This administration is called the “Participatory Government.” We will encourage public participation in the running of state affairs. The principles of the new administration are “principle and trust, transparency
and fairness, dialogue, and compromise and decentralization and autonomy.”

I would like to touch on the direction of the major policies being pursued by the Participatory Government. The Asia Pacific region today along with Europe and North America make up the three major economic spheres. Northeast Asia, in particular, is characterized by unrivaled dynamic growth. It has a combined population of 1.5 billion and a gross domestic product of US$6 trillion. It represents one-fifth of the world economy and boasts unlimited potential.

Korea seeks to take the lead in helping Northeast Asia develop into “a community of peace and prosperity.” We seek to usher in an age of peace and prosperity in Northeast Asia. Korea is endowed with favorable conditions to realize this goal. First Korea is at the geographic center of Northeast Asia. There are 700 million people living within a radius of 1,200 kilometers of Seoul. In addition, Korea is equipped with an excellent logistics infrastructure. Incheon International Airport has been emerging as Asia’s gateway, and Busan and Gwangyang ports have been developing into top-class seaports.

In both the east and west, there are projects underway to link inter-Korean railroads. These railroads will be linked with trans-Eurasian railroads that will reach Central Asia and Europe via China and Siberia. With the completion of these projects, the Korean peninsula will be a “bridge of prosperity” connecting the Pacific with the Eurasian continent in the skies, on the sea, and over land.

Korea has already built an information infrastructure of international standards. Korea is second to none in terms of its educated and diligent human resources. The industrial structure is being quickly shaped into a knowledge-based economic system centering on the IT sector. We will make the Republic of Korea the hub of logistics and business in Northeast Asia. The results will not benefit us alone but will be shared by Northeast Asia as well as the entire Asia-Pacific region, Europe, and North America across the Pacific.

What is most important in realizing this goal is for peace to take firm root on the Korean peninsula. The Participatory Government is carrying out a Policy of Peace and Prosperity toward the North. We neither want war nor the collapse of North Korea. We will help peace take root on the peninsula and pursue coexistence and co-prosperity with the North.

We will maintain the framework of the engagement policy toward North Korea but will address every procedural problem that has thus far surfaced. The policy will be administered in the most transparent manner
possible by enlisting public participation and support. Our Policy of Peace and Prosperity will serve as a stepping stone to the age of peace and prosperity in Northeast Asia.

The North Korean nuclear problem has emerged as a serious issue. Nuclear development in the North can never be condoned. But the issue should be solved peacefully without fail. If war were to break out again, the disaster would not be confined to the peninsula but would affect the entire Northeast Asian region as well as the peace and stability of the world.

We will pursue dialogue with North Korea while maintaining close coordination with the United States and Japan and seeking the cooperation of China, Russia and the European Union. We will also enlist the support of the international community, including the United Nations. North Korea should respond. Nuclear development will by no means benefit North Korea. When North Korea comes out as a responsible member of the international community, Korea as well as the international community will not spare any possible support.

I am planning to meet with U.S. President George W. Bush next month for genuine consultations on how to resolve the North Korean nuclear problem. This year marks the 50th anniversary of the signing of the Korea-U.S. Mutual Defense Treaty. I will also have unrestricted discussions on how to further solidify the Korea-U.S. alliance and develop bilateral relations into more mature cooperation. Following that, I plan to meet with leaders of Japan, China, and Russia at the earliest possible date.

In the years to come, the Participatory Government will maintain solid cooperative relations with all friendly nations in the world. Korea will continue to play an active role in regional cooperative bodies, including the Asia-Pacific Economic Cooperation forum, the Asia-Europe Meeting and the ASEAN + 3, comprising Korea, Japan and China, in addition to the member countries of the Association of Southeast Asian Nations (ASEAN). I fully support the ideals and activities of the United Nations. Korea will participate in international collaboration to promote human rights and democracy as well as in all efforts to solve other global problems such as terrorism and poverty.

Allow me to explain the economic policies of the Participatory Government. In a nutshell, my administration’s policy can be summed up as an endeavor to reach global economic standards. We will establish a transparent and just economic system that conforms to international standards. Unreasonable rules and systems will be rectified and unnecessary regulations will be abolished. The net result will be a country that can attract business and investments.
More than anything, we will persistently and consistently push ahead with market reforms. The main focus will be on further assuring transparency and fairness. We will see to it that the corporate accounting system is on par with international benchmarks. In our effort to strengthen supervision, we would like to see a class action system introduced in the securities business sector among others.

We also feel that there is much room for improvement in the area of corporate governance. Dishonest trade practices will be dealt with strictly. Unfair manipulation by big companies with substantial market shares will not be tolerated.

To implement these reforms, we will soon formulate a three-year plan and carry it out gradually. The plan will have a clear timetable so that all the parties concerned will have enough time to prepare.

My goal is that Korea’s ranking on Transparency International’s Global Transparency Index will advance from the current 40th to around 20th by the end of 2007 at the latest. That means the country will have put in place the most orderly model market in Asia by that time.

Korea’s labor-management culture will change for the better, too. The basic tenets of our labor policy will consist of institutionalizing labor-management relations characterized by dialogue and compromise. To set dialogue and compromise in motion, the two sides should stick to principles and mutual trust. Labor will have to comply with the law and maintain order, and management will have to earn the trust of labor. While maintaining strict neutrality, the Government will strive to aggressively mediate and coordinate views so that the two sides will be able to engage in dialogue and make compromises. Along with this, the administration will work hard to institutionalize labor-management relations to the desired international level.

Also on the priority list of the Participatory Government is the correction of the imbalance in income. Improving income distribution will encourage people to work harder, and this, in turn, will lead to higher growth on a national scale. By doing so, we will have an economic structure balancing growth and distribution rather well.

By carrying out a viable strategy of facilitating technological innovation and fostering science and technology, Korea will strengthen its competitive edge.

Finally, I would like to emphasize the endeavors Korea is making to attract foreign investment. As I stated earlier, Korea has good conditions for becoming a hub of business and logistics in Northeast Asia. We are exerting an extraordinary national effort to establish a transparent and
fair economic system that is comparable to any other advanced country. We hope that an increasing number of foreign investors will take part in the Korean economy. We are expanding our systemic infrastructure to make it possible for people from various countries to make investments here and work hand in hand with us.

One such effort will take the form of Free Economic Zones. The plan will be finalized by the end of the year. Details of the plan, such as location, phases of development as well as investment programs, will also be formulated and carried out in the near future. We are determined to provide expatriates a better business environment and ideal living conditions. I have no doubt that Korea will emerge as a more attractive place to invest than any other in the world. And I hope you will agree and support us in this regard.

Because of the war in Iraq, uncertainty in the world economy has increased substantially. However, the Korean economy is now relatively stable. That is largely due to the fact that the economic and government sectors are joining forces and are working harmoniously.

I know that peace and stability on the Korean peninsula will continue to be maintained without wavering. The issue of North Korea’s nuclear development will also be resolved peacefully through diplomatic means. And the age of peace and prosperity in Northeast Asia will be realized without fail.

Finally, I trust that the Trilateral Commission meeting will reap abundant fruit, and I wish every one of you good health and happiness.

Roh Moo-hyun, a former human rights lawyer, took office as the 16th President of the Republic of Korea on February 25, 2003.

HONG SEOK HYUN

The Sociopolitical Agenda of South Korea

Leading up to the presidential election last year, nationwide debates were held, touching upon the ideological, generational, regional, and class
conflicts that have posed chronic challenges for us. These debates were only made possible by the political maturity and economic prosperity that Korea has achieved in the past three decades, and they were undertaken within a relatively new social paradigm, as witnessed by the emergence of diverse interest groups and civic organizations. At the heart of these debates was the matter of “conservative” versus “progressive.”

The debate between conservatives and progressives in Korea is something altogether different from how it is commonly understood in Western countries. It takes place within a truly complicated and multi-faceted spectrum. Following Korea’s liberation from Japanese colonial rule in 1945, conflict brewed between those who regarded themselves as patriots and those who were seen as having sold out to the Japanese. Soon ideologies realigned between right and left, or pro-United States versus pro-Soviet Union then; after the war with North Korea, this ideological conflict was replaced by rivalry between the autocratic regime and factions that called for a liberal democratic government. By 1993, Korea’s autocratic rule came to an end; however, regional tension within the country became more acute. Former President Kim Dae-jung’s “sunshine policy” of engaging North Korea has opened a new chapter in inter-Korean relations, yet it also divided the country into two camps with opposing views on what, for many, seemed to be a policy of appeasement. Recently, however, the policy has lost much of its glow, and one of the serious political debates during the presidential campaign last year was on the topic of being pro-North Korea or anti-North Korea.

The election also marked the emergence of a new political and social phenomenon, Korea’s Internet generation. We witnessed its early evidence in June 2002 during the World Cup soccer games. “The Red Devils,” as fans of Korea’s national team are called, organized themselves largely through the Internet, and excitement rose as this generation of people in their 20s and 30s filled the plaza of City Hall in their red shirts. When Roh Moo-hyun squared off against the conservative Grand National Party candidate, Lee Hoi-chang, he was hardly a candidate with a solid political background. However, Mr. Roh rode to the Blue House on the Internet wave led by these 20- and 30-somethings. They came together in cyberspace, exchanging ideas and information on the Internet and communicating through their mobile phones. While supporters of Lee Hoi-chang remained in analog mode, this generation turned the election campaign into a digital event.

President Roh Moo-hyun is in his mid-50s, but he operates in a sphere not so different from this new generation. He was with democratic activists
in the 1980s as their lawyer and advocate. Most of his staff are old colleagues who stood with him through the hard times, and some even spent time in prison. I believe that their view of the world is firmly based on a dichotomy of reform and anti-reform, progressive and conservative, periphery and center, and pro-unification and anti-unification. They are more nationalists than globalists.

He may not approve of this label, but by Western standards, President Roh could be considered a social democrat or else a social liberal, somewhere between British Prime Minister Tony Blair and German Chancellor Gerhard Schröder in terms of ideology, perhaps slightly closer to Chancellor Schröder. He favors labor participation in management, equal opportunity for all, and the Third Way style of social policy. He supports government intervention when necessary to bring about equality among different regions of the country and between the privileged and the under-privileged. He is a proponent of taking care of the less fortunate in a free-market society.

Now, President Roh calls himself a pragmatist. In fact, there is enough in his personal background to back up that statement. At one time, he was involved in running a Korean barbecue restaurant with half a dozen of his fellow politicians. He has said that the experience gave him first-hand insight into the anomalies of Korea’s legal and administrative systems. Strictly followed, he said, these systems would never let you gain anything from honest work. President Roh won election without incurring debts to any factions or interest groups, and he is the first president who can claim to be answerable only to the people. Also, in communicating his views, President Roh is unfailingly straightforward and unpretentious. This sometimes leads to problems, but it is also an effective skill for a leader who speaks to the heart of the majority of Koreans today. Also, he has vowed to do away with social structures based on rank and seniority.

This brings about difficult challenges for President Roh. First of all, he needs to worry about how to successfully carry out reform without excluding the voices of the established segments of society. His job will involve creating a prudent new social paradigm that will replace the existing ideological dichotomies of left and right, conservative and progressive, democracy and authoritarianism, and pro-North Korea and anti-North Korea. Considering the fact that he was elected by a margin of little more than half a million votes, a strong and balanced leadership is called for that will not alienate the remaining silent majority of society but will accommodate demands for reform.
The second challenge facing the Roh Moo-hyun administration is to replace the chronic hostility that exists between people from different regions with a spirit of cooperation. Another issue that awaits the new leadership's attention is forging a broad consensus on our policy toward North Korea.

Fourthly, how South Korea positions itself in the international community is an important issue in this increasingly globalized world, where each country aligns its policies to fit international standards. What is needed to help this country move closer to the international center stage is for our young people to overcome misguided aversion or resistance to the ways of the superpowers and to equip themselves with open minds and balanced awareness.

The last important challenge is how we are to overcome the problems of a growing economy. This is a particularly complicated issue, considering Korea's economic situation and also the experiences of other countries that preceded us in surpassing the US$10,000 per capita GNP mark. It is crucial for us to think about how we are going to upgrade the Korean public's global understanding and awareness of international standards.

I would like to turn to anti-Americanism, and how the rise of younger generations has come to affect Korea's relationship with its most reliable partner. Unlike people in their 50s and 60s, younger Koreans in their 20s and 30s take much of their country's well-being for granted. They demand that the alliance with the United States be based on a more balanced and equal footing, and they do not hide their displeasure when the United States does not appear to respond. I believe that this is more of an expression of pro-Korean ideals rather than anti-American hostility. Anti-American demonstrations today in part stem from the protests of the 1980s, when students believed that the military regime tried to create legitimacy by being excessively deferential to the United States, and many believe that this kind of unbalanced relationship still exists today.

These are also people for whom five years of President Kim Dae-jung's "sunshine policy" has dulled the perception of North Korea as a military threat. There is less appreciation for the strategic importance of the United States as an ally, despite the security it has provided us for many years. To many people in South Korea, President Bush and the United States come across as courting hostility and tension when they brand North Korea as a "rogue nation," part of the so-called axis of evil.

Personally, I believe the Korean people were lavished with a peace dividend too soon by the Kim Dae-jung administration. The post-summit exuberance led people here to resist the idea that North Korea would ever
attack the South, despite the looming threat of nuclear development just a few hundred miles away. It is ironic to think that the sentiment of the younger generation is a luxury made possible because of the economic prosperity and political democracy won by their parents and largely by America's commitment to the security alliance. And I believe their sentiments are widely shared by the inner circle of aides close to President Roh.

Now, I would like to go back to the threat posed by North Korea's nuclear program. There is no question that South Korea cannot afford to lose either the economic prosperity or the peace, albeit fragile, that it has attained. From our vantage point, a bad peace is better than a good war. North Korea craves to have its national security guaranteed by the United States and the international community, but the only tool at its disposal is military threat.

Rather than proposing specific solutions, I would like to talk about the importance of the alliance between Korea and the United States in resolving the difficulties we face. The Korean government has decided to send non-combat troops to support the U.S.-led war in Iraq despite opposition to the war because it recognizes the importance of the United States as our ally for the future of the Korean peninsula. When we consider the security threat we face and the future of the Korea peninsula, we should not overlook the important role to be played by our neighboring countries, China, Russia, and Japan. They will be crucial in deterring North Korea from taking reckless risks and also in helping it join the international community. However, we must not forget that the support of the European Union and other Asian countries is no less essential.

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SaKong Il

Agenda for Korea’s Economic Future

The Korean economy, the leading success story of the post–World War II era, experienced a serious financial crisis in late 1997, suffering negative 6.7 percent growth in 1998. However, it made a swift turnaround in 1999, with GDP growth of 10.9 percent and inflation of less than 1 percent. It is worthwhile first to look into the major causes of the crisis and factors behind the recovery as the background for discussing the policy agenda for the future.

Cause of the Recent Korean Financial Crisis

Although the crisis was triggered by contagion from the financial crisis in neighboring Asian economies, the root causes were homegrown. Structural problems had been accumulating in the Korean economy in the course of its rapid industrialization. Since the government-led industrialization strategy was primarily based on financial sector repression and a “picking-the-winners” type of industrial policy, the financial sector inevitably became weak and underdeveloped, and the big conglomerates, or chaebol, ended up over-extending themselves with weak financial structures. In addition, the labor-management relationship had been rapidly deteriorating since the mid-1980s when Korea’s labor market became rigid and its union movement radical. Liberalization and market-opening policy efforts have also weakened since the latter part of the 1980s. Consequently, the structurally weak Korean economy was not able to weather the contagion of the Asian financial crisis that started in late 1997.

Undoubtedly, the Korean economy would have had to deal with these structural problems to remain competitive in the age of globalization regardless of the crisis. The financial crisis forced Korea to accelerate necessary structural reforms. The International Monetary Fund (IMF) conditionalities that came with the emergency rescue loan certainly played a positive role in this regard. In a way, the currency crisis was a blessing in disguise for Korea’s long-term development.
MAJOR STRUCTURAL REFORM EFFORTS AND RESULTS

Since the crisis, the Korean government has been concentrating its structural reform efforts on the financial and corporate sectors and the labor market. Broadly speaking, the financial sector reform efforts were directed first towards establishing an institutional infrastructure at both the national and firm level. At the national level, the Financial Supervisory Commission was established soon after the crisis to upgrade the nation’s financial supervision and regulatory functions. At the level of financial institutions, various measures have been taken to strengthen governance and risk analysis.

With these forward-looking reform measures, major policy efforts were focused on dealing with nonviable financial institutions and accumulated non-performing assets. As a result, the Korean financial institutions today have become much more transparent and accountable, and the average capital adequacy ratio of Korea’s commercial banks has improved substantially. However, compared to the banking sector, the progress made in reforming non-bank financial intermediaries needs to be further accelerated.

Obviously, Korean commercial banks are still far behind leading global banks in their operational scope, scale, and sophistication. Continued efforts should be made in this regard. It is also critical to point out the fact that the recapitalization of financial institutions with public funds has made many Korean commercial banks de facto nationalized. Currently, one-third of the banks are in government hands. Therefore, the reprivatization of commercial banks has become an urgent policy matter for many obvious reasons, including to facilitate necessary corporate restructuring.

Corporate sector reform also had two major components: one dealing with nonviable corporations and weak corporate financial structures, and the other establishing a strong corporate governance infrastructure. The first aspect of reform was primarily directed toward big chaebols. Sixteen of the 30 top big chaebols that existed at the time of crisis either disappeared or were reorganized. At the same time, the government forced big chaebols to improve their own financial structures, and the debt-to-equity ratio of the top 30 chaebols was reduced to 171 percent at the end of 2000, from 519 percent at the time of the crisis. To improve the corporate governance infrastructure, various measures to enhance transparency and accountability were taken.

Another critical area of corporate sector reform was bankruptcy procedures. Korean bankruptcy procedures before the crisis worked more
like “exit barriers” than “exit facilitators.” Although these procedures have been substantially improved since the crisis, they should be further improved to meet global standards. In short, since the crisis, the Korean corporate sector has gone through an unprecedented change in terms of enhanced transparency and accountability.

In an effort to make the Korean labor market more flexible, the labor law was revised in 1998 to allow layoffs for restructuring purposes. However, due to various conditions that must be met, layoffs of regular workers are still not as easy as they should be. A Tripartite Commission, representing labor, management, and the government, was also established to resolve difficult labor-management issues. However, the verdict on the performance of the Commission so far is not favorable. In fact, with the Commission’s involvement, labor-management issues usually turned into labor-government problems.

In sum, however, it is fair to say that a sea change has already taken place in the Korean economic structure during the last five years, and one of the important reasons for the rapid economic recovery is these structural reforms. It is already well known that the pace of recovery has been primarily driven by rapidly rising domestic demand, private consumption in particular, which was allowed by the fast, perhaps too fast, growth of household debt. Without the financial sector reform, such a rapid change in Korean banking practices would have been difficult, and since the nation’s financial sector started to function properly, the impact of macroeconomic policies were able to be transmitted throughout the economy more efficiently. In addition, the corporate sector reforms have made most Korean firms more efficient and competitive, so that the Korean export sector has performed better than expected in recent years, considering the global economic slowdown.

National Economic Agenda for the Future

One cannot begin to discuss the national economic agenda without first emphasizing the importance of continued structural adjustments in the financial and corporate sectors and the labor market, as well as reform in the public sector, including both the government proper and public enterprises. These structural adjustments are necessary to enhance the growth potential of the maturing Korean economy, which has a rapidly aging demographic composition. In addition, the Korean economy should be made fundamentally stronger to bear the burden of the increasing cost of
economic cooperation with North Korea and the eventual unification cost. Furthermore, one should not forget that the Korean economy, a medium-sized open economy, is inherently vulnerable to contagion from financial crises elsewhere. Along with closer economic cooperation at both the regional and global levels, accelerated structural adjustments to make the Korean economy fundamentally stronger are necessary to help reduce vulnerability.

With regard to financial sector reform, the privatization of commercial banks should be put on top of the reform agenda and financial institutions should be encouraged to restructure themselves to become competitive with leading global banks. The foreign presence in the Korean banking sector is already substantial and, as privatization efforts accelerate, it will inevitably become more prominent. It is generally expected, but yet to be shown, that increased foreign investment will contribute to the reorganization of the Korean banking sector and the upgrade of banking practices.

In terms of corporate sector reform, further improvement in corporate bankruptcy procedures is urgently needed to enhance market discipline and, at the same time, to reduce the need for the government's direct involvement in the corporate restructuring process. As market discipline promotes a transparent and accountable corporate governance system, government regulations, including those specifically directed towards big chaebols, can be gradually phased out. Until then, however, some will have to be continued. The timing and pace of lifting these regulations will have to be determined by the authorities with persuasive evidence of changes in corporate behavior by the big chaebols. Eventually, even the big chaebols should be subject to the same competition and fair trade laws as other business firms.

As for labor market reform, it is critically important for the authorities to display a firm commitment not to allow illegal labor disputes. However, direct government involvement in legally permissible labor-management disputes should be avoided under normal circumstances. In this regard, the role of the Tripartite Commission should be changed to make it a consensus-building forum with expanded representation from various sectors of society, including consumers. Another urgent matter is the need to reduce employment rigidity by making it easier to lay off workers when restructuring.

