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## THE NEW FACE OF NORTHEAST ASIA

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By Kent E. Calder

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Please consider this excerpt from the following reading and the question listed below.

“The prospective burden of a Korean merger would be much greater than what West Germany faced a decade ago in absorbing the East. According to a recent Bank of Korea study, the North’s 1999 GDP was less than four percent of the South’s, and its per capita income of \$714 was just eight percent of South Korea’s. By contrast, in 1989 East Germany’s GDP was about 20 percent of West Germany’s. Combining the North and South Korean economies could cost anywhere from \$100 billion to \$500 billion. A South Korea just recovering from the Asian financial crisis-despite its recent \$80 billion trade surpluses-simply does not have the money to undertake this task alone.”

- Is unification of North and South Korea a relative possibility in the foreseeable future given the financial, economic, and political obstacles? If not, what are the other likely scenarios?

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**FOREIGN AFFAIRS**  
**The New Face of Northeast Asia**

*an excerpt from*  
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**The New Face of Northeast Asia**

Rumblings In The East

Northeast Asia, specialists have long argued, is among the most dangerous places on earth. Only there are the world's three principal nuclear powers (the United States, Russia, and China) and the two largest economic powers (The United States and Japan) still politically and geographically engaged their interests entwined in a volatile arc surrounding Japan. It was in that region that three years of bitter Korean conflict half a century ago shaped the Cold war for two generations. As other global hot spots moved to fitfully toward peace, Korea remained locked in conflict. To this day, Northeast Asia lacks a regional security framework analogous to NATO or the Organization for Security and Cooperation in Europe (OSCE), and there is still no peace treaty on the Korean Peninsula, where more than a million troops from the opposing sides remain deployed within miles of each other.

Yet when Kim Dae Jung of South Korea and Kim Jong Il of the North met on the tarmac at Pyongyang last June 13, the region's past and present tensions seemed to be giving way to the promise of future cooperation. The remarkably positive chemistry of the initial meetings produced tangible results. Within little more than two months, North Korea and South Korea had agreed to rebuild roads and railways across the demilitarized zone (DMZ), resolved to re-establish a liaison office in Panmunjom (a village in the DMZ used as a neutral setting for international discussions), and completed an emotional series of visits between family members who had been separated for nearly 50 years. Soon afterward, their athletes marched under a common flag at the Sydney Olympics.

These initiatives marked a significant shift in regional diplomacy. For the first time since World War II, Seoul and Pyongyang—rather than Washington, Moscow, or Beijing—were driving events. The two Koreas sensed that they were on center stage and relished their new place in the sun.

A glance at the map, and its geopolitical implications, suggests the power of the forces being unleashed by the Korean rapprochement. Korea is the strategic pivot of this region. With a hostile, communist North Korea lying between it and the rest of the Asian continent, South Korea has long been a geostrategic island. Yet peninsular cooperation could transform North Korea from a barrier into a bridge—to Russia, China, and the world beyond. A lack of domestic energy resources, coupled with rapidly rising demand for energy, gives North

and South Korea a shared economic motive to develop common railways and pipelines northward to exploit Siberian gas and trans-Siberian shipment opportunities. In 1999, South Korea's primary energy consumption rose more rapidly than any other nation's driven by heavily increased demand for natural gas. The country is eager to reduce its already heavy energy dependence on the Middle East by diversifying toward new suppliers, such as gas-rich Siberia. As North Korea's economy strengthens, its demand for Russian energy could also rise sharply.

The Cold War created a static, stable, oddly comfortable world: antagonistic political afflictions implanted conflict in Northeast Asia, but at least they were strong and predictable. The new geopolitics, by contrast, is much more fluid, particularly at its Korean vortex. The system's architect is clearly Kim Dae Jung, a visionary leader who won last year's Nobel Peace Prize. He has simultaneously enticed the North out of isolation, reassured Japan, and stimulated Russian interest in mutually beneficial contacts in trade, transportation, and energy.

The two Koreas and Russia could benefit most from the peninsular thaw. Subtly capitalizing on the potential economic and diplomatic benefits for his country, Russian President Vladimir Putin has been a highly active new geopolitician. Only weeks after the Pyongyang summit, he visited both Pyongyang and Beijing, where he strengthened the security ties that already give Russian manufactures 90 percent of the substantial and growing Chinese arms market. After attending the Okinawa summit of the group of seven highly industrialized nations (G-7) plus Russia in late July, Putin visited Japan again in early September and then invited Kim Jong Il to Vladivostok. Russia has also been alert to the fact that resource-rich Siberia and Russia's neighboring Far Eastern regions could profit from the endemic and voracious Korean and Japanese needs for energy and raw materials, encouraging a broad range of commercial exchanges at various levels.

For China, the Korean conciliation has so far had mixed implications. China reportedly helped engineer the rapprochement by encouraging Kim Jong Il to adopt a more pragmatic policy toward his southern neighbor. But the prospects of change in Korea may rekindle the long term rivalry between China and Japan for influence on the peninsula, as did Korean internal turbulence before the Sino-Japanese War of 1894-95. Yet in the short run, China is benefiting from intensified local pressure against U.S. bases in the region, especially in Korea. These facilities are coming to appear less necessary to local citizens as regional tensions relax.

Washington was arguably left behind in the early aftermath of the Pyongyang summit, after dominating Korean diplomacy for more than five decades. Even after the Cold War ended, Washington had continued to direct the pace and the direction of regional discussions. From the late 1998 to early 2000, former Secretary of Defense William Perry made a series of visits to countries in the region as President Clinton's special envoy to North Korea, a diplomatic process marked by his crucial Pyonyang discussions of May 1999. But a year later, the historic North-South summit temporarily eclipsed Perry's effort and shifted diplomatic initiative toward the two