Although Korea joined the Organization for Economic Cooperation and Development (OECD) a few years ago, its per capita income is still at around the US$10,000 level. There is still a long way to go to catch up
with the higher income OECD member countries, and the obvious challenge for Korea today is to shorten the catch-up period. One important aspect of globalization is the free movement of firms and jobs across national borders; therefore, the provision of a business-friendly environment should be on top of the nation’s economic policy agenda. As the Korean government has the ambition of making Korea into a regional business hub, it is necessary to provide the most business-friendly environment in the region.

In establishing a business-friendly environment, what should be emphasized is the fact that the provision of the best physical business environment is not enough to attract foreign firms; rather an institutional infrastructure that meets global standards may be even more important. In addition, unnecessary government regulations and market intervention need to be abolished, and taxes on corporate and personal income should at least be made competitive for the region. Also, the availability of financial, legal, consultative, and other services necessary for global business activities is usually considered important for global firms. An emphasis on the establishment of productive and cooperative labor-management relations cannot be left out as well. The provision of a business-friendly environment should be accompanied by the establishment of a comfortable living environment, since even global firms come with people. Unlike big transitional economies like China, Korea should aim at making the whole nation, not only a few designated special areas, into the most business-friendly zone in the region. Once Korea becomes the best place to do business in the region, the rise of China will turn into a great opportunity rather than a challenge.

The advent of the era of the knowledge-based economy itself provides a historically unprecedented competitive edge to Korea. Korea has been disadvantaged in the era of industrialization with poorly endowed national resources and limited arable land. However, for the first time in its history, Korea is in an advantageous position in terms of global competition, with its abundance of high-quality human resources and the fact that education is highly valued by most Koreans. It is natural for the government to put the highest policy priority on educational reform, and Korea again should take the bold initiative of opening up the educational services market. Also, the work participation rate of Korean women is much lower than that of most other OECD member countries and it is another important policy priority to provide incentives and an appropriate institutional environment for the increased work participation of highly educated Korean women as knowledge workers.
Korea has already become a leading IT nation from the hardware point of view; however, the productivity surge coming from the so-called new economy has yet to be realized. Korea still lags far behind high-income OECD nations in the areas of software development and IT-related venture activities. Urgent tasks for Korea should include the development of market-oriented venture business policies and efficient R&D networking between university research institutions and industry.

On the regional and global stage, Korea has important roles to play. Throughout its recent history, Korea has benefited greatly from a liberal global trading system and a stable international financial environment. It is, therefore, important to recognize that Korea has a moral obligation as well as a critical self-interest in making special efforts to obtain the successful conclusion of the multilateral negotiations of the Doha Development Agenda as originally scheduled. The agricultural issue has always been a stumbling block for Korea in taking such a leadership role; therefore, agricultural sector restructuring with a long-term perspective is another policy priority. At the same time, Korea should play an active role in reforming the global financial architecture. Korea has much to offer to the global community in this regard, since it has the recent experience of successfully overcoming a severe financial crisis.

Korea has been actively engaged in regional-level economic cooperative endeavors since the recent financial crisis. On the trade side, Korea concluded FTA (free trade agreement) negotiations with Chile last year, and substantial progress has already been made towards an FTA with Japan. Official level discussions of an FTA between Korea, Japan, and China have also recently begun. Along with these efforts, Korea should initiate serious discussions on promoting an FTA with the United States and other major economies. On the financial side, Korea is actively engaged in a network of bilateral currency swap arrangements between the ASEAN + 3 countries, and it should take a continued active role in further institutionalizing regional financial cooperation, perhaps to see it develop into a full-blown regional monetary facility. It is important, however, that regional-level financial cooperation should be designed in such a way that it will become complementary to, but not a substitute for, the IMF.

Korea surprised the world with its economic performance a number of times during the last 50 years. It first surprised by succeeding beyond everyone's best expectations in its rapid industrialization, and then the world was doubly surprised when it recovered so swiftly from its severe financial crisis. The real test is now upon Koreans. With a clear vision and the right strategies, Korea may be able to surprise the world again by
realizing its ambition to join the ranks of the truly developed countries in the not-so-distant future.

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Summary of Discussion

Discussion of the presentations made by Hong Seok Hyun and SaKong Il revolved around the prospective shape of economic policy under the new presidential administration. The point was made that understanding President Roh’s background is key to understanding the likely shape of his policy but that there are some contradictory indicators. On the one hand, it was argued, an important byproduct of his background is his hatred for establishment privilege, and his administration will do whatever possible to eliminate the transfer of wealth and power from one generation to the next. On the other hand, at his core, President Roh is a pragmatist and this characteristic, as well as his experience as a self-made businessman, will dissuade him from adopting policies that are unnecessarily unfriendly to business. In the end, any major changes in economic policy will have to be approved by the National Assembly, where his party is in the minority, and this will guarantee moderation.

Some concerns were raised that a statement President Roh had made connecting economic policy and the value he places on “participatory government” may be an indication that his administration will exercise looser fiscal controls. This was countered with assurances that Korea’s budgetary decisions will not be made on any populist or participatory basis. In addition, it was pointed out that Korea retains a degree of flexibility in terms of fiscal policy. The national pension system is currently in surplus, and tax revenues can still be increased by expanding the tax base without resorting to rate hikes. These factors, it was noted, should provide some room for the Korean government to bear some additional social expenditures.
Questions were also raised about President Roh’s commitment to privatization and economic liberalization. In response, it was argued that Korea has made significant progress in its efforts to privatize financial institutions that were nationalized during the economic crisis (the proportion of government-owned commercial banks has been reduced from 58 percent immediately following the crisis to 34 percent in 2002), and President Roh has made a clear commitment to the existing privatization schedule. Despite the ideological leanings of the new administration, a retreat from economic liberalization is also not an option, since Korea is too dependent on trade and there is an awareness that moves in this direction would lead to credit downgrades.
The Rise of China and Its Global Implications

In a session devoted to assessing the growing regional and global influence of China, Wang Jisi, Director of the Institute of American Studies at the Chinese Academy of Social Sciences, outlined the central tenets of China's evolving foreign policy. Heinrich Weiss, Chairman of the Board of SMS AG, and Wendy K. Dobson, former Associate Deputy Minister of Finance of Canada, responded with views from Europe and North America. A condensed version of Professor Wang's presentation follows, as well as summaries of the two responses and comments made during the discussion session, which was moderated by Economist editor Bill Emmott. An expanded version of Professor Wang's text will be published by the Japan Center for International Exchange in The Rise of China and a Changing East Asian Order.

Wang Jisi

China's Changing Role in Asia

A new official doctrine, reiterated by the 16th Communist Party Congress in November 2002, states that China should grasp and take advantage of this "twenty-year period of strategic opportunities." This provides the foundation for the formulation of a moderate and pragmatic Chinese international strategy, which is driven by the strong desire of the Chinese leadership to concentrate on domestic priorities. This pronounced opinion is based on a confident forecast that strategic confrontation between China and the United States or any other major power can be avoided. As is shown in China's attitude towards the war in Iraq, a by-and-large detached Chinese position is likely in regards to international issues that do not directly threaten the core interests of China. Meanwhile, for a number of reasons, China does not seek a "leadership role" in global or regional affairs.
THE NORTH KOREAN NUCLEAR ISSUE

Undoubtedly, the most imminent and difficult security problem China faces today is the North Korean nuclear issue. Another potential flashpoint is the India-Pakistan confrontation. Other security problems include international terrorism, domestic turbulence in Indonesia and elsewhere, refugees and illegal immigration from China’s neighboring countries, and crime and drug trafficking across Chinese borders. Judging from its behavior since the disappearance of radicalism in Chinese policy thinking, China will be rather reluctant to involve itself deeply in regional crises and other countries’ domestic disturbances, although it will cope with human security problems very seriously. To this extent, China will continue to be a conservative or status quo power in the region.

A striking exception to this conservatism might be the North Korean nuclear issue. China can hardly afford to lose its influence over events on the Korean peninsula where its vital interest is at stake. One painful historical memory is that the Sino-Japanese War over Korea in 1894 resulted in the cession of Taiwan, and another is that the outbreak of the Korean War in 1950 deprived the Chinese of their chance to take over Taiwan at that time and led to the nation’s disunity ever since.

The current tensions over the North Korean nuclear issue have aroused a great deal of attention in Beijing. Unlike earlier occasions when problems involving North Korea were treated in the Chinese media with great discretion and sensitivity, since December 2002 the general public has been provided with much more detailed information and commentary. An official news report on January 10 revealed that President Jiang Zemin had told President George W. Bush that China did not endorse North Korea’s decision to withdraw from the Nuclear Non-Proliferation Treaty (NPT). The message in this particular case is that there is more common ground between Beijing and Washington than between Beijing and Pyongyang.

There are at least two priorities underlying China’s posture toward the Korean peninsula. First, it is definitely in China’s best long-term interest to maintain a nuclear-free Korea. No other country is strategically more concerned than China about nuclear threats, as China now borders on three powers with nuclear arsenals: Russia, India, and Pakistan, in addition to the United States, which used to threaten China. An additional nuclear power so close to the very center of China’s territory not only would generate a lasting national security problem for China but also could provide the rationale and pretense for the development of nuclear
arms by other regional players, notably Japan and even Taiwan. There already have been reports about Japanese debates on this issue that touch upon China's sensitivities.

The priority of preventing North Korea from going nuclear is sufficient incentive for Beijing to cooperate with Washington, and the international community in seeking a viable solution to the problem. In other words, Beijing does not regard the problem as a bilateral one between the United States and North Korea, as if China were just a passive bystander. In fact, China and the United States share a strong and special common interest in keeping other Northeast Asian players from gaining nuclear arms. At the moment, Beijing's hesitation to act more vigorously on the North Korean issue is naturally related to what it sees as uncertainties in U.S. strategic plans.

The second, but maybe equally important, priority in China's strategic calculations is the preservation of peace and stability on the Korean peninsula, including stability in the North. While the United States definitely prefers a peaceful solution to get out of this nuclear trap, Chinese and American perceptions of North Korea's domestic stability diverge. Chinese analysts believe that their predictions of North Korea's survivability in the 1990s were validated, in contrast to the forecast of imminent collapse made by many of their American counterparts. Today, the Chinese continue to believe in the likelihood of North Korea's survivability. They have a larger stake in maintaining stability in the North than any other country except, arguably, South Korea, not because of any ideological and political reasons, but mainly because of the geographic, demographic, and economic realities in China's northeast.

To Beijing, a nuclear Korea would be catastrophic, but a military conflict there would also be catastrophic. Faced with this dilemma, China's maneuverability over the nuclear predicament is circumscribed, particularly when both the United States and North Korea are sticking firmly to their respective positions. When the Bush administration is preoccupied with the Middle East, it is not likely to react decisively to North Korea's prodding, and the North Koreans could move further to reactivate their nuclear devices and military maneuvers. Things may get worse before they get better. Now it is urgent to find a way to stop the spiral toward a dangerous escalation of tensions.

There should be a third priority of assisting North Korea's economic recovery. Pyongyang's siege mentality has been exacerbated by its poor economic performance and the widening gap between the standards of living in North Korea and its neighbors. China supplies a sizeable amount of annual
energy and food aid as well as emergency assistance to the North. Prompted by humanitarian and other considerations, the Chinese government also has to handle the matter of North Korean refugees residing in China.

THE TAIWAN ISSUE

Since 2001, there have been two subtle modifications in Beijing’s conceptualization of the Taiwan issue. First, it is more apparent to the Chinese today that, despite the conspicuous U.S. political support to Taiwan and its democratization, Washington’s policy toward the island is not intended to encourage or endorse the de jure independence of Taiwan. The Bush administration’s consistent position of not supporting Taiwanese independence has assured Beijing that the U.S. government knows the “redline,” namely, that a provocative Taiwanese action to change the legal status of Taiwan would trigger a major confrontation between Beijing and Taipei, which could engage the United States in a deadly military conflict with the Chinese Mainland. Washington, therefore, would rather see the status quo of “no reunification, no separation” maintained in cross-Strait relations. This contrasts with the earlier mainstream Chinese perception that the U.S. strategy toward Taiwan was designed to separate Taiwan from other parts of China permanently.

The other modification in Beijing’s posture is based on the reassessment that time is on the Mainland’s side in the long run, as the Mainland’s economy is growing much faster than Taiwan’s economy and the strategic balance of power is increasingly shifting in the Mainland’s favor. Beijing is hoping that deepening socioeconomic interdependence between the two sides will pave the way for political integration. The newly enhanced Chinese confidence bodes well for a more accommodating and manageable relationship between the Mainland and Taiwan and also for a reduction of international tensions in East Asia.

THE U.S.-CHINA RELATIONSHIP

Beijing’s policy toward the United States is temperate and getting increasingly mature. While the cliché of China needing a peaceful environment to sustain its economic growth and social progress still applies, Beijing has been developing a long-term strategy based on some other fundamental assumptions.
The first assumption is that the global strategic structure is seriously unbalanced in favor of the United States. The Chinese projection of the "inevitability of multipolarity" does not prevent them from noting, at least privately, that the United States will remain the only global hegemonic power for decades to come. Chinese policy analysts, being believers of realism, have few illusions about the feasibility of formulating a lasting international coalition that could serve as a counterforce to U.S. power. China has neither the capability nor the desire to take the lead in formulating such a coalition, let alone in confronting American hegemony by itself. In the diplomatic showdown at the United Nations in 2003 prior to the war in Iraq, China generally sided with France, Germany, and Russia in their effort to forestall a military solution but did not run the risk of offending the Bush administration.

Even without active Chinese resistance, U.S. hegemonic behavior will not go unchecked in the international arena. This is another belief firmly held by the Chinese, especially when they look at the Asia Pacific region where few countries, if any, would give unequivocal support to a potential U.S. policy intended to isolate or contain China. This strategic situation will give China enough breathing space to enhance its status and influence. With the growth of China’s markets and its wealth, Japan, South Korea, the Association of Southeast Asian Nations (ASEAN), Russia, and other regional powers will be increasingly motivated to strengthen their economic ties with China. A deeper political understanding between them and China is in sight. The general trends in Asia are conducive to China’s aspiration to integrate itself more extensively into the region and the world, and it would be difficult for the United States to reverse this direction.

One other Chinese assumption is that different views and interests regarding China continue to exist within the United States. Hardliners are balanced by moderate, realistic advisors, some of whom are respected China specialists with political experience. The military view of China as a threat is in conflict with commercial interests at a time when giants like Boeing, Motorola, Citibank, and Wal-Mart have an increasingly large stake in China’s markets. Engagement between China and the United States is so extensive today that the Bush administration cannot go too far in the direction of a China policy similar to U.S. policy toward the Soviet Union during the cold war years.

In the final analysis, a policy of avoiding confrontation with the United States is consistent with China’s domestic political agenda. To be sure, many Americans look at China’s political system with distaste, and the
United States provides sanctuary to representatives of virtually every Chinese group regarded as anti-government. But political conflict with the United States could only worsen the situation. As China’s reform agenda emphasizes the rule of law, democracy, and market economics and accepts the concept of human rights, many political issues between the two nations can be taken up through dialogue. In addition, excessive nationalistic feelings, most of which are directed against the United States and some against Japan, will not be helpful in enhancing the authority of the Chinese leadership. A stable political situation in China is partly contingent on a successful diplomacy that can better manage its relationship with the only superpower in the world today.

This strategy of course is not without difficulties. There is a dislocation between the media coverage of international affairs which may inflame undesirable, unnecessary nationalistic sensations and the actual policy thinking and practice. Interagency coordination within the Chinese government has proven a daunting task, especially in regards to crisis management. The nature of the Chinese political structure foreordains difficulties in engaging the United States, whose political strength lies largely in its pluralist society rather than the concentration of power.

In general, the reduction of mutual suspicions and mistrust between China and the United States will pave the way for more creative and proactive Chinese approaches to regional security and economic cooperation. There is also a realization among China’s leading strategists that the rise of China must be accompanied by the rise of Asia as a whole, as that kind of structural change in the global balance of power should place China in a better position vis-à-vis the United States.

**Conclusion**

The following features are discernible in China’s relations with other Asian powers and will define China’s role in Asia: 1) China will seek improved bilateral relations with all neighboring states; 2) China will seek more active participation in multilateral security and economic arrangements and cautiously initiate new forms of regional economic cooperation; and 3) China will take more serious consideration of U.S. interests in the region in conjunction with China’s own strategic goals.

Beijing’s concentration on domestic development, the Chinese consciousness of international sensitivities to the perceived and actual “rise of China,” and the successful pragmatism apparent in China’s international
behavior in the post–cold war era combine to preclude an excessively assertive Chinese posture toward the Asia Pacific region.

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HEINRICH WEISS

A European Perspective

As Professor Wang mentioned, the North Korean nuclear threat is China's biggest security problem. Now, in Beijing, there is a real fear of the North Korean government doing something which is not logical or which goes out of control. In this respect, China has the same interests as the United States and Japan, and this is one reason why Beijing has been cultivating the relationship with the United States.

China is modernizing its military equipment, not only because of Taiwan and North Korea but also because of its strategic goal of becoming the second superpower. To be a superpower you have to be a political superpower, an economic superpower, and a military superpower. The role of political superpower will come automatically with the size and importance of the country, and China's status as an economic superpower is already growing. But military superpower status only can be reached by military modernization.

Unification with Taiwan is, of course, a goal of Beijing. Until 1990, Chinese leaders openly spoke about a military solution, but this ceased about 10 years ago. Today, they have a much softer approach. It is a little bit like business. If you want to take over a smaller company today, you talk about a merger of equals in spite of what you really mean, which is a takeover. In politics you can pretend that you want a merger of equals when you want a takeover and do this without being punished afterwards. Both Taiwan and China have an economic interest in unification, and
economic cooperation is growing intensively. I think the unification of the People's Republic of China will move slowly, but it will probably be finalized during our lifetime.

It is now more than 15 years that GNP growth in China has been between 6 percent and 10 percent, and it is important that China has successfully managed to control inflation. It was not just demands for political freedom but exploding inflation that was one of the reasons for the tragedy in Tiananmen Square. Since this experience, China's leadership has understood that curbing inflation is also a socio-political goal. They also have successfully opened their country to foreign investors, and they are very proud of gaining membership in the World Trade Organization (WTO). The Chinese have always been interested in a worldwide free trade system, and they seem to behave as a loyal WTO member.

Now with this tremendous economic success, the question is where are the political reforms. You cannot ask a manager of a Chinese company to behave like a Western manager, profit-oriented with a modern style of leading employees, only to have him come home as a private citizen in the evenings and be deprived of human rights, free information, and free elections. The government says that the country is so big and heterogeneous that it cannot push political and economic reforms at the same time. Their excuse is the example of Gorbachev. Of course, everyone knows that these political reforms will come anyway and automatically, because with global trade there is now so much exchange and travel by Chinese that the virus of a free society comes into the country anyway.

Of course, there are still many problems: the conversion of the big state enterprises, the banking system, the more than 100 million unemployed migrants. Still, I think the biggest challenge the leadership has to face will be to establish the social systems that are necessary: health insurance, unemployment insurance, and pension plans.

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Wendy K. Dobson

A North American Perspective

China as a Destination for FDI and Its Role in World Trade

There is a sense that China’s Pearl River Delta is becoming the factory of the world. Starting with foreign direct investment (FDI) and trade, it is now well known that China recently surpassed the United States as the world’s leading destination for FDI, but behind this statistic is the fact that China has become the destination for manufacturing production chains. The reasons are obvious: China has abundant low-cost skilled labor, its special economic zones are turning into significant clusters of global manufacturing activity, and there is the added inducement of the size of its domestic market. These factors are not new. What we are seeing in China now is a stock adjustment in response to WTO accession and the related reduction in risk as it adopts WTO rules, but this surge of FDI should last just another five years or so.

China’s Alleged Role in Global Deflation

China is now the world’s sixth largest trading nation, and the world’s consumers are beneficiaries of the low-priced commodities produced in China. As its export penetration grows and as its foreign reserves position grows, there are calls to revalue the exchange rate. ASEAN economies and Japan are particularly interested in such a revaluation, but this is partly do to their own reluctance to undertake the painful structural adjustments required to avoid direct competition with Chinese manufactured commodities. Interestingly, China now has to slow the speed of its structural adjustment to manage their social consequences. China is experiencing domestic deflation because of these adjustments and it faces a dilemma; it cannot raise the market value of the renminbi without worsening its own deflationary forces and reducing the credibility of its fixed exchange rate policy, but its other options are further U.S. disinflation or the reflation
of its domestic economy. Given the still immature structure of its domestic financial institutions, however, there are reasons to doubt that the course of reflation would be easy for China to control, so we will have to wait until China undertakes further strengthening and modernization of its financial institutions.

**China as the Regional Leader in East Asia**

While China is now a significant manufacturer and exporter, it is also a major importer, particularly of regional goods and services. In 2002, imports into China and Hong Kong from the rest of the region accounted for 16 percent of the region’s total regional exports, and China ran a trade deficit with the region as a whole. The decision of China and the ASEAN nations to work towards an FTA ten years from now is a powerful signal of China’s long-term interest in deeper regional integration. This also raises some interesting questions regarding the likely consequences for the ASEAN economies of becoming spokes to a Chinese “hub,” the possibility this will encourage China to seek deeper financial ties as well at the expense of the network of bilateral swap agreements underpinning the Chiang Mai Initiative, and the implications for China’s interests in integration with its Northeast Asian neighbors.

**Risks in China’s Emergence**

The worries about China’s emergence might more appropriately be aimed at whether its substantial domestic weaknesses are potential systemic threats. The new Chinese leadership has signaled its concern with rising domestic income and development disparities. Progress has been made to modernize the financial system, but much remains to be done to remove the overhang of domestic debt from the books of the banks, to break the links with loss-making state-owned enterprises, and to introduce modern practices of accounting, corporate governance, and transparency. In addition, China’s response to the conflict in the Middle East has been tempered by its growing dependence on imported oil. I do not think that these weaknesses and risks pose systemic threats, but they underline good reasons why China will continue for the foreseeable future to be preoccupied with domestic challenges.
CONCLUSIONS

There are two main global economic implications of China’s changing economic role. First, China’s interdependence with the rest of the world is growing, most notably with the United States. Such interdependence implies that it is not in China’s interest to be a global economic or security threat. China is not a major source of global deflation, and it will be difficult for China to contribute to global reflation. Also, because of its size, China can expect calls for it to join in international economic policy cooperation; however, for such calls to be credible, the G-8 should first enlarge itself into the G-9. Second, China is too preoccupied by domestic challenges to try to reshape multilateral institutions to its own ends, or to operate actively against U.S. interests. Instead, it is likely to continue its record of being a responsible member of global institutions, so long as other members do not turn their backs on these institutions.

Prior to taking her current posts as Professor of International Business at the University of Toronto’s Rotman School of Management and Director of its Institute for International Business, Dr. Wendy K. Dobson served as Associate Deputy Minister of Finance of Canada.

Summary of Discussion

The remarks in the discussion session revealed that many of the participants share a cautiously optimistic assessment of China’s progress and prospects in its domestic reforms and external relations. On the topic of economic reform, concern was voiced about the ability of Chinese authorities to lower the degree of military involvement in the economy, combat intellectual property violations, and shore up China’s financial system by overcoming the non-performing loan problem. However, most of the speakers qualified their questions by remarking that, while there are vulnerabilities in China’s economy, they are manageable and are being addressed in fundamental ways.

The discussion of political reform proceeded on much the same tack. Questions as to how China could accelerate the pace of reform and a
warning that postponing political liberalization while waiting for economic growth would not reduce its adjustment costs were met with statements that China's progress on this front actually has been impressive in many ways. One Chinese expert noted that, comparing the China of today to 30 years ago, we already have seen a "regime change" in terms of the composition and character of the country's leadership, and we will likely see change of similar magnitude in the future. This reform, it was added, will eventually include national elections of leaders, but the pace of reform will not be as rapid as many outsiders hope, in part due to the lessons drawn from the perceived failures of rapid political reform in the Soviet Union. Western participants counseled patience as well, with one arguing that China's middle class does not currently place high priority on political liberalization and another commenting that, over the past 20 years, the Chinese leadership has displayed a good sense of how quickly it can reform.

Participants also demonstrated a great deal of curiosity as to how China's role in regional security affairs will evolve as the country's influence grows. There was a strong sense that China is committed to maintaining stability in the region as opposed to exercising its military power. Chinese participants noted, for example, that while it is not likely that reunification with Taiwan will take place soon, Chinese leadership hopes to keep cross-Strait relations manageable by maintaining the status quo. They also confirmed that, in recent years, the lack of attention to China's territorial disputes with its neighbors has been the result of an intentional effort to play down the importance of these issues.

Policy toward North Korea was a major concern of the attendees, and, in a reference to a statement by Keizo Takemi in an previous session, it was made clear that China's leaders similarly see a nuclear North Korea as unacceptable but are committed to the principle that North Korea will have to be dealt with in a multilateral fashion. While China's leaders are opposed to a military solution and have no intention of applying military pressure, they realize that some pressure may have to be applied by other countries. They will wait to see what other countries do before deciding whether to exercise any economic options, but there is a growing awareness that Chinese provision of food aid alone will not be sufficient and that some support for North Korean economic reform may become necessary. However, China's greatest potential contribution, it was argued, can be made on the diplomatic front, and it was stressed that it has already been very active behind the scenes in a variety of ways in dealing with North Korea, even though none of these efforts have been public.
A number of participants noted that they were impressed by the improvement in U.S.-China relations as well as by the fact that the U.S. leadership is refraining from bashing China. One key theme of the discussion involved the awareness of China's leaders of the need to work cooperatively with the United States. For example, it was noted that the U.S. troop presence in Central Asia does not overly alarm Chinese leadership, since they realize it is designed to counter terrorism. Also, while China will be more proactive in shaping the strategic landscape in the Middle East as its dependence on imported oil grows, it recognizes that its leverage is limited and that it will need to cooperate with the United States. In general, Chinese leaders see U.S. power as manageable for the time being since it is not being directed against China, and while other powers are bound to act as checks and balances against U.S. power, China does not want to be at the forefront of any of these efforts.
Japan’s Domestic and International Agenda

Against a backdrop of heightened tensions with North Korea and a decade-long economic slump, two members of the National Diet spoke about the challenges facing their nation. Keizo Takemi took up the issue of North Korea and described two new trends that are driving a more active Japanese foreign policy, and Yasuhisa Shiozaki outlined Japan’s domestic and international economic agenda. Condensed versions of their presentations and a summary of the subsequent discussion session are presented below.

KEIZO TAKEMI

Addressing North Korea’s Acquisition of Nuclear Weapons and a Collective Approach in Northeast Asia

Let me start with the most important security issue facing Japan today, namely, the problem of North Korea’s nuclearization. Our position on this issue is simple and clear. We will not accept North Korea’s possession of nuclear weapons, and we will use all available means to prevent this from happening. Military confrontation on the Korean peninsula has been averted, thanks to the overall balance of power across the Thirty-eighth Parallel. Such balance may be destroyed by North Korea’s acquisition of nuclear weapons and its capacity to launch missiles, and this will have extensive repercussions for Japanese security.

Japan is fully aware that the normalization of diplomatic relations with North Korea is the last remaining task that needs to be accomplished to put an end to the postwar era. Bearing fully in mind the need to establish diplomatic relations and promote friendly relations with North Korea, Prime Minister Jun’ichiro Koizumi made a historic trip to Pyongyang last year. Mr. Kim Jong Il admitted that abductions were conducted by North Korean agents and revealed that among the Japanese nationals abducted
and brought to North Korea, five were alive, but eight were not. Although the abduction issue outraged the Japanese people, the Pyongyang declaration, which was signed by the two leaders, is a useful basis for initiating normalization talks and we continue to hope that the two governments start these talks sooner rather than later. Japan has and will continue to honor the Pyongyang declaration and hopes North Korea will do the same, but I must make clear that the acquisition of nuclear capability by a neighboring country that has no diplomatic relations is totally unacceptable to Japan.

I need to emphasize our opposition to North Korea’s acquisition of nuclear capability, not only because of the security threat that it will present to Japan but also because this is the view held by the school of security thinkers on the Japanese political scene that I call the “military realists.” This younger generation of political leaders does not hesitate to take up security issues, which have been politically divisive and sensitive in light of the pacifist tendencies of the Japanese public. On a nonpartisan basis, a consensus is emerging to review the self-imposed restriction on the exercise of the right of collective self-defense by establishing a basic law that spells out Japanese security strategy. A parliamentary league of more than 100 Diet members has been formed to promote this legislation. While there is agreement on upholding the bilateral alliance with the United States as an effective deterrent, there is a growing tendency to assert a more substantial and visible Japanese role in the case of contingencies in the region. Japan is gradually transforming herself from an economic animal to a country with a more balanced personality, and these military realists will not sit by idly as the danger of nuclear proliferation in the region grows. There is no room for another nuclear weapons state in the region and Japan will use all available means to stop this from happening. I must not fail to mention that the military realists openly discuss the need to seriously consider a preemptive military strike in the case that a hostile state is about to launch a missile attack on Japan with nuclear weapons.

North Korea’s drive to acquire nuclear capability may not be altered unless all the relevant countries of the region cooperate extensively because North Korean ambition may be based on the misperception that possessing nuclear weapons provide it with better security. North Korea’s position has been consistent; they are seeking assurance for their survival. The best assurance will be provided by a multilateral group, namely, the United States, Russia, China, South Korea and Japan, and this multilateral assurance could represent a stage in the evolution of the Framework Agreement.
Although it may not be a formal setup, a multilateral framework of cooperation among the interested parties in the region must be formed. Such multilateral cooperation should include debates in the UN Security Council, since North Korea’s nuclear ambitions seriously affect stability in the region and could also affect the truce agreement administered by the United Nations. While the United States will provide deterrence, the United Nations will provide a forum in which to reach a peaceful solution to the issue. In order for the United Nations to operate effectively, the permanent members of the Security Council, in particular Russia and China, will have to participate in the efforts in a constructive manner.

Let us learn an important lesson from the UN experience handling Iraq. The confrontation which kept the Security Council from playing the role entrusted to it by the UN Charter should not be repeated. Utmost care must be taken to coordinate policies among the United States, South Korea, Japan, China, and Russia, since we all share a common interest in preserving peace on the peninsula. Diplomatic efforts will not be effective without the joint efforts of these countries, and debate in the United Nations should be conducted on the basis of this coordination. Japan should take the lead in conducting extensive dialogue with both China and Russia in addition to continuing coordination with the United States and South Korea. Of course, Japan will continue to try to resume normalization talks with North Korea, but in the absence of these talks, the multilateral process should be promoted. The presence and engagement of the United States is indispensable, but the United States should not always be the only country that takes responsibility on security issues. The United Nations will have to be relevant.

This leads me to address the issue of UN reform. The fundamental cause of the problem is its outdated decision-making scheme that is based on the dominance of the voices of the winners of World War II. Japan, devastated by war, is now the second largest economy after the United States, and our assessed contribution of 20 percent is more than the total share of the United Kingdom, France, Russia, and China combined. How can we justify continuing to shoulder this burden, when we do not even have a seat at the Security Council? In the past, Japan has been criticized for free-riding. We have tried to correct this by taking on our fair share, both financially and physically, and Japan will not accept free-riding by other countries that sit on the Security Council. If the international community wishes to maintain the United Nations as a relevant international organization, Japan wishes to be provided with a status that fits its
contribution. We have waited for too long. I sincerely hope that UN reform will be achieved before Japanese patience runs out.

As seen with the war in Iraq, the world today is undergoing a major change in the basic structure that maintained postwar security. In Asia, however, the existing security framework continues to function and in the face of the immediate danger of military confrontation, no hasty change should be sought. Diplomatic and peaceful resolution must be the rule in addressing problems. The two main pillars of security, the United Nations and the Nuclear Non-Proliferation Treaty (NPT) should be upheld, as the United States continues to be fully engaged. The Taepodong missile launch over Japan was a wake-up call for realistic security debate in Japan. While we will continue to contribute by assisting Asian countries in their nation-building efforts as a part of our diplomacy promoting stability in the region, we will also become more active on the security and political fronts in trying to find an appropriate role for a more self-assertive Japan. Needless to say, this trend in no way signifies a Japanese return to militarism; Japan knows only too well that Asian prosperity is possible only in a peaceful environment. Our effort will therefore be based on joint, coordinated diplomacy.

I wish to touch on another trend emerging among the younger generation, regarding those that I call the “citizens of civil society.” You may be surprised to know that it is a Japanese nongovernmental organization (NGO), Peace Winds Japan, that has been the most active in Northern Iraq over the past decade in assisting the Kurds in obtaining their basic human needs. Over the past decade, we have seen a number of Japanese youth engaged in NGO activities in such areas as Kosovo and East Timor. The growing self-assertion we see emerging in Japan is also driving Japanese youth to work on the behalf of other people in remote areas. These are the younger Japanese that I call the “citizens of civil society.” Their common goal is building a world community where individuals will be able to live comfortably without fear and be able to realize their potential.

This thinking is in line with the concept of human security, which focuses more on the value of individuals rather than sovereign states as the basis of the international community. As we look towards a future where ideological differences will no longer divide nations or people, I believe the main concepts driving international cooperation should focus more on individual human beings. The development of strong communities in the aftermath of conflict is one of the new directions being promoted by Japanese Official Development Assistance (ODA). Projects taken up by the UN Trust Fund for Human Security, which was created in 1999 with a
Japanese contribution, include reconstruction activities in Kosovo and the promotion of reconciliation in East Timor. In addition to the UN Trust Fund, the Japanese government has a budget of 150 billion yen in the form of grant aid that can be used as grassroots human security assistance. This grant aid is provided to NGOs or local governments that implement projects that promote human security. The “citizens of civil society” have been and will use this funding to implement their projects. This joint effort by NGOs and the government is a new assistance scheme that is a concrete policy response to the emerging interest of the Japanese youth who wish to take part in peaceful activities outside of Japan.

Today I tried to describe two emerging trends and how they affect Japanese involvement in international relations. I believe that both are sound and constructive. It is now up to us, the political leaders, to reflect them in concrete government policy.

*Keizo Takemi is a Member of Japan’s House of Councillors.*

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YasuHIsA ShiOzaki

*Japan’s Domestic and International Agenda*

My task is to speak about Japan’s economic agenda in both the domestic and international arenas, but I assume many of you are already sick and tired of hearing about how and why Japan’s economy has underperformed since the early 1990s.

While the world economic outlook is unpredictable, Japan’s economy, amazingly enough, is now about to bottom out cyclically. So, what will determine the course of Japan’s economy going forward? Let me make three points. First, we have to be mindful of the fact that the present cyclical recovery may be smaller than the last two, which were supported by substantial fiscal stimulus packages, because we have no apparent driving force for business investment this time. Second, the possible recovery in the manufacturing sector will not guarantee sustainable growth for the Japanese economy as a whole. Japan has to change its economic model
from that of a manufacturing based economy into a service industry-based and consumer-oriented economy with much higher productivity and profitability. Third, fragility in the financial system still centers on the weakness of the Japanese economy. The first priority must be placed on the banking industry reform.

We have already witnessed the aggressive restructuring of various industries in many countries along with drastic changes in the corporate management of both banks and other troubled industries, and Japanese people, both in the public and private sectors, have already studied this. Then, why does Japan seem so slow? I think the problem lies in the nature of Japan’s politics itself, which has continuously delayed the rigorous and painful resolution of our financial mess.

**Accomplishments of the Koizumi Administration**

The incumbent Koizumi administration was unprecedented in the sense that Mr. Koizumi won the Liberal Democratic Party (LDP) leadership race against the background of the people’s enthusiasm for reform. His slogan, “no pain, no gain for reform,” did appeal. Two years have since passed and the prime minister’s approval rating has dropped from 80 percent to 40 percent. What went wrong?

In my judgment, he has been putting emphasis on two areas. The first has been the U.S.-Japan alliance, and in this sense I support him. Second, the Koizumi administration has been putting the highest priority on fiscal consolidation. He succeeded in cutting fiscal spending in the national budget, keeping Japanese Government Bond (JGB) yields below 1 percent. However, by doing this, Koizumi was unsuccessful in making the economy grow faster. Economic growth was sacrificed for short-term fiscal balance. Regrettably, he has failed to set the right priority among reforms. The Koizumi administration has proposed a wide spectrum of reforms, including the privatization of government-sponsored corporations such as the postal service, fiscal consolidation, non-performing loan resolution, comprehensive tax system reform and the strengthening of national security. So far, however, every reform seems to have been subject to compromise with the so-called resistance camp in the LDP. All the reforms are left incomplete, except for fiscal consolidation.

This problem of priorities has implications for macro-economic performance in Japan. Let me take for example the official line of the administration’s economic policy. That is, “get over deflation and then
carry out structural reform.” As far as I know, the administration officials are taking price deflation and structural reform to be separate. But in reality, price deflation is nothing but a result of the GDP gap between demand and supply. That is why we need to carry out structural reform by both cutting supply in unproductive sectors and by increasing demand in productive sectors. A cause of price deflation lies precisely in the slow speed of Japan’s domestic industrial reform. Japan has to carry out domestic structural reform in order to overcome price deflation. As long as the Koizumi administration defines structural reform as simple pain and pays little attention to strengthening productive sectors, Japan cannot get out of the economic mess it is in today.

Recidivism to Socialism

While the Koizumi administration’s reform efforts are beginning to stall, I think Japan is facing a new kind of challenge, that is the inward-looking trends emerging in both the private and public sectors. Let me take up three examples of this inward-looking tendency.

The first is the rapid contraction of the market economy. Under the influence of the zero interest rate policy as well as the quantitative monetary easing policy taken by the central bank, the size of the short-term money market has shrunk by as much as 55 percent since 1998. In the government bond market, the central bank buys up 14.4 trillion yen annually, which is equivalent to almost half the annual budget deficit. Also in the stock market, the largest buyer during the past three months was the central bank, which has been buying corporate stocks from commercial banks for the purpose of strengthening the commercial banks’ balance sheets. Lastly, the dollar-yen exchange market is heavily influenced by frequent government intervention. These financial markets are increasingly dependent not only on governmental support, but also on government activities such as restrictions on short sales.

Secondly, traditional business practices have come back. In the case of the major banks’ capital augmentation in recent months, some megabanks reinforced cross-shareholding practices between banks and borrowers, rather than acquiring new capital through public offering. In addition, some policymakers now go so far as to plan to stop mark-to-market accounting with regards to cross-shareholding in order to disguise losses from further stock market declines. By the same token, they strongly oppose the introduction of an accounting method to deal with the
impairment of fixed assets, so as to avoid having to recognize unrealized real estate losses. Recidivism to market manipulation is surfacing as businesses shun the realities of the global market economy.

Third, an increasing number of policymakers are now striving for a weaker yen. While I do not necessarily deny the benefits of a weaker currency, it is also likely that so long as Japan continues to bear the burden of inefficient capacity and excess liabilities, the weaker yen will provide only limited support for the economy, and we may end up exporting beggarthy-neighbor policies to other trade partners.

I think this inward-looking tendency can be seen these days in other countries as well. A fear of worldwide competitive exchange rate devaluations like those of the 1930s is one concern. Another concern is the possibility that the serious divide we witnessed in the UN Security Council over Iraq may contribute to trade conflicts within the World Trade Organization, which will inevitably lead the world economy into hazardous regionalism. A nightmare of regionalism and economic blocs must be avoided at all costs. Japan benefits most from the free global trade system, and at the same time, Japan’s economic growth itself is a crucial factor in the stability of Asia. In light of this, Japan has an obvious role to play in economic fora in the post–Iraq War period.

**Conclusion**

To sum up, the agenda for Japan in the international arena is, “Do not stop globalization,” and the domestic agenda is, “Do not stop structural reform toward sustainable economic growth.” I hate to repeat such boring statements, but I have to do so, because we are confronting a real challenge to globalization and domestic reform.

With numerous daunting problems, Japan has moved only slowly during the past decade. This is because the problems are of a structural nature that require strong political will to fix. I believe it is of utmost importance that we establish a new political core, which attracts reform-minded and yet non-ideological people who can serve as catalysts for building up a new Japan. As someone making his way in the world of politics, who must take responsibility for the nation’s future, I strongly believe that the new Japan will come to be only if we revitalize not just our economy, but also our democracy, that is, our nation’s policymaking and decision-making processes.
Japanese policy towards North Korea and the pace of economic reform emerged as the two main concerns of the participants. Several questioners seized upon Keizo Takemi’s use of the word “unacceptable” in reference to the acquisition of nuclear weapons by North Korea and asked him to clarify his statement. He reiterated the point that the Japanese government would use all available means to prevent North Korea from obtaining nuclear weapons and that military measures would be included as an option. The CIA has reported that North Korea already possesses one or two atomic bombs, and some people have expressed the opinion that this may be acceptable so long as North Korea does not build excess nuclear weapons to sell. Takemi made it clear, however, that this cannot be permitted because even one or two nuclear warheads pose a serious threat to Japan. It was noted that, in light of the deep current of negative public sentiment toward North Korea in Japan that is partly due to the abduction of Japanese citizens, it would not be difficult to build a public consensus on confronting North Korea and it may even be possible to use these feelings to build a consensus on the revision of Japan’s security posture. Still, there is broad agreement that a multilateral approach is in Japan’s best interest.

European participants expressed concern that Japan would use the threat of cuts in its level of annual support for the United Nations in an effort to gain a seat on the Security Council. In response, a Japanese politician noted that, against the backdrop of rising budget deficits, he sees growing frustration among his constituents with large contributions to the United Nations. A Southeast Asian participant agreed that there is a need for UN reform but confessed his worries that if Japan and Germany were to be admitted to the Security Council without raising the number of seats held by developing nations, the Council would become even more unbalanced.

A large number of the participants were also concerned with what they saw as the slow pace of economic reform. The subject of nonperforming
loans (NPLs) occupied center stage, but there was also a broad sense that much of the needed reform is actually on the microeconomic level. Banking reform, particularly through more rigorous enforcement of due diligence standards by the Financial Services Agency, was offered as a prime example of a necessary reform, and several members also called for greater efforts to promote corporate restructuring. In the end, though, numerous participants agreed that economic reform is contingent on political reform and that unless there is a change in Japan's governance, there will be limited progress on economic issues.
Prospects for Pacific Asian Integration

Discussion of the future direction of Pacific Asian regional integration was taken up on the first day of the plenary. Jesus P. Estanislao, former Secretary of Finance of the Philippines, argued that trade liberalization efforts may have reached the point of diminishing returns but the areas of finance and development provide fertile ground for further regional cooperation. Professor Wang Gungwu of the National University of Singapore spoke about the link between sociocultural change and regional integration. Condensed versions of both speakers' remarks follow.

Jesus P. Estanislao

The Economic Dimension

Introductory Comment on Trade

We in the Asia Pacific area have taken closer economic integration between both sides of the Pacific Ocean as a strategic imperative. We have been holding on to the conviction that keeping trade and investment free and open among all economies bordering on the Pacific Ocean would be critical to sustained growth and development, let alone for broader, even more fundamental goals. Consequently, we have been investing considerable time and effort in pushing the envelope further towards making the area a community of economies committed to free and open trade and investment. By 2010, by our declarations, we should be close to substantiating that commitment, and by 2020, the commitment should be fully met.

The road to meeting such a commitment has proven to be much more difficult than originally expected in Seattle and Bogor. The Asia-Pacific Economic Cooperation (APEC) process has been far from an easy joy
ride. While economic and technical cooperation has been brought into the APEC agenda, specifically in those areas that would facilitate open and free trade and investment, trade liberalization has still been the major and predominant item on the agenda.

Despite the difficulties of pushing more comprehensive trade liberalization in the World Trade Organization (WTO) under the Doha Round and of making further dramatic gains in the regular APEC process, there has been no dearth of initiatives within the trade area aimed at promoting closer economic relations among economies or within a small group of economies. How all these narrower agreements will add up and serve as building blocks for closer, more open, and freer economic relations in the Asia Pacific region has been a matter of considerable debate. The benign view has been that these narrower agreements point to the inexorable forward momentum; if difficulties become intractable at the broader, more inclusive level, economies are going to look for alternatives that may be narrower, and arguably less inclusive. They still wish to move forward towards free and open trade.

The less benign view has been that trade liberalization has been pushed too far, given political realities and other constraints. We may be nearing the point of diminishing returns for our efforts at further trade liberalization. We may continue to invest time and attention on further initiatives in this area, which is no doubt very important and potentially very productive for economic welfare all around, but the eventual harvests from such investment may no longer be as bountiful as they had been in previous rounds.

AN EXPANDED AGENDA INCLUDING FINANCE AND DEVELOPMENT

The area of finance has until recently been given less attention as a potentially very productive area for regional cooperation. Yet, the amounts involved in the financial interaction among economies in the Asia Pacific region dwarf by a considerable multiple the amounts involved in their trade relations. Moreover, where financial flows between economies are involved, there is already considerable openness and freedom, with little of the institutional and regulatory mechanisms to guard against and deal with the occasional irrational exuberance of financial markets. The critical events of 1997–1998 pointed to the relative absence of these mechanisms and to the relative inability of economies in the region to cope with the ill effects of contagion and extreme market volatility.
At the microeconomic base of any financial and economic system are institutions and corporations, especially banks whose corporate governance practices need to be aligned with the demands of free and open financial markets. Some progress is being made in each of the economies in the Asia Pacific region, but cooperation among them with regard to corporate governance has just begun. Yet, the common concern to significantly improve and possibly modernize corporate governance practices has great potential to bind the economies in the region more tightly and to integrate them even more closely.

At the intermediate level of any financial and economic system are the commercial banks, which need to be properly and competently supervised in order to ensure their continuing stability and strength as financial intermediaries. Here, too, as in the case of corporate governance, codes of best practice need to be shared, and standards of financial supervision as well as professional ethics need to be set uniformly high. Indeed, the multiple and complex demands of an open and toughly supervised banking system are so high that they can be met easily only through closer cooperation and coordination among economies in the region. The same can be said about the related issue of capital market development.

Macroeconomies are subject to systemic risks which, if not properly managed, can put extremely severe and sometimes unbearable pressure on economies, polities, and societies. The East Asian experience of 1997–1998 shows how severe and unbearable such pressure can become. Moreover, because of the closer economic interdependence that has been forged among economies in the region, contagion has become a fact of life. Thus, it has become imperative for economies in the broader Asia Pacific region, particularly in East Asia, to forge effective mechanisms for cooperation in macroeconomic risk management. Some useful first steps have been taken, such as the ASEAN Monitoring Unit and the Chiang Mai Initiative, but they are at the very beginning stages and appear to be small and limited relative to the needs that became very apparent in 1997–1998. Much more can and needs to be done by the economies in Asia Pacific—together in close cooperation—in this regard!

The broader area of economic and technical cooperation, not just for further trade liberalization but also for promoting faster development, is a wide area that can integrate the Asia Pacific economies more closely. While all economies are convinced of the need for speeding up development in all the developing economies of the region, there has been a divide over whether promoting overall development should be the concern of APEC. A few developed economies are suspicious of others, which may
use the cause of speeding up broader development as an excuse for slowing down on trade liberalization. Nonetheless, most of the economies on the East Asian side of the Asia Pacific region are desirous of closer and more substantive economic and technical cooperation. Moreover, the field is so huge that there are enough sectors for development that can bring all the economies closer together. Here, the challenge is to pick and choose smartly among the many possible options and sectors.

Concluding Comment

Once we take a broader view of the areas of possible economic cooperation, then the prospects for further integration in the Asia Pacific region become brighter. The areas of finance and development have great potential for bringing the economies in the region together. Moreover, these same areas are crying out for more time and attention, more efforts and resources, to be devoted to them, singly by all economies in the Asia Pacific region, but preferably in close cooperation with one another.

However, even if we limit our view to the area of trade, which has been the traditional lynchpin for regional economic integration, the forward momentum is so strong that there are bilateral economic initiatives to get around the difficulties that exist in a more comprehensive, multilateral setting. As long as a framework can be worked out to ensure that these bilateral initiatives become building blocks for a more open and free architecture for trade and investment, regionally and globally, these initiatives should be encouraged. Within that agreed framework, let a thousand and more such initiatives bloom.

A framework, however, demands a set of common ideas that can bind economies together and a set of common values that can guide their common efforts forward. The Asia Pacific area, and in particular the East Asian region, may now have reached the point on the road of pragmatism where, in order to move forward together, it has to agree on those common ideas and values. In fact, those ideas and values have been very much in the air. In the context of corporate governance reforms, with their stress on the fundamental value of justice, the following have been agreed upon: fairness, accountability and transparency. Other ideas and values may well be agreed upon, based on the fundamental values of freedom and solidarity, as the cement by which Asia Pacific can be integrated into a more vibrant, closely knit region.
Dr. Jesus P. Estanislao, currently President of the Institute of Corporate Directors and the Institute for Solidarity in Asia, served in the cabinet of Philippine President Corazon Aquino as Secretary of Finance and as Secretary of Economic Planning and Director General of the National and Economic Development Authority.

WANG GUNGWU

The Sociocultural Dimension

The title of my talk is deceptively simple. The word “sociocultural” suggests that we are talking about the work of sociologists and those in the fields of the humanities, that is, almost everything about man and society with the politics and economics left out. This may be the view prevalent among scholars and commentators in North America and Australia, but it is certainly not so clear in eastern Asia, that is, East and Southeast Asia. On the Asian side of the Pacific, the sociocultural dimension cannot be separated from the practice of political power or the pace of economic development.

That dimension is understood in terms of the underlying values system that governs behaviors and decision-making. Two assumptions have characterized this values system before modern times. The first is that political power was primary, whether in the hands of the leader or the elite group he represented. The second is that there was no separation between politics and culture.

The old Europe that preceded the modern states of the Americas and Australasia, what I shall call the Pacific West, shared some of these assumptions, but the power structures were largely changed during the 18th and 19th centuries. This is why new migrant states like the United States, Canada, and Australia tend to take secular practices as given, if not also for granted. For them, it is normal for ancient assumptions to be done away with, the sooner the better, but, for the modernizing leaders of eastern Asia, traditions are still active ingredients in their societies and have to be treated with care if not always with respect. They remain a major
reason why integration in Asia Pacific would require time and patience if it is to be achieved with the minimum of conflict.

The fundamental phenomenon that is common to all leaders and elites is that of rapid change for all countries, especially during the 20th century. What unites them is an understanding that this change could remove most of the differences that divide them and bring them ever closer together, but what still divides those on one side of the Pacific from those on the other are two propositions. One is that one side, the Pacific West, has the power and, therefore, the symbols of success, if not also the progressive wisdom and experience, to propel the other to change in the same direction. This is disputed by those who believe that, while specific ideas and practices can be improved, the value systems that each side embraces cannot be classified as either superior or inferior. The other proposition is that integration will lead not only to one interdependent region but also to one universal civilization, with the people in the Pacific West setting the standards and those in Asia trying to hold fast to their local distinctive cultures. This is rejected in countries where political leaders continue to be guided by deep-rooted values that are still followed by their peoples.

All this can change on both sides of the Pacific. Radical changes have occurred in eastern Asia since the turn of the 20th century, and the eastern Asia of 1945 was almost unrecognizable when compared with what it was like at the end of the 19th century. The changes have been no less spectacular since 1945. Japan’s economic recovery led the way for most of the region, with the newly decolonized territories of Korea, Taiwan, and Southeast Asia benefiting most from Japan’s example. About the same time, an alternative modernism projected from Eastern Europe through Stalin’s Soviet Union challenged that model. When China adopted the latter and Mao Zedong thought he could skip a stage of history and leapfrog the laws of economics into scientific communism, that misled many leaders in the region into believing that there was a ready-made way to bypass the experience of the Pacific West. By the time that experiment failed, China had learned its lesson. There are no shortcuts in history.

As for the member states of the Association of Southeast Asian Nations (ASEAN), political changes have been no less dramatic. With the two notable exceptions of Vietnam and Myanmar, ASEAN members have sought advances for their people in two complementary ways: through the state institutions that they inherited from the colonial powers and by using the new connections they made with the nations of the Pacific West. The changes that the five original ASEAN states have experienced followed
those of postwar Japan, South Korea, and Taiwan, including the push towards democratization that was thought to come with an increasing dependence on global markets. This confirms the view that economic change can lead to the acceptance of the political models offered by their market partners.

All this demonstrates that there are powerful ideas and institutions to encourage and enforce change in the region. In the hands of leaders with vision, these instruments could induce further steps towards integration even when their politics are not all secular and local religious values continue to shape its goals.

After a century, however, the sociocultural changes in Asia that underpin national politics still seem superficial and not complete. Deep-rooted belief systems that originated among communities that cared little for one another are still strong. More important, they are still poorly understood. Where these values are held by large communities, especially those underpinned by strong religious influences, many people have to be persuaded why it is in their interest to embrace changes that would eventually weaken their adherence to established ways. The more people are involved, the greater the likelihood that there will be strong resistance. In short, if loyalty to tradition runs deep and the accepted practices of society are directly challenged, the work of leaders will be all the harder. Given the persistence of earlier political structures in modern states, the question will arise as to what degree of regional integration is really possible, and even whether the integration achieved so far is irreversible.

The relationship between leaders and led, of course, is not static. The leaders of Asia Pacific countries who guide the processes of sociocultural change have themselves learned from the numerous challenges they have had to face. As they stand today, regional integration means that their countries would follow the American road to progress. Like it or not, they recognize that this would ultimately require their peoples to undergo changes that are little short of revolutionary.

Let me focus more on these leaders. Two generations of leaders have systematically directed their peoples to emulate the achievements of the European peoples. Of these qualities, probably the most compelling were the universalist claims of science and technology, the powerful laws of economics, and the goals of prosperity and material well-being on this earth. All of these qualities tend to minimize the importance of the afterlife for tradition-bound people and seek to secularize religions in order that each religion would accept a supportive rather than a dominant role in ordinary lives.
Japan’s experience has been important as the first example of what a small group of leaders can achieve by meeting such challenges head on. Particularly impressive has been its leaders’ capacity to arouse their people’s pride in their traditional values systems in the midst of radical change. This shows how modernization without Westernization can be controlled, how the perennial truths that the Japanese people still care about may be protected while an economic revolution continues apace.

Leaders elsewhere in Asia have also sought to enjoy such progress with no loss of cultural self-respect. Two kinds of leadership are evident. There are leaders, like those in China, Indonesia, Singapore, Malaysia, Vietnam, Myanmar, North Korea, and, until recently, in South Korea and Taiwan, who believe that they embody the society’s long-term interests. Their duty, therefore, is to mold generations of elites to make hard decisions even if the people are not ready for them. But they also know that their societies are seeped in cultures remote from the thrust towards modernity. Therefore, time and care would be needed to prepare them for drastic changes. Although they may have the power to revolutionize their societies, they have also learned the dangers to their own interests if they went too far.

On the other hand, there are leaders who claim to act to give their people what they want. The leaders of Japan and the Philippines, and now also those in Thailand, South Korea, and Taiwan, see themselves in this way. They believe that the modern nations of the West prospered precisely because their democratic practices have given them true legitimacy. Although widely applauded, the evidence so far suggests that, in Asia, such populist responses do better after a high degree of economic development. Hasty adoption of democratic ways is no guarantee of prosperity.

Both kinds of leadership, however, have some qualities in common. In varying degrees, they have encouraged their peoples to master the instruments that would enable their countries to make rapid progress. There are now thousands of the elites of eastern Asia who share scientific and economic values and dedicate themselves to helping integrate the Pacific Asian region. Through these educated, the ruling elites have broadened their support base to include a growing professional middle class. However, the cultural gap between the elites and the ordinary people remains large. This is true of China and most of Southeast Asia where there is a large body of peasantry. When this majority is keen to preserve their way of life while enjoying some of the material benefits of modernization, the ruling elites face some uncomfortable choices. While they press ahead in the national interest for radical change whether people like it or not, they would do everything possible to stay in power. They thus would run the
danger that their policies would arouse violent reactions from those whose deep-rooted beliefs are neglected. This would provide opportunities for their enemies within to exploit divisive frustrations to further their own ambitions.

The alternative is to seek a wider popularity and give the people what they want. The leaders could hold back important changes in the name of popular demands. In the face of cultural conservatism, even leaders who have a progressive vision may have to forego what they think their countries need.

Those countries still undergoing political modernization and religious secularization face a dilemma. Where political power still enjoys primacy, their leaders can push for radical change, but where sociocultural values are deeply embedded, these same leaders are constrained by the legitimacy that those values can give them. The tension between the two can be broken over time, but that may depend on when and how much the majority of people are allowed to participate fully in national affairs. Until those with strong commitments to traditional value systems are persuaded that sociocultural change is an enrichment and not a threat, they are not going to rush to join the modern world.

In recent years, the dilemma has sometimes been framed in even starker terms: that a thorough secularization is necessary before people can truly benefit from modernization. This is then simplified to say that traditional religions stand in the way of progress and that they certainly stand in the way of integration when many cultures are involved. My understanding of history suggests that attempts to decry or reject the role of religions, and the traditions that they have created, would not be the answer. Modernity, and the integration it could bring to our region, will not be stable or meaningful if people's spiritual values are diminished. The fact that the social and cultural spheres are not separate from the political and economic requires that both be given equal weight in the modern transformations that the region needs.

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Summary of Discussion

The discussion session was marked by considerable disagreement over whether bilateral free trade agreements (FTAs) would serve as building blocks or stumbling blocks on the road to creating a regional and global free trade system. Participants arguing the merits of weaving a web of FTAs were countered by those concerned that the proliferation of bilateral, subregional, and regional arrangements may allow FTAs to be manipulated by protectionists. With this issue in mind, proposals were made for stronger enforcement by the WTO of Article 24 of the General Agreement on Tariffs and Trade (GATT) and for making all FTAs in the region subject to APEC approval.

Jesus Estanislao’s call for regional integration to move beyond trade issues was echoed by numerous participants. Despite some disagreement, there was a general sense that the rise of China has led to a degree of movement in the direction of regional cooperation as the rest of the region has made up its mind to view China’s emergence as an opportunity rather than a threat. One member noted that there is already more being done, especially in dealings with China, to work on non-trade economic cooperation at the micro-level. This cooperation is particularly notable outside of official channels, for example, in joint discussions of how to best dispose of non-performing loans. The introduction of a policy surveillance mechanism within the ASEAN + 3 framework was suggested as one step towards greater integration, but participants also recognized the difficulties inherent in persuading the member states to agree to such a system.

Meanwhile, the discussion of sociocultural factors in regional integration and the importance of common values dealt largely with the issue of growing Islamic fundamentalism in Asia. A Southeast Asian speaker noted how Islam was tolerant in its youth, but radicalization has spread into the region from the Middle East, and recent U.S. policy has seemingly undermined the most secular parts of Islamic society. Special note was made of the difficulties that a religion such as Islam, with no single leader to speak on its behalf or to act as a moderating influence, has in expressing itself and in coming to terms with secularism. Nevertheless, it was pointed out, the majority of Muslims, at least in Southeast Asia, desire modernization despite their concerns about its negative ramifications.
II

Rebuilding Trilateral Cooperation
Building Consensus for the Doha Round

After Lee Hong Koo, former Prime Minister of the Republic of Korea, welcomed the plenary participants to a dinner meeting at the National Assembly Hall, former United States Trade Representative Carla Hills presented the evening’s keynote speech. In her address, she appealed to the attendees to rally behind the current Doha Round of multilateral trade negotiations as a crucial step to integrate poor countries into the world economy and ensure global peace and prosperity.

Carla A. Hills

Our current global trade negotiations, the Doha Round, is very ambitious, as it must be, if it is to help us in these difficult times of political and economic uncertainty. Our shared experience provides clear evidence that a successful round will boost growth and encourage political stability.

Following World War II, our nations worked together to open global markets and to establish a series of international organizations, including the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO), to promote global trade and economic growth. The results have been spectacular. In the half-century following the war, global trade and global growth soared. Millions of people were lifted out of poverty as standards of living increased worldwide.

The benefits were not limited to industrialized countries. Developing countries also prospered. Those that opened their markets to trade and investment on average grew five times faster than those that kept their markets closed. The two economic models on this peninsula provide a graphic example.

Although there are debates about current levels of poverty and comparison with decades past, a recent study published by the Institute for International Economics declares that world poverty fell from 44 percent
of the global population in 1980 to 13 percent in the year 2000, its fastest decline in history.

Significantly, the gains went beyond the strictly commercial. In the wake of increased growth and prosperity came widespread political reform. Countries liberalized their political regimes as they liberalized their trade.

**Building a Consensus**

Ironically, as the global benefits and opportunities have grown, public support for trade liberalization has waned, particularly in rich countries. Increasingly, advocates of labor rights, religious freedom, the environment, and various other social concerns (some real and some not), as well as major industries such as steel, agriculture, and textiles, insist that trade negotiations address their specific issue and believe that attacks on international organizations and globalization are a good way to publicize their interest.

Protests—many violent—are now a regular feature at meetings of trade ministers, the World Bank, the International Monetary Fund, and the G-8. Demonstrators surround meetings, shouting that trade and global capitalism constitutes a new form of colonialism that blankets poor countries in debt and devastates the environment.

They are gaining some influential advocates. Before coming here Rod and I were in Manila. We were at the Asian Management Institute and attended a lecture by Joe Stiglitz, a Nobel laureate who complained that past trade agreements have left millions of people mired in poverty. I am not here to suggest that trade liberalization is a panacea for the world’s ills. But Joe plays games with the facts. The data shows that broad trade agreements that lock in existing liberalization and encourage future reform can help create the resources needed to reduce poverty. And, trade based on a set of agreed rules reinforces the rule of law so key to democratic government.

The country of Jordan illustrates the point. In 1998, it entered the WTO and began a series of economic reforms. Last year it entered a free trade agreement with the United States. In those four years, its exports have shot from US$16 million to over US$400 million.

Yet logic alone will not convince the world. To enable us to move forward on our trade agenda, we need to persuade a far greater number of our citizens that trade is the best tool that we have to create economic growth, alleviate poverty, and encourage global peace and stability. We
will fail in that task unless we recognize that the gains from trade do not make every citizen a winner and pledge to deal with those left out—not by closing down trade, but rather by allocating some of the gains to helping those displaced because of change that is driven by trade and technology.

The effort to explain the merits of trade is not something that government can, or should, be expected to do alone. Universities, think tanks, the media, businesses, and Trilateral members must invest the time to educate on the benefits of trade lest we lose the consensus favoring open markets that is the bedrock of our prosperity.

**The Doha Round**

Today our best chance to stimulate global growth and to encourage democratic regimes is through a successful completion of the Doha Round of multilateral trade talks that were launched in November 2001 to end in 2005. The success or failure of these talks could well determine the economic fate of the global economy for the first quarter of this century. According to the WTO, a simple agreement among member states to cut barriers in agriculture, manufacturing, and services by just one-third could boost the global output by US$600 billion.

The issue of poverty is central to this round, which sets forth its priorities in the Doha Development Agenda. Never before have multilateral trade talks focused so clearly on the need to integrate poor nations into the global trading system. This new emphasis was driven by two factors. First, ministers met in Doha two months after September 11, when there was widespread agreement that poverty creates conditions hostile to the maintenance of peace. Second, by focusing on poverty the ministers secured the support of a number of developing nations that had resisted the launch of a new trade round, convinced that they had not only failed to achieve benefits from the last round, but had in fact lost ground.

They correctly argued that in the Uruguay Round they sought, but did not achieve, reductions of tariff peaks in the areas of their interest. For example, even in the United States where tariffs average less than 2 percent, they still pay 40 percent to 100 percent on products they produce—footwear, vegetables, fruit juices, dairy, peanuts, and sugar. In many of these areas, the trade regimes of our trilateral partners are even worse.

Poor countries are also beset with tariff escalation that places higher tariffs on value-added products than on their inputs, which discourages
foreign and domestic investment up the value chain. The results are perverse. As Mike Moore has pointed out, in 2001 Norway and Mongolia each paid the United States the same amount of duties—about US$23 million. But Mongolia’s bill covered a mere US$143 million in exports, whereas Norway’s covered US$5.2 billion.

Making matters worse are the huge subsidies of nearly US$1 billion a day that wealthy Trilateral governments pay their farmers that force even efficient producers in poor countries out of the market for agricultural products. According to the World Bank, African farmers are the lowest-cost cotton producers in the world. Yet they cannot compete with their competitors who receive US$4.8 billion annually in subsidies.

It is time—way past time—for rich countries to take meaningful steps to integrate poor countries into the global economy. This is particularly true with respect to the Muslim countries, many of which have seen their incomes decline in recent years. That is not a good omen as we seek to rid the world of terrorism. Economic growth and opportunity may be one of the best weapons we have. While many of those who have participated in terrorist acts have been well-educated individuals of ample means, we know that poverty and despair swell the ranks of those who support terrorism.

The United Nations has made universal primary education for poor countries its core Millennium Development Goal, the cost of which is said to be US$10 billion per year. A successful Doha Round could give those countries 15 times that amount. The Doha Development Agenda constitutes a recognition by the 144 member nations of the WTO that trade can help poor nations grow their way out of poverty and that integration into the WTO, a rules-based system, can encourage the development of the rule of law and respect for property rights, basic ingredients of stability and democracy.

The good news is that poor countries are now supporting, albeit skeptically, the round. The bad news is that if the Doha development pledge is broken, the round will fail. That would be a horrific blow to our already sluggish global economy and add uncertainty to an already uncertain political climate. It would also damage an essential multilateral institution.

The big question is whether our governments can muster the necessary political will to take the steps necessary to lead the world to a successful conclusion of the Doha Round. The present signs are not good. Last week, Europe failed to table its agricultural proposal, missing a critical deadline. Many wonder whether the U.S. president with elections one year
away can deliver on his ambitious agricultural proposal and deal with our powerful textile and steel lobbies. The differences over Iraq make the success of this round both more difficult and more essential. It is hugely in our joint economic, security, and development interests to protect and project wherever we can the two Big Ideas that galvanized the world since World War II, democracy and open markets, for they are critical to global peace and prosperity.

Conclusion

To borrow the words of Norman Cousins, “History is a vast early warning system.” Remember that we enjoyed a remarkable period of sustained global growth from 1850 to 1914 that was cut off by World War I. With the end of that war came a decade of stock market exuberance, followed by a crash, which combined with a global recession to fuel fear of foreign competition. In response to domestic calls to protect local workers, the United States and Europe raised their trade barriers. The U.S. Congress passed the now infamous Smoot-Hawley bill and a half-decade later the world was again at war.

Similarly, since the end of World War II, we have benefited from a remarkable period of sustained global growth. Following the collapse of the Soviet Union, we saw a decade of exuberance in our stock market, after which our stock market retreated. We are currently experiencing an economic slowdown worldwide.

It is imperative that we marshal the political will to avoid the policy mistakes that cost us so dearly in the last century. Our economic and security interests require that we resist calls to restrict our trade and instead lead the world to open its markets and to integrate poor countries into the global economy. This topic surely deserves to be high on our Trilateral Agenda.

Carla A. Hills is Chairman and Chief Executive Officer of Hills & Company. Ambassador Hills served as United States Trade Representative from 1989 to 1993 and as Secretary of Housing and Urban Development under President Gerald Ford.
Relations between the European Union and the United States

Peter Sutherland, European Chairman of the Trilateral Commission and former Director-General of the WTO, closed the first full day of meetings with his keynote dinner speech. Lamenting the “abject failure of basic diplomacy” that contributed to recent transatlantic divisions over the war in Iraq, he stressed the need for a commitment to multilateral cooperation on the part of the transatlantic partners, particularly the United States. The following text contains excerpts of his remarks.

Peter Sutherland

There are plenty of analyses of the current condition of European Union–United States relations. One of the most thought provoking has been that of Robert Kagan. His view of Europe as Venus and the United States as Mars will be an enduring, although, I believe, an ultimately misleading, one. Many of the simplicities to which it has given rise are much more distortive than helpful in examining transatlantic relations. In fact, we share on both sides of the Atlantic far more than divides us and, in addition, our opinions are in no way static. The constant state of flux of public opinion on matters of international relations are amply demonstrated by a consideration of opinion polls over a period of time. In addition, there are substantial minority views on both sides of the Atlantic. However, it is true to say that, for the moment at least, European opinion is much more united than one might have expected.

The tragedy of recent transatlantic divisions is the clear fact that they were greatly contributed to by the abject failure of basic diplomacy. One would not have thought that it was necessary to find a latter-day Metternich or Talleyrand to move forward together. For long-term allies whose peoples share essential values, to divide so publicly on the Iraq issue in the way that we have done will be viewed by future historians with incredulity. It
is vitally important that we should examine our own failures now, or we may be condemned to repeat them in the not-too-distant future. Perhaps this may happen in regard to the approach to be taken to the other members of the so-called axis of evil or on the Israel-Palestine issue.

When the free world (as we used to call it before the collapse of the Iron Curtain) presents a divided aspect to the world, the consequences are bound to be potentially very dangerous. Some ten years ago, Francis Fukuyama wrote about the triumph of the shared values of the transatlantic partners that helped to make a reality of John F. Kennedy's "interdependent world." It is hardly surprising that Fukuyama writes of our deep differences, but the fact that he goes on to dismiss the suggestion that they may be transitory is, I think, unduly pessimistic. I do not agree with him. However, if these differences are permitted to persist, then they may become durably embedded. In fact, they may spread particularly in regard to the attitudes in the United States towards multilateral cooperation more generally. Take the World Trade Organization (WTO) for an example: the stridency of the attacks on it in the recent past in Congress raises the specter that the multilateral disciplines which the WTO administers may be undermined by a rejection by the United States of the Dispute Settlement Mechanism that is the core of what the WTO is about. Of course, much of the debate about a rule-based international system requires an evolving understanding of national sovereignty, which has never been an easy topic in the United States.

Even though public opinion is fickle, and may well change through the evolving perceptions of the conclusion of the war, we should recognize that European public opinion has, in general, lost much confidence in American leadership. The hysteria of Franco-phobia in the United States and the presentation of lists of alleged supporting states in Europe should not hide the basic reality of plummeting favorability ratings of the United States in Europe. The Pew Research Institute (chaired by former Secretary Madeleine Albright) has conducted the most detailed surveys of public opinion available. In its late March 2003 analysis, the following examples demonstrate what I mean. In 1999, 83 percent of the British people had a favorable view of the United States. In March 2003 this had dropped to 48 percent. In France, the figures went from 62 percent to 31 percent, in Germany from 78 percent to 25 percent, in Italy from 76 percent to 34 percent, in Spain from 50 percent to 14 percent, and in "New Europe" Poland from 86 percent to 50 percent. A startling additional finding in the report was that, in the United States, 62 percent of the people believed that U.S.-European diplomatic and security ties should remain close. On the other
hand, no European country counted even 50 percent in favor of ties becoming closer rather than becoming more independent. This latter finding, in fact, bears out and is entirely consistent with polling in the Eurobarometer in recent years, which shows a significant majority in Europe being in favor of a more united defense and foreign policy.

How did the European public antipathy to the United States grow so rapidly? One aspect must surely have been the rhetoric coming from some in Washington. Much of this seemed almost calculated to enrage Europeans. Europe and indeed much of the world have been subjected to a fairly constant barrage of belligerent statements of a unilateralist flavor over a prolonged period of time from the neo-conservative faction in Washington. Some of these were even dismissive of the United Nations as an institution long before Iraq came before the Security Council. Apart from outliers like Richard Perle, senior members of the administration have also commented in very strong and anti-multilateralist terms. Vice President Cheney and Secretary Rumsfeld are just two examples. Many Europeans and perhaps others in this part of the world might echo the cris du coeur of Prime Minister Aznar of Spain that we need “more Powell and less Rumsfeld.” How Europe might have reacted if the administration had spoken in a more conciliatory voice and had sought consensus more actively, we will never know. I for one, however, will speculate that we might well have been able to find an accommodation between the different views.

In significant respects, however, the Europeans do share the blame.

Shortly after September 11th, an event following which reasonable consistency had been shown by the EU member states, the problems started. Initially, this was found in the “Directoire” approach demonstrated by the mini-summit of France, Germany, and the United Kingdom, which took place in Ghent in October 2001 before an EU summit. President Prodi commented that “it was a shame,” as indeed it was. Then came Germany’s September 2002 election campaign where Chancellor Schroeder struck out at President Bush’s policy in polemical terms. Again this was not the subject of any prior discussion as far as I am aware with the European partners. Condoleezza Rice complained then of the “poisoned state of German-U.S. relations.” The next event of note was the 40th anniversary of the Elysée Friendship Treaty on January 22, 2003. On this occasion, President Chirac and Chancellor Schroeder pledged to increase cooperation against an Iraq war, again without any adequate prior consultation with EU partners. Then on January 30, 2003, eight European leaders signed an open letter backing the United States without consulting France, Germany, or the Greek Presidency. This was criticized by the Greek Presidency
in office, through Prime Minister Simitis. These divisions have led some
observers to conclude that the European Common Foreign and Security
Policy (CFSP) is a dead letter. On the other hand, others have not been
slow to say that it demonstrates the inadequacy of existing Treaty provi-
sions, which have been ignored one way or another during the unfolding
of these events. I fall in the latter category and believe that if the Commu-
nity method had been in greater evidence in the development of policies
in this area, it could have been handled far more effectively than it was.

These divisions, which some U.S. think tanks at least believe to be a
desirable condition for the United States, were of course exacerbated and
underlined by Secretary Rumsfeld’s “Old Europe and New Europe” com-
ment, which was to prove to be one of his more inflammatory interven-
tions. The long-standing U.S. policy, which was first developed during
the period of Dean Acheson following the last war and was subscribed to
by successive presidents right up to the 1990s, has been that European
integration is in principle a good thing. President Kennedy expressed a
view that reflected many others before and after him. He reiterated Ameri-
can policy towards Europe and said: “We Americans do not regard a strong
and united Europe as a rival but as a partner.” Some neo-conservatives in
Washington appear to have a different view.

The Convention on the Future of Europe seems likely to propose
significant changes to improve the CFSP. We will have a foreign secretary
and an enhanced foreign service. I believe the idea of a “double-hatted”
foreign secretary serving both within the Commission and having an in-
tergovernmental function is the correct course to adopt. There should be
greater qualified majority voting, and we should move forward with greater
commitments in defense, including the development of a European ar-
maments agency. Perhaps we will have to contemplate the possibility that
some will move ahead before others.

In April, Javier Solana spoke at Harvard University of finding a com-
mon purpose between the transatlantic partners through committing
ourselves to four key principles. These were: First, that we are allies and
partners; second, that we make fair contributions; third, that we tackle
causes and not just symptoms; and finally, that we act together to sustain
a world based on rules. As the European Union’s High Representative said,
these principles are not new. They have been the bedrock of our relation-
ship across the Atlantic for 50 years. However, on the issue of making fair
contributions, Europe’s commitment to the non-military contributions
is three to four times that of the United States. But we cannot forever
refuse (as a bloc that is at least as wealthy cumulatively as the United States,
with more men under arms and a greater population) to provide a real security and defense commitment.

We need now to move forward, and to do so in a world that is not simply unipolar. It is not a denial of our relationship with the United States to suggest that it is desirable that we should be able to express our own view with some authority on global events. Unilateralism is not therefore a sustainable policy for the United States in an interdependent world.

*Peter Sutherland, Chairman of BP p.l.c. as well as Chairman of Goldman Sachs International, is the European Chairman of the Trilateral Commission. He was the founding Director-General of the World Trade Organization and has served as the Attorney General of Ireland and as a Member of the Commission of the European Communities in charge of Competition Policy.*
New Security Challenges in East Asia

On the second day of the Seoul Plenary, Brookings Institution President Strobe Talbott moderated a three-hour discussion of East Asia’s regional security issues, one that focused almost solely on growing concerns about a nuclear-armed North Korea. Han Sung-Joo, former Foreign Minister of the Republic of Korea during the 1993–1994 nuclear crisis, opened the session by comparing that crisis to the current one and outlining the options open to the international community. Sergei Karaganov, Deputy Director of the Russian Academy of Sciences’ Institute of Europe, and Stephen W. Bosworth, former U.S. Ambassador to the Republic of Korea, then mapped out the Russian and American approaches to the region. Condensed versions of Ambassadors Han and Bosworth’s texts follow, as well as a summary of the lively open discussion. Ambassador Bosworth’s presentation is based on a paper co-authored with Morton Abramowitz that was being prepared for publication in the July/August 2003 edition of Foreign Affairs as “Adjusting to the New Asia.”

Han Sung-Joo

Coping with the North Korean Nuclear Challenges

Lessons of the 1994 Crisis for Today

Today, the world’s top story is Iraq. But I am going to talk about another situation that, if we play our cards wrong, could become the lead. And that is North Korea’s quest for nuclear weapons. The prospect of a nuclear North Korea has the potential to impact not only the Korean peninsula but the Northeast Asia region—and the world as a whole. There is little time to waste. The countries concerned—particularly South Korea, the
United States, and Japan—must sit down, agree on a strategy, and then act in concert to implement it.

Is North Korea’s nuclear program a stratagem once again to exact economic and diplomatic concessions from Washington? Or, does Pyongyang seek actually to possess and possibly use nuclear weapons?

Some believe that the North, as it did 10 years ago, aims to bargain its nuclear program away. Others, however, suspect that Pyongyang is using negotiation simply to buy time to further its weapons development program.

During the nuclear crisis of 1993–1994, South Korea and the United States considered a similar challenge. And there are certain parallels, as well as some important differences, in the situation today. I will mention a few.

Five Similarities and Differences between 1994 and 2003

One similarity is North Korea’s attitude. In both cases, North Korea started out defensively, trying to hide its nuclear activity. Then, faced with evidence it could not deny, its position changed to an offensive one, demanding concessions and rewards for dealing with the problem. In both instances, Pyongyang’s demands have been face-to-face negotiations with the United States, recognition as an equal partner, and a security guarantee of some kind. In both cases, the North has taken a threatening, aggressive brinkmanship attitude.

The difference comes in our options for responding. Today, Pyongyang is much closer to having nuclear weapons than 10 years ago, if it does not have one or two already. In 1993, although the situation was urgent, we still had time to engage in dialogue. We could afford to give diplomacy a chance, knowing that if it failed, we could still resort to other more severe measures.

The third similarity and difference can be found in the attitudes of South Korea and the United States. Back then, we had times when the South Korean government pursued a harder line. On the whole, though, the two governments were able to coordinate a fairly consistent position. Today, the challenge, again, is to find and pursue a common approach.

Another difference is the internal situation in North Korea. There is at the moment no apparent constraining force within the North. Back in 1994, we had the senior leader Kim II Sung, who could restrain some of the younger hard-liners and who could make key decisions such as meeting
former President Jimmy Carter. But today there is no such force. In fact, today, North Korea probably has greater incentives than before to secure nuclear weapons after observing Iraq, India, and Pakistan.

Finally, America is now a post-9-11 America. The Bush doctrine emphasizes preempting possible threats to the United States and tends to view nations as either enemies or friends. For understandable reasons and circumstances, the United States in 2003 is acting very different from the United States of 1993.

North Korean Motives and Strategies

In many ways, from the North Korean point of view, the situation today should be seen as much more advantageous than a decade ago, at least up until the fall of Baghdad. In addition to being so close to having all the pieces together for manufacturing nuclear weapons, it has the United States focused on Iraq, and the South Korean government committed to an engagement policy toward the North. It also has the benefit of lessons learned from the 1993–1994 experience, especially that of making the stakes as high and any deal as hard and concrete as possible.

To be sure, the North also faces certain disadvantages today over the last time around. For one thing, the current administration in Washington is less amenable than the previous one to a deal. At the same time, North Korea is much more economically dependent and vulnerable to economic pressure from other countries, including South Korea, Japan, and China, as well as the United States.

But, apparently, North Korea must have concluded that any temporary loss in outside economic assistance is worth the gamble of a larger and more lucrative deal in the end. It may be hoping to eat its cake and have it too by making its status as a nuclear state a fait accompli and still landing a profitable deal. Or, in the worst case, it could trade away its nuclear state status at a far higher price than from other deals it could expect.

**Five Methods to Resolve the North Korean Nuclear Crisis**

In this light, we may think of five possible methods for dealing with the current North Korean nuclear crisis.
Dialogue

The first is dialogue. If we look back to 1993, the Republic of Korea and the United States decided first to stimulate a UN Security Council resolution calling on member states to work to resolve the crisis. Then the United States engaged the North Koreans directly in talks.

The current U.S. administration seems to distinguish dialogue from negotiation because it believes that negotiating over North Korea’s bad behavior signifies a political concession. When the issue of highly enriched uranium (HEU) was raised, the Bush administration opposed a dialogue with the North until it dismantles the HEU program. But now, the U.S. position is that it can resume dialogue if North Korea declares it will give up nuclear programs. Thus, the United States has proposed a multilateral dialogue instead of the bilateral talks insisted upon by North Korea.

Neglect

During the past few months, there has been criticism of both the U.S. and South Korean administrations from some quarters for neglecting the North Korean nuclear issue. For example, critics point out that neither the United States nor South Korea has ever clearly defined the red line that North Korea should not cross. The explanation is probably because if they had, North Korea would have been tempted to cross it.

A more serious scenario that might have regional repercussions is that continued inaction by the United States, South Korea, and other concerned parties would virtually pave the way for North Korea’s nuclear weapons development. In that case, the United States would focus on preventing proliferation of those weapons to other regions. Further, if North Korean nuclear weapons are neglected, it could be followed by a domino effect whereby other countries in the region could become nuclear states as a matter of deterrence.

Military Response

A third possible option is a military response. In dealing with the current situation, President Roh Moo-hyun has shown his strong desire for a peaceful resolution through dialogue. The United States for its part has noted that all options are on the table, which does not necessarily mean that the U.S.
government will bomb the nuclear facilities in Yongbyon soon, but which is probably intended to let the North know they are serious. In reality, however, the military option has two problems. One is that North Korea may retaliate against the South. Another is that North Korea’s HEU program would still remain unresolved even if the Yongbyon facilities were destroyed.

Carrot and Stick

In 1993–1994, a carrot and stick strategy worked in the form of an agreed framework. The carrot and the stick go together. Carrots for North Korea might include economic assistance and a security guarantee, while sticks might take the form of diplomatic pressure and economic sanctions. The multilateral framework that the United States is proposing could be played either for rewards or as a sanctions regime if North Korea crosses the so-called red line. But a list of carrots and sticks could be communicated to the North Koreans so the North understands what it can expect.

Regime Change

Some argue that an eventual and fundamental solution to North Korea’s weapons of mass destruction problem can be achieved only with regime change. But this cannot be pursued as a matter of policy. Such a policy will bring about a North Korean reaction that will be highly negative and dangerous. There is no guarantee that such a policy will succeed. Even if it is to succeed, we cannot afford the time that it will take as the WMD problem gets worse.

Strategies and Approaches

If this analysis is valid, what kind of response does it suggest? Given the complexity of the problem, there is no simple or singular response we can give, such as dialogue or the military option. There may not even be a road map of the kind that was employed during the 1993–1994 crisis.

What is required is a response or collection of responses that would be capable of dealing with a range of consequences, in a way that will increase the intensity of the responses, and with an ultimate view of resolving the issue in a more or less fundamental way. It goes without saying
that peace and the security interests of the parties including the two Koreas, the United States, Japan, and others involved should be well protected. Thus, the following set of approaches, mechanisms, and principles may be proposed.

South Korea-U.S. Joint Development of Strategy

First, close cooperation and coordination among the allies, particularly South Korea and the United States, is critical. No strategy will succeed without the shared views of the allies. This requires not only hammering out common ground between those whose interests may differ, but working out strategies and responses that could be the product of joint brainstorming sessions—and then pursuing them in concert.

A Multi-purpose Strategy

Second, unlike 10 years ago, we have to be prepared to deal with two possibilities simultaneously—that the issue can be resolved through negotiation, or that North Korea will end up with nuclear power status. We cannot afford to wait, as we did earlier, to find out if our “negotiation first” road map will work and then decide what step we would take next. We must prepare now to deal with either eventuality.

A Multi-bilateral Approach

My third suggestion is what I call a “multi-bilateral approach.” Ten years ago, Russia was a strong champion of multilateralism vis-à-vis North Korea. Today this is the favored approach by the United States. A multilateral approach has its advantages. For example, it brings together allies and others to pool their efforts and persuade North Korea to cooperate with the rest of the world. In addition, a multilateral mechanism can be helpful in promoting and enabling bilateral negotiation. It also provides a stronger security guarantee to North Korea while requiring a firmer promise from Pyongyang that it will honor any agreements it makes. On the other hand, this type of approach brings diverse and often contradictory interests into the picture, potentially complicating the strategy and giving North Korea room to maneuver.
But multilateral and bilateral approaches can be complementary if we make the results of bilateral talks a part of multilateral agreement.

A Multi-layered Approach

Even when a multilateral approach is adopted, we cannot expect every country or organization to play roles on the same level. So my fourth suggestion is a multilayered approach. Clearly, the United States and South Korea will have to share the major burden of providing either the carrot or the stick of inducing North Korea to respond. China also has an important role to play. During the 1993–1994 crisis, it played a constructive and crucial role by intervening in ways it knew were effective at a point when its intervention would make a difference. China wants neither a military conflict nor nuclearization of the Korean peninsula; therefore we expect the Chinese can play an important role this time as well.

A Multi-method Approach

Fifth, I would suggest we retain a multi-method approach. In the debate over carrots and sticks, some tend to rule out the former and others rule out the latter. The debate is particularly divided over the issue of the use of military force. It is both understandable and natural that South Koreans, whether they actually believe it or not, appear to oppose the idea of sticks and sanctions, much less the use of force. So open debate on the issue tends to be unproductive, if not counterproductive. Thus, while it is not advisable to be threatening, neither would it be wise to do anything that will reassure North Korea in advance that it can act with impunity under any circumstances. In any case, North Korea is likely to be impressed with what the others, especially the United States and China, do rather than what they say. Thus, the result of the Iraq War as well as a simple show of force is likely to have a greater impact on North Korea than any policy enunciations.

Package Deal

Sixth, any deal involving North Korea, and the nuclear issue in particular, is likely to be a “package deal.” The only question is how large is the package
and whether the implementation will be a one-shot, simultaneous arrangement, or in stages, as a staggered series of matched unilateral actions. Obviously, North Korea wants a big package to be carried out in as simultaneous and sweeping a way as possible. Also, there is the question of what to do with the deal that has been made already, the Agreed Framework. The United States wants a more thorough, cheat-proof anti-proliferation regime, something North Korea will want to resist as much as possible.

Search for a Dramatic Breakthrough—à la Carter

A Jimmy Carter-type breakthrough as in 1994, although unlikely, could be a useful and even welcome development. If it were to happen, it would have to wait until further deterioration of the situation, when neither side believes there is anything to be gained by delay. Having experienced the Carter solution, however, this type of approach is likely to invite both negative and positive reactions from the policy makers of the various countries. Nonetheless, a dramatic breakthrough should not be considered outside the range of possibility. Even as we take a firm stance against North Korea’s nuclear weapons, we have to be creative and flexible in dealing with the issue. We need to enlist as much support and help from all the countries involved and concerned, China in particular. What effect the outcome of the war in Iraq will have on the North Korean situation is yet to be seen. Whatever it is, we hope it will have a positive effect on the resolution of the North Korean nuclear issue.

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Stephen W. Bosworth

The United States’ Role in East Asia

The U.S. security role in Asia is shifting in unexpected ways that were not foreseen just a few short years ago, and this role is likely to be considerably different at the end of this decade than it was at the beginning. These shifts are driven by changes within the region over which the United States has no control, little influence, or is unwilling to expend resources to influence, especially the rise of China, the decline of Japan economically, and the changes in the regional relationships that are centered around the Korean peninsula.

Since the end of the cold war, the U.S. security mission in East Asia has been largely one of providing a credible deterrent in two areas: one on the Korean peninsula and the other across the Strait of Taiwan. With regard to Korea, for a long time our deterrent mission has been at the center of our military position. There are now underway changes in three sets of relationships that will affect both that deterrent mission and our capability to meet it.

First, there are important changes that have been underway for the last few years in South Korea’s relationship with the North. As a result of the process of the Sunshine Policy and increased contact between South Koreans and North Koreans (most of that increase, incidentally, has taken place for South Koreans, not for North Koreans, who have been kept largely isolated from the process), more and more South Koreans, particularly younger generations of South Koreans, have come to see North Korea less as a threat and more as an object of charity. There is almost what one might describe as a process of creeping reconciliation and coexistence underway between South Korea and North Korea.

The second set of changes that is occurring concerns China’s relationship with South Korea. There have been few examples in contemporary history of a relationship developing as rapidly and becoming as important to each of the two participants. Starting from virtually zero in the early 1990s, this has now become a prime relationship for both countries, particularly for South Korea. The interesting thing is that China has been able to balance its interests in South Korea with its interests in North Korea,
and while it does not have determinate interest over North Korea, it certainly has far more influence over North Korea than anybody else does. Therefore, it has managed to build a very important set of relationships here in the South, both economically and politically, while at the same time retaining its relationship with North Korea.

Finally, the U.S.-South Korea relationship is also changing in several ways. First of all, while international politics is not necessarily a zero-sum game, as South Korea's relationship with China has acquired more importance for the South Koreans, the South Koreans are understandably less inclined to give full, dominant consideration to the U.S. relationship. As a result, there is a need here in South Korea to produce a certain balance in their relationship with the two. Also, there has been a remarkable process of democratization and economic development in South Korea. The result of that has been a tendency to be much more questioning of the presence of the American military as compared to even five years ago. As the threat of attack from the North has tended to fade, or at least as the perception of that threat has faded, we have seen a rise in questioning as to the need for a U.S. military presence on the peninsula. In my judgment, much of the pressure for the repositioning of the U.S. forces from north near the demilitarized zone to south of the Han River comes from the objective reality that those forces do not now have adequate space in which to train. When they try to train in those highly urbanized areas, as we saw last year, there is all too frequently the risk of an accident, and those accidents then touch off an increased anti-American feeling here in South Korea. I think that there almost certainly will be a change in the American military footprint over the next year or two. This would not end the need for deterrence or a contingency defense of South Korea, but I think it would result in a significant shift in the structure of the U.S. presence.

Han Sung-Joo's discussion of the nuclear issue was as coherent and cohesive as any I have ever heard, so I will not try to add to it. I do think that regardless of the outcome of the nuclear issue, the U.S. military presence in South Korea will continue to decline. If North Korea becomes a nuclear weapons state, the task then will be one of counter-proliferation. It will not necessarily be one of deterrence, so there would be a desire on the part of the United States to reassess what it needs to invest in Korea and how in order to meet the counter-proliferation task. If the nuclear issue is resolved in a peaceful fashion, this will most likely accelerate pressures between South and North Korea for continued movement toward some form of reconciliation, thereby further reducing the rationale for an American military presence here.
A shift in the American military posture here in South Korea inevitably would have implications for our presence in Japan, just as a reduced threat perception from North Korea is affecting the willingness of South Koreans, particularly younger South Koreans, to continue to entertain and welcome American military forces. I suspect that the same phenomenon would begin to occur in Japan, where there are already questions about the need for the presence of the Marines, for example, in Okinawa. In my judgment, these changes that are underway in these three important sets of relationships will continue to have a direct impact on the U.S. security posture in East Asia.

The second factor of importance in this changing U.S. position is, of course, the rise of China, specifically the rise of China as a strategic partner for the United States since September 11. We have seen the relationship go from one of strategic competitors to strategic partners in a remarkably short period of time, as evidenced by Jiang Zemin being received at the Crawford ranch, an honor reserved for only a few, and Vice President Cheney scheduling a visit out here and to China. I think that there is a perceptible shift in the U.S. strategic view of China, driven in large part by September 11 and our finding common ground with China on the issue of terrorism. The issue is externally directed terrorism from the point of view of the United States and internal terrorism from the point of view of China, but we find common cause with one another. We also are tending to push off onto China some of the responsibility for dealing with security issues in the region that, formerly, the United States might well have taken on itself. Of course, the primary example of that is North Korea, where we, distracted by the war on terrorism and distracted by Iraq, quite visibly were concerned about North Korea but basically were encouraging China to take a lead role.

The third major factor that is changing the U.S. security presence in the region is, of course, the continued weakening of Japan's economic vitality and a consequent continued decline in Japan's regional influence. Japan has long been at the core of the U.S. position in Asia. The relationship will remain very important, but from a strategic point of view, it is not going to be the central relationship of the United States in Asia in the future to the extent that it has been over the last couple of decades. I think we are going to have to look for a new way to describe the relationship. Mike Mansfield's famous phrase, "the most important bilateral relationship in the world, bar none," most likely will not pertain in the rest of this decade.

With regard to Taiwan, the other area where the U.S. deterrent has been important, the rise of China as a strategic partner for the United States
and Taiwan's own growing economic integration into the mainland tend to diminish the salience of the U.S. commitment to deterrence across the Taiwan Strait. Looking ahead, one can foresee an acceleration of the process of the economic integration of Taiwan into the mainland.

Since September 11, there has also been a distinct shift in the strategic focus for the United States geographically from Northeast Asia to Southeast Asia. We are interested in Southeast Asia for the same reason that Willy Sutton robbed banks—because that is where we think the Islamic fundamentalists, or the Islamic terrorists, are. As a result, we are being drawn back into a region which, since the end of the cold war, had really been the stepchild of U.S. policy in East Asia. We are developing new military relationships, new police relationships, and new intelligence relationships throughout Southeast Asia. We even find ourselves, to some extent, involved in an unexamined war in the southern Philippines—unexamined at least by the American political process.

Overall, I think there has been a shift in U.S. priorities, stimulated largely by September 11 and our response to it. In our foreign policy, the war on terror has become at least the equal of our traditional emphasis in East Asia on peace and stability, and we will be looking to others to take on the burden of providing peace and stability. At the same time, there is a diminished attachment to our traditional alliances. This is true globally, and there is no reason to believe it will not also be true in East Asia. Donald Rumsfeld’s famous phrase, “The mission determines the coalition, the coalition does not determine the mission,” strikes right at the center of the debate that is currently underway in the United States about our role in the world and how we will pursue it. Alliances are, in fact, seen by some in the United States not as enhancing our effectiveness but rather as constraining our ability to use force to meet American interests.

Therefore, as I look to the end of this decade, I see a security environment in the region which has the following major elements: something approaching a U.S.-China condominium with an increasingly important number of players at a sort of a second level (Korea would be a very important one of those); a re-engagement with Southeast Asia and a diminished importance of bilateral alliances in Northeast Asia; and few, if any, ground troops forward deployed in South Korea and Japan. There is still a long-term balancing role for the United States, but conditions that have developed over the last two or three years very much call into question whether we can or will need to have forward-deployed ground troops in order to perform that balancing role. Now, I am not suggesting American disengagement from East Asia. We have enormous interests here, economic
and political, and we will remain engaged diplomatically, politically, and economically. What I am suggesting is that a shift in the American perception of our security interests and a shift in objective conditions within the region is bringing about a profound change in the "silhouette" of the American presence in East Asia.

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Summary of Discussion

Participants focused squarely on North Korea and its nuclear ambitions during the discussion session. They expressed a broad consensus that a quick end to North Korea’s nuclear program is clearly in the national interest of every country in the region, and there also appeared to be a shared sense that the situation calls for a multilateral approach that is based on negotiation rather than military force.

Several participants reiterated the importance of viewing the response to North Korea in the context of a significantly changed regional security framework, particularly in light of the evolving U.S. approach to the region. As an illustration of the diminished importance of the U.S. alliances with Japan and South Korea, one American participant noted that the Armitage Report’s call for a stronger U.S.-Japan partnership has been forgotten. Likewise, he characterized the recent news that the United States would redeploy troops in South Korea as a fit of pique that was carried out without the consideration of broader ramifications. Although China is increasingly seen in the United States as a strategic partner, a warning was made that a reappraisal of this new view is always possible since one of the characteristics of U.S. foreign policy in recent years has been its lack of consistency. Nevertheless, American participants went out of their way to stress that the evolution of the overall shape of the U.S. approach to Asia is not primarily a function of the Bush administration’s worldview,
but, rather, much of the momentum for this shift has been driven by September 11 and changes within Asia.

Shifts in South Korean politics and public opinion are also having an impact on relations with North Korea. While arguing that the nation’s leaders had misled their people into believing that North Korea is less of a threat than it is in reality, one South Korean participant admitted that there is some degree of inevitability to the trend of the South and North becoming closer. Some concern was raised about the possibility that an overblown sense of identification with the North might encourage the younger generation to regard a North Korean nuclear weapon as a “Korean bomb,” but this was dismissed as not truly representative of South Korean public opinion. A great deal of attention was also drawn to recent protests against the deployment of American troops. It was stressed, however, that the large majority of South Koreans agree that there is a continued need for a U.S. presence and that even the recent heated demonstrations were not calling for an end to this presence but just for a revision of the conditions that govern it.

The question was raised as to why North Korea has been so insistent on bilateral talks with the United States when the U.S. government has taken such a hard line recently in other international disputes. One participant with a long history of involvement in high-level negotiations with North Korea reasoned that this insistence stems from North Korea’s belief that the United States is the key to providing North Korea with what it thinks it needs, including a non-aggression pact, especially since its previous expectations of achieving its goals in a multilateral fashion through the Agreed Framework failed to materialize. Still, doubts were raised as to the long-term wisdom of putting a great deal of faith into a pact with the United States, given recent demonstrations of the unwillingness of the U.S. government to be bound by international agreements.

There were only a few exceptions to the general sentiment that a solution to the North Korean nuclear crisis could come solely through multilateral negotiation, but there was considerable discussion of the shape that such multilateral cooperation should take. One active participant in previous negotiations noted how multilateral solutions become increasingly limited as the number of parties increases; having six countries—China, Japan, North Korea, Russia, South Korea, and the United States—may be feasible, but it would be more effective to have a smaller number. Meanwhile, an American participant proposed that the United States, Japan, and South Korea choose to neglect North Korea in order to force China to exert pressure upon it, but this was quickly rebutted by an
Asian participant who argued that neglect was a dangerous option and that China is ready to step in when it thinks it can make a meaningful difference.

In contrast to the "small package" of incentives that emerged from the 1993–1994 negotiations, it was argued that a "larger medium-sized package" will be necessary as part of a comprehensive solution to the current crisis. Specifically, this would have to include more concrete inducements for North Korea than had been previously offered in terms of international recognition and security guarantees. While a number of North American and Asian participants expressed their disappointment with the Korean Peninsula Energy Development Organization (KEDO), they conceded that KEDO and the two light water reactors it was designed to construct will eventually have to be a part of the deal with North Korea. The light water reactor projects are still underway, and, despite the technical difficulties of putting the power plants online, with so much time and money already invested, they felt that the projects should be continued. The issue of possible sanctions against North Korea was also raised, and one senior South Korean attendee made it clear that South Korean participation in a sanctions regime could not be ruled out.
Restructuring the International Order after the War in Iraq

Discussion of the shape of the international order in the aftermath of the war in Iraq came on the final day of the plenary, a day that opened with the news that Tikrit, the last bastion of Saddam Hussein's regime, was on the brink of falling to U.S. forces. With reports of growing anti-American sentiment in Europe and U.S. boycotts of French products fresh in the participants' minds, former French Ambassador to the United States Jacques Andréani led off the session and was followed by Thomas S. Foley, former Speaker of the U.S. House of Representatives, and Professor Akihiko Tanaka of Tokyo University. Former Korean Foreign Minister Han Sung-joo served as moderator for the formal remarks and the open discussion. The following texts include condensed versions of the presentations and a summary of the discussion.

Jacques Andréani

A European Perspective

Restructuring the international order is a vast task, and I intend to limit myself to three points: the assessment of the damage caused to international structures by recent events, the kind of world society that we want, and the way to do some repair work. Then I shall conclude by inviting you to reflect on the use of language in international dialogue.

Assessing the Damage

There is at least a point on which we all agree: The world is in bad shape.
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Even with an astounding military victory in Iraq, even if the rebuilding of Iraq is a success, and even if the United States will now use its position to act in the Israeli-Arab conflict, the tensions of the Middle East will not disappear suddenly. Nor will the frustrations of the Moslem world go away easily. Radical movements will continue to exploit them in order to foster terrorism. We see instability, proliferation, and terrorism in other parts of the world, and stagnation or even impoverishment in Africa and other underdeveloped areas.

We must face the consequences of our serious disagreements about the Iraqi situation. Many argue that all international institutions have been shattered. They say the United Nations has lost credibility, that the North Atlantic Treaty Organisation (NATO) has played no role and has been divided, that the European Union is in tatters, and practically nothing remains of its promise of a common foreign policy.

Let us look more closely.

First, the United Nations

Everybody, including the U.S. government, wants the United Nations to play a role in the postwar phase. Probably several Security Council resolutions will have to be adopted in order to mandate the United Nations or other organisations to work in humanitarian aid and refugee relief, and to give some stamp of approval to a temporary civilian administration. Politically, agreeing on these measures will not be easy, because in the background you have the question of the legitimacy of the intervention. We hope the U.S. administration will not insist on being awarded a medal of honor by the United Nations for having acted militarily without asking its approval. And I imagine that the countries that were against the intervention will not refuse to admit that, whatever the legal basis or the lack thereof, the United States and the British are indeed there, they have things to do, and they need some international framework for this.

More serious is the question of the precedent created by a non-UN-approved intervention. If it should appear in the future that the war in Iraq has been the first step in a series for the United States, then we are in for very serious trouble.

More generally, we will have to ask ourselves: What to do with the United Nations? What kind of international society do we want?
Next, the European Union

It has been divided, and member states have not made great efforts to minimize the division. If we want to be optimistic, let us note that, in the short term, each one of the European players might feel the need for cooperation and might hence seek reconciliation. In spite of all the points of disagreement, there is among Europeans a core of common positions that are unanimously shared: the proliferation threat, the disarmament of Iraq, the role of the United Nations as the center of international order, its responsibility for the postwar administration of Iraq, and the key importance of an active effort for the settlement of the Israeli-Arab conflict. As events have shown, there is more cohesion in Europe among public opinion than between governments.

Too much has been made of the European Union's impotence. In the fields in which it is represented by the Commission, it has proven perfectly able to defend its interests, and it does so in a businesslike and cooperative climate with the United States and other partners, although many of these subjects—trade, subsidies, etc.—are subjects of conflict. The trouble is with political diplomacy, where national governments play the main role. Yet I do not think the project of a common policy is dead. I do hope that out of the present mess something better can arise for the future. I see no reason why the limited, but not minor, steps forward already registered by the Convention in the matter of common foreign policy should not be kept and later confirmed by governments. This entails some modest addition to the European Commission's role in foreign policy. However, it is not tomorrow that the EU foreign minister, if this person comes into life as a consequence of the Convention, will be a true colleague for Colin Powell and Igor Ivanov. For a long time, nation states will continue to play the key role, so they are the ones who will have to make progress towards unity. Their spontaneous tendency is not to take full account of their partners' positions. In times of difficulties or tension, this trend becomes stronger. We are undoubtedly in such a phase today. There were other times when unity was better and increasing. This will come back, if only as an effect of our growing economic cohesion.

Defining the International Society that We Want

As with all communities, international society has members who establish rules that they are committed to follow. These members are the states.
Traditionally, they were members in good standing as long as they respected rules of international behavior, not attacking neighbors, abiding by treaties, and cooperating with international organizations. As for their internal regime, no questions were asked. They could be ruled by tyrants or badly treat their own people. This is what was called a bit pompously the Westphalian order. Indeed the UN Charter was “Westphalian” in that it prohibited the United Nations from interfering in internal affairs of states.

Since then, the world has changed. Civil wars, intolerable human situations, and gross violations of human rights have led to international action, including by force. Some have talked about the right, even the duty, of humanitarian intervention.

In other words, today’s international society is no longer the same as in 1945. Questions are asked about the state of human rights inside various countries. Nongovernmental organizations and the media have become auxiliaries of the international community and actors on the world scene. Their role consists of criticizing oppressive regimes and stimulating others to do something about them. It is not possible to go very far in this direction, because international society needs stability as much as it needs justice, and you cannot have absolute justice without a dangerous unleashing of instability. Basically, in spite of the welcome progress of the concept of human rights, the world of today remains basically “Westphalian.” Somewhat more democratic, but still “Westphalian.”

What would a democratic world community be? Would that be a system in which only democratic countries should be considered full members? Francis Fukuyama wrote that, if it were possible to create an organization really able to maintain world order, it would look more like NATO than like the United Nations. Richard Perle wrote recently that NATO would be much more qualified than the United Nations to be the organization that legitimizes the use of force. How do we do that? Do we enlarge NATO to include Russia, China, India, and others? Do we expel from the United Nations all the states that do not have several political parties and verified free elections? Or do we simply decide that among the countries of the world, some have the right to form a coalition and use force, just because they are our crowd?

We talked about divergences between European governments, and they have been many recently. But I do not know of many NATO countries in which there would be support for a disenfranchisement of the United Nations in favour of NATO.
Twelve years ago, after the first Iraq war, there was a chance to reform the United Nations and NATO. We missed these two opportunities.

President George Bush called repeatedly at that time for a “new world order.” He benefited from overwhelming prestige and enjoyed the Soviet Union’s cooperation. Any proposal that he would have made to restructure the Security Council, to give it more effective authority, or to set up permanent UN military forces would have been accepted. The window of opportunity represented by the years in which the USSR still existed and cooperated fully did not last more than three years. In these three years, the United Nations worked effectively and accomplished a lot, but as far as UN reform is concerned, nothing happened.

I am not sure that present circumstances, with war and victory outside of the United Nations, are bound to open another window of opportunity for the world organization. Reform will not come soon. It remains that for action in Iraq, everybody, and the United States more than others, needs the United Nations.

The occasion for NATO reform was also lost at that time. There was agreement to maintain NATO as a symbol and an instrument of the fundamental security solidarity between the United States and Europe, and this is still for us all a point of unreserved agreement today. But there was a need for a new rationale for NATO after the end of the Soviet threat, and, 12 years later, this need has yet to be satisfied. The new NATO was defined only in vague terms. The enemy now was nobody in particular; the enemy was “uncertainty.”

Today, in a serious security crisis, we ask ourselves whether the United States is interested in giving NATO a role. The question came to mind at the time of the operations in Afghanistan. The *mot d’ordre* seems to be, “The mission defines the coalition.” I personally find that very reasonable. But can that not be construed as ending the concept of a permanent alliance?

The changes that occurred in the Alliance in the 1990s went in the wrong direction. What was needed was more authority for the NATO council, less decision power for military headquarters, and less peacetime integration. We did just the opposite. This did not prepare the Alliance to confront the one big problem that will have to be solved one day: How to transform an alliance which unites one great power with 15 small or medium-sized countries into a bilateral pact between two partners, the United States and the European Union? Since the Europeans embarked on the idea of a European security identity, they were repeatedly taken to task by
the United States. Yet the project of a common reaction force is making progress in terms of principles and structures, but remaining weak as far as capacities are concerned. Will the shock of present events help to revive them? There is a prerequisite for this: some more money for defence—because foreign policy is more or less for free, but defence is not.

**Working on the Vocabulary**

Between the United States and the Europeans, there are many shared beliefs and common interests. There is legitimate competition in a number of fields, and there is a potential dispute on the nature of the international society. We do hope that it will remain potential.

However, even in the best of cases, we have a lot of work to do to manage our differences.

In this work, we could be inspired by the example of a venerable institution, the Académie Française. It is made of 40 highly respected persons, who in the past three centuries have been busy writing a dictionary of the French language, so that we ordinary French know the exact meaning of the words we use. I suggest that one of the best moves we could make would be to appoint a Trilateral Academy to inquire about the interpretations we place on some words.

Richard Perle accuses us of wanting Europe to be a *counterweight* to the United States, adding that this in itself conveys the idea of opposition. Do we find the word "counterweight" in the dictionary? I personally think it is not adequate. It is not a concept of our time; it comes from the vocabulary of the 19th century, when you had power games between states. Our aim is not to balance U.S. power but just to exist by ourselves.

We sometimes talk, more reasonably, about a *multipolar* world. A few years ago, Jacques Chirac used this expression, and he was accused of wanting to limit U.S. power. But who invented that multipolar concept, if not Richard Nixon and Henry Kissinger? Is it a crime to use it today? Our dictionary will tell us whether its meaning has changed in the meantime.

Europeans, at least some among them, are often accused of defining Europe "in opposition to the United States." Our societies are similar in many respects, the most fundamental ones, and different in other aspects, some of which matter a great deal. The dictionary says that "difference" is not the same as "opposition." Is it shocking for Europeans to epitomize what it is that they have specifically in common? Is that what is meant by building Europe "in opposition to the United States"?
The United States tells us that it sees a united Europe as part of a wider ensemble, which it calls the “Euro-Atlantic space.” I do not think any European can object to that. But the Americans give us sometimes the impression that this makes them a sort of invisible member of the European Union, in a position to take part in our decision-making. Nobody denies the need for consultation. But it is, I think, understood that, once consultation has taken place, the European Union needs to take its decisions in autonomy, just as does the U.S. government for its part.

Another phrase to express the same idea is for Americans to say that “the United States is a European power.” It is never reasonable to base reasoning on affirmations obviously contrary to facts. No, the United States is not a European power, no more than France or the United Kingdom are American powers. But if we mean that the United States is vitally interested in the fate of Europe and that Europe, for its part, needs America’s friendship and cooperation, we are in the right. And the dictionary must contain a word to express that.

So let us go to work, and start at the letter “A,” like Atlantic Alliance.

In more than four decades in the French diplomatic corps, Jacques Andréani, Ambassadeur de France, served in numerous senior posts, including ambassador to the United States, Italy, and Egypt.

THOMAS S. FOLEY

A North American Perspective

Allow me to begin by stating that I find assurance in the statement of Ambassador Andréani. I do not agree with everything he said, but I do think that his approach to assessing the damage is very healthy. If we go back and start assessing and reassessing blame about whether the war in Iraq should have taken place, whether the United Nations should have been consulted further, whether the inspection system should have gone on, there are bound to be endless arguments.
U.S. and coalition forces are facing the serious challenge of moving from waging the war spectacularly to winning the peace and stabilizing the country. This has always been seen as a much more difficult task. And it is one in which I think the United Nations does have an important role to play.

When Ambassador Andréani talked about the meaning of words, perhaps he was referring to the current debate about whether “vital” means “central” or “central” means “vital” or exactly what concoction of consequences flows from the use of one word or another. The U.S. administration has said that there is a vital role for the United Nations, but that does not settle anything. Does that mean only humanitarian assistance or does it encompass any political legitimizing activity? Perhaps these arguments can never be resolved. What I believe will be essential, however, is some assurance that if the United States goes back to the United Nations and attempts to find a way of making the United Nations a legitimizing authority for the immediate consequences of the war, it will be possible to settle, if not the legitimacy of the attack, at least the legitimacy of the conduct of the occupying powers following the attack. I think this administration would be concerned about whether it will encounter an endless round of confusion and delay, whether the political consequences of the United Nations’ involvement will complicate enormously the immediate task of the occupying powers—to bring stability and security to the country.

I think we are in a difficult position, where, despite our continued assurance that we want to transfer authority to an interim Iraqi government as soon as possible, we are also told that it is the duty of the occupying powers under the Geneva Convention to provide security for those who are under their control. If the coalition forces bring more troops into Iraq in order to stop looting and restore security, the United States could be accused of being colonialist. And if the United States waits until this is fully authorized by some exterior body, the United Nations for instance, it could be accused of violating the Geneva Convention and not providing security as the Convention requires of an occupying power.

My thought is that this administration will probably be inclined to do whatever is necessary to avoid the continued disruption of civil society in Iraq and try to transfer authority as quickly as possible. And only if there is some assurance that the UN relationship will not bog us down again in endless political arguments is there likely to be any persuasive case made within the administration for taking it back to the United Nations.

At the end of the day, the ultimate success of the coalition action in Iraq, whatever one thinks of the war, should be a stable and hopefully
democratic Iraq. Failure would bring instability, confusion, disruption within the region, and more chaos.

For many of America's Trilateral partners, however, there is going to remain a basic question about how the division within our ranks—over Iraq, over an International Criminal Court, over the Kyoto accord—came about. Is it largely because of the attitude of this administration? Is it just their style? Is it the result of a more fundamental shift in American attitudes? The answer to those questions may elude us for some time to come, but one point needs to be made strongly because it does provide part of the answer.

Few of the Trilateral partners of the United States, including our North American partners, fully understand the impact of September 11 on the American consciousness. I know we had dramatic expressions of solidarity—"We are all Americans," the invocation of Article 5. But there remains a significant difference, nonetheless, in the perceptions of Americans of this event and the rest of our Trilateral community.

The United States had been the target of many acts of terror before. We had the 1993 bombing of the World Trade Towers in New York, the bombings in Tanzania and Kenya, the Khobar Towers bombing, and the USS Cole incident. But it was not until September 11 that Americans suddenly felt the real weight of an outside force brought to bear within the continental United States for the first time since perhaps the War of 1812. This one event exceeded in one hour all of the deaths that accumulated during the Troubles in Northern Ireland.

September 11 had dramatic consequences for the political, economic, and social systems of the United States. I remember being on a television program in August 2001, and the question was put to me: Why has this new president been unable after six months to develop any rapport with those who were not actually his immediate supporters? Why is his level of public popularity or support at 48 percent? Why can he not get above 50 percent?

Suddenly September 11 occurred, and the president began making speeches that galvanized the country. He said this will not stand, we are going to defend ourselves, we are not going to be a helpless giant struck down by this kind of terrorism. He became a president of wartime popularity, and he has remained so ever since.

September 11 created the presidency of George Bush. It gave him the support of the overwhelming portion of the American people. He was able to get resolutions authorizing military force through the Congress with the active support of most of his present Democratic competitors.
It is worth noting, however, that before Iraq, polls taken in the United States by the German Marshall Fund and the Chicago Council on Foreign Relations indicated that most Americans actually were quite devoted to multilateral principles. In addition, most Americans did not want to intervene in Iraq without UN support. Only a rather small percentage wanted to go it alone, in effect, with a very small coalition of the willing.

But in American history, it is generally true that when the president makes a decision and the country is involved with troops fighting in the field, the whole political situation changes overnight. Public attitudes can shift dramatically. In some ways, this situation is a bit reminiscent of public attitudes in 1939. The United States was overwhelmingly on the side of France and Britain when the war broke out in Europe, but there was a dramatic difference of attitude when we ourselves were attacked on December 7, 1941. It had been Europe’s war up to that point, and we hoped that the Allies would win. On December 8, 1941, it became our war and we were suddenly involved in a life or death struggle.

It is my impression that for many countries in the world, the fight against terrorism that resulted from September 11 is really America’s problem. Many of these countries are sympathetic and hopeful that we will be able to deal with it. But it is not, in the fullest sense, their problem. Europe, it’s true, has had many examples of terrorism—the Baader Meinhof Gang, the Red Army Faction, the Red Brigades, ETA, and the IRA—but they never had the impact that the September 11 attack had on the United States. In addition, those terrorists groups had very specific political goals, such as a unified Ireland or Basque separatism, that, however difficult, could be dealt with peacefully.

If we are going to see some reconciliation in terms of how we approach international security issues, the United States will want to find a mechanism that does not critically limit the U.S. ability, or any individual country’s ability, to deal with problems that it considers direct and immediate major threats to its security. Very frankly, it is not my impression that Europe, for example, has been particularly concerned about finding a mechanism for dealing with weapons of mass destruction. That has been an American preoccupation. For this reason we are, and should be, concerned about the North Korean nuclear program. And one of the things that would be seen in Washington as desperately dangerous would be not just the development, or even the sale, of nuclear weapons, but also the creation, and perhaps the sale, of fissile material which could be used to create a so-called dirty bomb and leave us all in a situation of great vulnerability.
Our society has changed fundamentally because of September 11. We have suffered the loss of more than US$100 billion. I think the true cost may be twice that much. But more than money, it’s the sense of personal security and well-being that Americans have found compromised since that event. One of the reasons that the United States needs international cooperation is that we need help in dealing with that threat. One of the things that this administration, or any administration, must do is to encourage greater multilateral cooperation by first embracing and then explaining that concept.

We cannot effectively fight a war against terrorism as Fortress America. We may be able to conduct a shooting war without overflight rights or with only a few allies, but we cannot effectively deal with the terrorism problem.

That imperative gives some hope that we can find a course of reconciliation between the differing approaches of small ad hoc coalitions and broad-based multilateralism. But the situation may become worse before it becomes better. At least there is a danger that the predictions of some commentators will be fulfilled—that our most important international security instruments, NATO and the United Nations, are doomed.

There is a very serious problem in that many on the legitimate conservative right are talking about the benefits of an end to the United Nations. It is an archaic institution in their view. It has lost its pragmatic utility and, therefore, it is gone or is going. That’s an extremely dangerous attitude and a very wrong one. But it could develop support in the United States, if we are not careful.

Whatever problems governments have in the way of disagreements become more serious when attitudes become embedded in public opinion, in the public consciousness, and in public prejudice. Then it is very difficult, particularly for democratic societies, to make constructive changes. Ironically, governments that are totally authoritarian are not free from that constraint, but democratic societies are very much hobbled by strong democratic views, because they justify their policies by that means.

If I can just close with a few words of personal privilege, I think the reaction of some in the United States to France has been not only unfortunate but ludicrous. I know it does not seem funny to some, but a recent example occurred when Members of Congress decided that they would strike a blow against France by barring the purchase of Evian water. Only when the Speaker’s office was informed that the exclusive distributor in the United States of Evian water is the quintessential American company, Coca-Cola, was that particular idea dropped from the list of things to do.
Then there was a suggestion that a French firm that provides meals to the Marine Corps be stripped of its contract. When it was pointed out that 110,000 Americans are employed by this company, that, too, was taken off the list. Then one of the state legislatures decided to punish the Michelin Group until someone pointed out that there were 8,500 employees in that state employed by Michelin. That was taken off the list. But the silliest thing was pouring great French wine down the toilet. It is not only a pity but also not a very effective way to punish French winemakers, since you have to buy it before you pour it down the toilet.

In closing, it is fair to say that these are serious times, times of the greatest challenge the Trilateral Commission has experienced. And it is reflective of the importance and continued relevance of the Commission that, 30 years after it was created to join together parliamentary democracies and market systems on three continents, it is now more important than ever that it act as a positive and effective influence in keeping with that great tradition. A lot of very positive and wonderful things have happened in the last 30 years and the Trilateral Commission has had a great deal to do with creating both the environment and the support for those advances. I very much hope that the next few years will see the Commission making similar advances in structuring our security arrangements and our international relations.

Thomas S. Foley, North American Chairman of the Trilateral Commission and Partner at the law firm of Akin Gump Strauss Hauer & Feld, served as Speaker of the U.S. House of Representatives and later as Ambassador to Japan.

Akihiko Tanaka

A Pacific Asia Perspective

As with any social order, international order has at least two aspects: power relations and a norms structure. The aspect of power relations is descriptive in the sense that we pay attention to the distribution of power and
power relations without questioning their normative or legal meaning; we simply ask who is strong and who is not, or who leads and who follows. The aspect of norms structure is concerned with moral and legal rules and customs that are prevalent in the world system. What is right and what is wrong? What are the accepted rules of conduct? To what extent are such rules observed? These two aspects, power relations and a norms structure, constitute the content of any international order.

The central question, then, is what changes will occur after the war in Iraq in regards to these two aspects. Will there be changes in the pecking order? Is somebody becoming stronger? Is somebody weaker? Will international alignments change? These are the questions concerning the aspect of power relations.

On the other hand, will rules and customs change? Have the concepts of right and wrong changed as a result of the Iraq war? Have important international rules been violated and then changed? Should we create new rules in line with new circumstances? These are the questions to be asked about the norms structure of the international order.

I would like to argue that (1) power relations in the world system will not change very much after the war in Iraq and (2) the norms structure will not change very much either.

Let me first examine the possible changes in power relations in the world system. The first thing to recognize is easy: the war in Iraq proved once again the tremendous military power of the United States. There is nothing new in this, however. The war in Kosovo proved this, and the one in Afghanistan proved this, too. The military operations near Baghdad simply reconfirmed this fact.

What about power relations? Who leads and who follows? Who is aligned with whom? This aspect could be greatly affected by the war in Iraq. The battle that took place in the Security Council in March was considered the first serious confrontation between the cold war allies since the Suez Crisis.

In international relations jargon, there are two types of behavior that can be chosen in the face of the emergence of a strong power: one is balancing, the other bandwagoning. In the recent episode, France, Germany, Russia, and China tried to balance the United States while 65 countries, according to the Bush administration, including Britain, Australia, Poland, Spain, and Japan, were on the U.S. bandwagon.

According to the classical theory of international politics, realism, when a very strong power emerges, other countries tend to combine their power to balance it. One of the puzzles of post–cold war international relations
has been the fact that there have been very few attempts to balance the United States despite the fact that the United States has now clearly become a dominant power. From this point of view, the French-German-Russian alignment finally proved the validity of the classical theory of the balance of power. Therefore, one possibility for future power relations after the Iraq war is that the United States will face an increasing number of attempts to balance it. Eventually, a grand alliance against the United States may be formed.

On the other hand, one could argue that, now that the United States has proven its power once again, it has become very clear that any attempt at balancing is futile and, therefore, it is better to get on the U.S. bandwagon. In other words, another possibility is a world in which everyone tries to be on the U.S. bandwagon. One might call it the emergence of a new tributary system.

In the middle, still another possibility may exist—the formation of two alliances with the countries on the U.S. bandwagon on the one hand, and those trying to balance the United States on the other. In this scenario, the allies of the United States would include Britain, Australia, Spain, Japan, and the balancing forces would include France, Germany, Russia, and China. This configuration seems to point to the reemergence of a pattern of geopolitical confrontation between sea powers and land powers.

A grand alliance against the United States, a new tributary system, or a geopolitical confrontation between the land powers and the sea powers, then, are the three possible power relations that could emerge after the war in Iraq. Are they credible? As possibilities, one may not be able to rule them out. But I frankly feel that these are rather ridiculous.

The concept of power and the clear dichotomy between balancing and bandwagoning are both too simplistic. Power is not simply military power. There are things that military power can achieve, but there are areas where military power has little effect. Furthermore, power relations exist not just among sovereign states; they exist between states and non-state entities, and they exist in the complex domestic politics that produce national decisions, which in turn affect other domestic and international actors. In the web of complex power relations that connect domestic politics to international politics, both hard power and soft power operate and the simple distinction between balancing and bandwagoning may not hold.

What appears as bandwagoning on the national level may, if one considers domestic level interactions, constrain the behavior of that country. For example, by declaring clear support for the United States, the British may be able to wield more influence in Washington politics. In contrast,
state-level balancing may, in fact, accelerate the very action that the balancing was originally intended to oppose. Mr. Chirac’s opposition to the United States may have contributed to the neo-conservative arguments in U.S. domestic politics. Was Mr. Chirac on the neo-conservative bandwagon?

This is nothing particularly new, however. As interstate and transnational interdependence deepens, classical notions of state-level balancing and state-level bandwagoning may not adequately explain state behavior. The confrontation that took place over the UN Security Council decisions may not be interpreted as simple opposition between the countries balancing the United States and those trying to get on the U.S. bandwagon. Furthermore, this confrontation should not be interpreted as inevitable given the structural characteristics of power distribution in today’s world. This is not a sign of the structural failure of the world system but a diplomatic failure in which a substantive number of decisionmakers intentionally or unintentionally screwed things up. If it was a failure, it was a process failure, not a structural failure.

If the confrontation was not inevitable or structural, changes in power relations are not very likely. Neither the formation of an anti-U.S. grand coalition, nor the formation of a new tributary system, nor the geopolitical confrontation between sea and land powers is likely. Power relations similar to the pre-Iraq war era are likely to repeat. The phrase, “the same old story,” may not be appropriate in this age of rapid transformation, but I would argue that the “same new story” continues. Complex power relations centered on the United States involving major countries as well as the United Nations and other international organizations will continue in the post–Iraq War world.

Power relations are not the only aspect of international order. Another important aspect involves norms. How does the war in Iraq affect the norms structure of the international order?

One possibility is the degeneration of international norms into the “law of the jungle.” Gunter Grass, who said that “we are witnessing the moral decline of the world’s only superpower,” argued that, “as the bombs fall and the battle for Baghdad continues, the law of might prevails.” The United States, who “violated international laws,” won the war and many countries acquiesced. If the United States continues to act in this way, this will be a world of “might makes right.” Clearly, this is one possibility that critics of the United States tend to depict.

In contrast to such views, it is possible to think that the post–Iraq War era will witness the emergence of a totally new norms structure that would
replace old notions of equality and the inviolability of sovereignty. According to this view, there has been a progressive evolution of new norms legitimating international intervention since the early 1990s. First, it became justified to intervene in “failed states” that could not preserve internal order and prevent atrocities. Then, states that intentionally engage in genocide or systematic murder were also regarded as subject to legitimate intervention. Finally, from this viewpoint, with the war in Iraq, hard authoritarian regimes that oppress their people would become the legitimate target of intervention. In this new system, internal state structure becomes the concern of international norms, and democratic rule with a market economy is the norm. As long as states show a positive attitude toward democratization, however gradual the process may be, they are regarded as acceptable, but it would no longer be acceptable in terms of international norms to tolerate dire authoritarian regimes that are repressing their people. Soft authoritarianism might be tolerated but not hard authoritarianism.

In my view, neither regression into the law of the jungle nor the emergence of totally new norms is likely. There are more rules that are observed in this world than the word “jungle” suggests. The international legal order is, in any case, terribly incomplete in comparison with the legal order that is observed in a well-ordered domestic society. However, this does not suggest that the current international order is the same as the Hobbesian state of war. For example, some argue that the United States violated international law when it waged war against Iraq without a new UN Security Council resolution. But no one can offer a conclusive answer to this question, partly because the UN Security Council cannot make an authoritative interpretation; the United States could veto any resolution to make such an interpretation. This shows the incomplete nature of the UN system as a legal order, but this is not the same as the law of the jungle, because even the United States observes the UN charter most of the time.

On the other hand, I also do not subscribe to the view that there has been a major breakthrough in terms of the international norms structure. I tend to agree with the view that genocide and a total breakdown of internal order are beginning to justify international intervention. In this sense, the current norms structure is undergoing some changes. It is a modified system based on traditional international law, but this evolution has not reached the point at which intervention by regime type is justified.

Sixty-five countries supported the military attack on Iraq by the coalition forces. Almost all democratic people welcome the liberation of Iraqi
people from Saddam Hussein’s oppressive regime. However, this support does not automatically signify the complete legitimization of any war against a totalitarian or highly authoritarian regime. In the case of Iraq, there are many other concerns that strengthened the argument for military intervention, most important of which was the persistent neglect and violation of a series of UN Security Council resolutions. Saddam Hussein’s regime was not simply a highly oppressive and authoritarian regime but also was one that invaded Kuwait in 1990, violated the UN resolutions, and has not proven that it completely disposed of the weapons of mass destruction that were banned by UN resolution. The combination of these various charges was instrumental in increasing support for military action.

In a sense, the case of Iraq can be reconciled with the current norms structure, which assumes the central role of the United Nations. In this sense, nothing has changed. After all, Iraq was invaded because of its failure to comply with the terms of its defeat in 1991. Whether the decision to wage a military attack at that particular moment was appropriate is a matter of debate. As I said before, this is because the incomplete nature of the UN charter keeps it from determining the meaning of a resolution when it is at issue among the permanent members of the Security Council. This creates frustration, but it does not automatically negate the validity of the basic legal framework. Iraq was attacked because it did not observe the terms of its settlement. In other words, this episode does not seem to affect the basic rules of international law and the workings of the United Nations.

For these reasons, I argue that the content of the international order does not change much after the end of the war in Iraq. Power relations continue to be complex transnational interactions, not easily reduced to either bandwagoning or balancing. The norms structure continues to be based on the modified rules of the interstate system. It seems too hasty to conclude that a totally new order is emerging after the war in Iraq.

What should be done, then? In my opinion, what is normally considered necessary should be done as quickly as possible. That is the answer. In Iraq, the immediate task is to restore order and stop looting and violence. Whether the UN role is “central” or “vital,” the reconstruction of Iraq cannot be done by any single country alone. International collaboration is essential. Naturally, the way in which these arrangements are made may be complex, as with any political deal. International politics continues to be as messy as before. But I would submit that this messy international order seems far better and less dangerous than the simplistic models of classical power relations, be they a grand alliance against a superpower, a new tributary system, or a confrontation between sea and land powers.
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Of course, by saying this, I am not suggesting that the failure of diplomacy does not matter. If such a failure is repeated, there is a danger that the failure of the process might affect the structure of the system. Those who participated in and contributed to the last diplomatic failure should not repeat the same mistakes.

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Summary of Discussion

Participants' comments revealed a shared sense that the world community has reached a pivotal moment in the course of international relations and a deep apprehension that it is ill-equipped to meet the challenges before it. These challenges are so critical, participants agreed, that it is necessary to put aside disputes over the events that have fed mutual distrust among many of the world's leading powers and instead seek to repair the divisions among nations. Speakers from all three regions echoed the point that much of the world has underestimated the effect of the September 11 attacks on American thinking. Despite the depth of this impact and their general sense that U.S. foreign policy motivations are sincere, numerous participants expressed their distress that the magnanimity and generosity that have long been hallmarks of U.S. foreign policy are not as apparent to outside observers today.

While calling for a more compassionate and generous America, participants also criticized Europe's failure to play a more positive role in international affairs, particularly in sharing the burden of international security. Dismayed at how far European military capabilities have fallen behind those of the United States, a number of European leaders called for significant increases in regional defense spending to facilitate U.S.-Europe military integration in the short term and to support the development of a common European defense policy over the longer term.

A wide range of participants conceded that, in today's world, the United States may be justified in considering preemptive action to be self-defense, but they took issue with the Bush administration's insistence on
doing this in a unilateral fashion. Instead, many argued, there is a clear need to redefine the rules governing the use of force in a multilateral manner. While making certain to stress the continued importance of international institutions, several also expressed their hopes that the split over Iraq may encourage UN reform, because, despite its shortcomings, the United Nations offers the only hope for truly global cooperation for the foreseeable future. The call for a revitalization of multilateral cooperation was extended to NATO as well, as a number of European participants cautioned that NATO would not survive if the United States insisted on utilizing the alliance only when convenient.
Addressing the New International Terrorism: Prevention, Intervention and Multilateral Cooperation


Introduction

The terrorist attacks in the United States on September 11, 2001 created a divergence of perspectives about terrorism among the Trilateral countries. After an initial surge of solidarity illustrated by a headline in Le Monde declaring we were all Americans now, the differences between the United States and the other member countries began to widen. The United States declared a war on transnational terrorism, greatly increased its defense budget, fought in Afghanistan, declared a new strategy that expanded preemption into the realm of preventive war, and undertook the most massive reorganization of its government in more than half a century. Other countries, while cooperating with the United States on Afghanistan, intelligence sharing, and police work, began to express concern that the United States was overreacting. In the description of the French analyst Thérèse Delpech, “most Europeans do not accept the idea of a ‘war’ on terrorism. They are used to dealing with this phenomenon with other methods (intelligence services, police, justice)…. The Europeans fear that the Americans are engaging in an endless war without considering all the possible consequences.” Similar attitudes can be encountered in many parts of Asia.

It is not surprising that attitudes diverged. After all, the trauma of September 11 happened inside the United States and created a greater and longer-lasting sense of urgency. Many governments were anxious not to frighten their populations or exacerbate relations with their Muslim minorities. Some people believed that American foreign policy was, in part,
responsible for the disaster and that it would be wise to seek distance from the United States. But perhaps most important was the widespread feeling of déjà vu. Europe, Japan and other countries had lived through severe episodes of terrorism in the 1970s and 80s, yet managed to overcome it with their democracies intact. Terrorism was a nuisance that had to be managed, not a challenge requiring total change. Moreover, the political rhetoric of “evil” and “war” that helped to mobilize the American public seemed alien and alarming to many people overseas who preferred a managerial approach.

Different perceptions are natural among the different political cultures of the Trilateral countries, but if the divergence becomes too great, it can have dangerous effects. European and Asian reactions could reduce incentives for cooperation. American irritation with its allies could reinforce unilateralist responses to problems that would benefit from more cooperative approaches. Over time, such friction could spill over into other areas such as trade and the movement of people.

Most important, diverging perceptions could limit the cooperation that is necessary to address common vulnerabilities. The simple fact that modern terrorism is transnational means no country can hope to combat it in isolation. Systems to protect against terrorism are no stronger than their weakest link, and those links are in many countries. For example, even if most countries require bars on the cockpit doors of commercial aircraft, it is impossible to prevent terrorist use of planes as giant cruise missiles unless all countries enforce such measures. “Homeland” security has become an international issue. Most governments of Trilateral countries are aware of these problems, and there has been impressive cooperation in some areas such as intelligence sharing and police work. Nonetheless, the glass is at best half full, and that is the reason that the Trilateral Commission is addressing this topic now.

Issues for Discussion

The international community has already joined in a series of efforts to coordinate action against terrorism and terrorists—their arming, financing, recruitment, training, and other means of support. At all levels—international, trilateral, regional, bilateral, and national—steps have been taken to cooperate in detecting and deterring future terrorist threats. No one would argue, however, that efforts taken to date are either comprehensive or fully effective. If, as argued above, international cooperation
is essential to effective counterterrorist protections, what are the issues that must be addressed to accomplish this end?

A Common Definition? First, it is unclear that there is shared understanding and agreement on what the international terrorist threat may be. This is not just because of the changing nature of terrorist groups like al Qaeda, but because different societies perceive the threat in different ways. For many Trilateral countries, support for counterterrorism cooperation may be unwavering, but their different views of the threat will be colored by their experiences with its actual manifestations. Any Trilateral discussion of the “new” terrorist threat, therefore, must begin with a definitional effort. Is the definition suggested in Chapter IV adequate to support the necessary cooperation?

Differing Assessments of the Threat. Terrorism will always affect individual countries differently, but can the community of nations agree on its common attributes and its capacity to do harm to global peace? In what many now view as a unipolar world, will countries gauge their contributions to antiterrorism based on the assumption that there is only one big target, the United States, and many secondary ones? Will such an assessment lead to decisions not to be too much in the forefront of fighting terrorists for fear of drawing their ire? Is it possible to compile and share across borders information about the many common vulnerabilities of today’s highly linked “critical infrastructures” of the global economy? How will risks and burdens be shared?

Comparing Policies. Even if there are a number of definitions of terrorism, and differing appreciations of the threat, the effort of identifying these differences will itself be an accomplishment in both education and in cooperation. This could be built upon by conducting a comparison of the counterterrorism and homeland security policies of the Trilateral countries and regions. What would such a survey show in terms of the choices governments are making in determining necessary levels of security, in balancing security with civil liberties, in assigning roles to business, and in cooperating across national borders? Where are the weak links? How can we make more likely common approaches to protecting high vulnerability targets wherever they may be found?

Common Interests? Is it possible to arrive at a set of common vulnerabilities to terrorism by comparing different assessments and approaches to terrorism? Surely the interest all nations have in the continuity of international commerce, finance, transportation and communication constitutes one such value? What about less tangible factors such as the freedom from fear in international travel? Will the Trilateral nations see a
common interest in cooperating in counterterrorism councils as a way of preserving a uniform high level of civil liberties protections for their citizens?

Institutions. At what level(s) and through which institutions can the most effective action be taken? In an arena until recently dominated by security and intelligence services, will more public education and a heightened sense of threat require greater involvement by other public officials and agencies? Will the constraints of confidentiality diminish the usefulness of some institutions with no culture of secrecy or security? How important will public education and public support for terrorism programs become in combating terrorism? What more can be done in the realm of public diplomacy?

Protecting Civil Liberties. Will intelligence and security services obtain broad new remits to intrude into the privacy of citizens? Will international cooperation increase or restrain the level of intrusion? For instance, will the use of private companies to perform some national security functions result in better protections for personal information they collect to protect commerce? How long will citizens of the Trilateral countries accept the diminishment of personal privacy in the name of a “war” that does not touch their daily lives? Alternatively, if insufficient steps are taken and more catastrophic attacks occur, will a wave of popular fear lead to overreaction?

Private Sector Role. The integrated nature of the global economy creates both the imperative and the remedy for effective antiterrorism policies. Yet, the nature of that economy demands that governments rely heavily on the private companies that run essential services to raise the bar for terrorist penetration or attack. What costs will counterterrorism place on these companies and what public policies will be required to assure ways to manage those costs? What protections, e.g. limitations on liability, will businesses require to undertake semi-government tasks? What are the strains inherent in asking non-government employees to assume security tasks? How should governments favor voluntary over mandatory cooperation from the private sector? Is there a cost in terms of consistency of application associated with the former that diminishes the value of minimizing government interference in the boardroom? Will increased government regulation of the private sector diminish innovation and competitiveness in the international marketplace?

Unilateralist U.S. Tendencies. It seems clear that both the dominance of the U.S. economy and its military strength will ensure antiterrorist cooperation from many Trilateral countries. Size helps solve the public goods
problem. But will the United States also offer an opportunity for other governments to challenge policies the world’s only superpower might otherwise embark upon without consultation of its Trilateral partners? Can the value of concerted action so enhance antiterrorist effectiveness that the United States would be deterred from acting alone if it judged that by proceeding against the wishes of its partners it would seriously diminish that cooperation? How should other Trilateral countries respond to the U.S. national security strategy and its discussion of preemption and prevention?

CONCLUSION

The new terrorism poses an unprecedented threat to the Trilateral countries. The prospect of terrorists getting access to weapons of mass destruction is not science fiction. Cooperation is essential. We have mentioned a number of findings and responses in our report, but we highlight here the ten which we regard as most significant.

1. Terrorism cannot be solved unilaterally. Multilateral civilian cooperation will be essential for an effective response. Military actions and robust independent domestic measures are only a part of what is needed, and they must be undertaken in a manner that does not undercut multilateral cooperation. Afghanistan is a case in point. American military action was essential for removing the Taliban government that provided a haven for terrorism but it destroyed only a small portion of al Qaeda which is a transnational network with cells in 60 countries. Dealing with such organizations requires close civilian cooperation in intelligence, information sharing, tracing financial flows, police work across borders, and communication among customs and immigration officials.

2. Officials responsible for home security should meet regularly to discuss common vulnerabilities and compare best practices. Ironically, “home” security is an international issue, because the security of transnational systems is no stronger than the weakest link in the chain. Though the names of ministries differ in their different countries, the G-8 leaders should encourage the relevant ministers to undertake regular meetings and report to the annual summit.
3. More work should be done on sharing of intelligence within and between countries. This should include analytic intelligence. While tactical intelligence is important in warning of particular terrorist actions, analytic intelligence looks for syndromes of terrorist recruitment and for patterns of vulnerabilities that might attract terrorists. For example, it might have been impossible to have identified all potential terrorist actors in 2001, but it would not have been impossible to have used “red team/blue team” analysis to identify the fact that terrorist hijackers could turn civil aircraft into giant cruise missiles, and that strengthened cockpit doors would have made that scenario less likely.

4. Wealthier countries should provide assistance to poorer countries to improve both their counterterrorism capabilities, and the effectiveness of their home security offices. Overseas development budgets should include this among their priorities. The European Union should make it an area of cooperation with the new entrants from Central Europe. Given the dangers that can arise from failed states, assistance to strengthening of relevant state institutions is an important part of a counterterrorism strategy.

5. Dialogues about the protection of civil liberties in the face of security threats should be a regular feature of the meetings of home security officials and should be reinforced by meetings of judicial officials and parliamentarians. Assistance programs must include attention to human rights issues. Not only are such values central to the definition of the civilization that we seek to protect, but overreactions to insecurity that infringe civil liberties undercut the soft or attractive power that is essential to maintain the support of moderate opinion and to deprive terrorists from recruiting new converts. The use of domestic alerts is often necessary, but countries must be wary of excessive use that creates the climate of fear terrorists seek to instill.

6. A particularly important dimension of assistance is the Cooperative Threat Reduction program designed to stabilize the security of the weapons of mass destruction left in the states of the former Soviet Union after the end of the Cold War. The agreement of ten countries to add to the planned expenditures of the U.S. government over the next decade was an important pledge at the 2002 G-8 summit, but it is crucial that the pledges be fulfilled and that the issue retains high level attention.

7. Further steps should be taken to delegitimize the deliberate use of force against noncombatants. While it may be difficult to arrive at a formal definition of terrorism, the ten conventions and two protocols so far concluded at the United Nations are important and it would be useful to
increase the number of participating countries. The work of the UN Counterterrorism Committee plays a useful role, as do actions of regional organizations such as the EU, APEC and ARF. Political leaders might consider encouraging a conference of religious leaders to speak out against misuse of religion by extremists and to condemn the types of statements and textbooks that encourage terrorist actions.

8. More funds should be invested in public diplomacy campaigns related to counterterrorism. Private channels in poor countries often promote distorted and dangerous portraits of the Trilateral countries and incitements to terrorist acts. There is a need to counter such propaganda. This might include a study of the highly biased and inflammatory textbooks that are used in some religious schools, combined with coordinated programs to present countervailing information.

9. Major efforts should be made to mediate, conciliate, and resolve issues involved in the serious conflicts that are seedbeds for the growth of terrorist activities. Progress on the Middle East peace process would greatly dampen the opportunities for recruitment by extremist groups, and help to get Islamic countries more involved in the fight against terrorism. Other difficult issues such as Kashmir also act as seedbeds for terrorism and require attention.

10. The metaphor of war can be misleading in planning investments and developing a strategy to counter the new terrorism. While military force is an essential part of the struggle, there will not be a definitive battle or victory, and it would be a mistake to suspend civil liberties indefinitely. There is no single solution in the struggle against terrorism, and counterterrorism policy must be integrated with other dimensions of domestic and foreign policy such as aid, trade, institution building and conflict resolution. We are in this for the long haul.
Program

Friday, April 11

19:00  Informal Reception

Saturday, April 12

8:45–9:15  Session I: Opening Remarks
          Yotaro Kobayashi, Pacific Asian Chairman
          Thomas S. Foley, North American Chairman
          Peter Sutherland, European Chairman
          Lee Hong-Koo, Korean Group Chairman

10:30  Meeting with His Excellency Roh Moo-hyun, President of the Republic of Korea

12:00–14:00  Session II: Socio-Political and Economic Agenda of South Korea

          Moderator
          Lee Hong-Koo

          Panelists
          Hong Seok Hyun, President, Korean Newspapers Association; Publisher, Chairman and Chief Executive Officer, JoongAng Ilbo
          SaKong Il, Chairman and Chief Executive Officer, Institute for Global Economics; former Minister of Finance

14:15–15:45  Session III: Prospect for Pacific Asian Integration

          Moderator
          Jusuf Wanandi, Member, Board of Trustees, Centre for Strategic and International Studies, Jakarta

          • The Economic Dimension
          Jesus P. Estanislao, President and CEO, Institute of Corporate Directors/Institute of Solidarity in Asia; former Minister of Finance, Philippines

          • The Socio-Cultural Dimension
          Wang Gungwu, Director, East Asian Institute, National University of Singapore

16:00–17:30  Session IV: Japan’s Domestic and International Agenda

          Moderator
          Yotaro Kobayashi
• The Economy
Yasuhiro Shiozaki, Member, House of Representatives; former Parliamentary Vice Minister of Finance

• Foreign Policy
Keizo Takemi, Member, House of Councillors; former State Secretary for Foreign Affairs

19:00–
Dinner Meeting
Host: Cho Suck-Rai, Chairman, Hyosung Corporation, Seoul

Speech:
European Union’s Domestic and International Agenda
Peter Sutherland, Chairman, BP, London

Sunday, April 13

9:30–11:45 Session V: The Rise of China and Its Global Implications
Moderator
Bill Emmott, Editor, The Economist, London

Presentation of the Discussion Paper by the Chinese Study Group
Wang Jisi, Director, Institute of American Studies, Chinese Academy of Social Sciences; Director, Institute of International and Strategic Studies, Central Party School, China

Responses
Heinrich Weiss, Chairman, SMS, Düsseldorf
Wendy K. Dobson, Professor and Director, Institute for International Business, Rotman School of Management, University of Toronto; former Associate Deputy Minister of Finance

12:00–15:00 Luncheon Panel: New Security Challenges in East Asia
Moderator
Strobe Talbott, President, The Brookings Institution, Washington, DC; former Director, Yale Center for the Study of Globalization, New Haven, CT; former U. S. Deputy Secretary of State

• Coping with North Korean Challenges
Han Sung-Joo, Director of Ilmin International Relations Institute and Professor of Political Science, Korea University; former President, Korea University; former Minister for Foreign Affairs

• Russia’s Role in East Asia
Sergei Karaganov, Deputy Director, Institute of Europe, Russian Academy of Sciences; Chairman of the Presidium of the Council on Foreign and Defense Policy, Moscow

• The United States’ Role in East Asia
Stephen W. Bosworth, Dean, Fletcher School of Law and Diplomacy, Tufts University; former U.S. Ambassador to the Republic of Korea
15:15–18:15 **Session VI:** Addressing the New International Terrorism: Prevention, Intervention and Multilateral Cooperation

**Moderator**
Karl Kaiser, Otto-Wolff Director, Research Institute of the German Council on Foreign Relations (DGAP), Berlin; Professor Emeritus of Political Sciences, University of Bonn

**Panelists**
Joseph S. Nye, Jr., North American Author; Dean, John F. Kennedy School of Government, Harvard University; former U.S. Assistant Secretary of Defense for International Security Affairs
Yukio Satoh, Pacific Asian Author; President, The Japan Institute of International Affairs; former Ambassador of Japan to the United Nations
Paul Wilkinson, European Author; Chairman, Centre for the Study of Terrorism and Political Violence; Professor of International Relations, St Andrews University, United Kingdom

**Comments**
Ali Alatas, Adviser and Special Envoy of the President of Indonesia; former Minister for Foreign Affairs

19:30 Dinner at the National Assembly Hall

Remarks: Lee Hong-Koo, Former Prime Minister of the Republic of Korea

Speech: Carla A. Hills, Chairman and Chief Executive Officer, Hills & Company, Washington, DC; former U.S. Trade Representative; former U.S. Secretary of Housing and Urban Development

**Monday, April 14**

9:00–11:30 **Session VII:** Restructuring of the International Order after the War in Iraq

**Moderator**
Han Sung-Joo

**Panelists**
Jacques Andréani, Ambassadeur de France; former French Ambassador to the United States
Thomas S. Foley, Partner, Akin Gump Strauss Hauer & Feld, Washington, DC; former U.S. Ambassador to Japan; former Speaker of the U.S. House of Representatives
Akihiko Tanaka, Director, Institute of Oriental Culture, University of Tokyo

11:30–12:00 **Concluding Remarks** by the Trilateral Chairmen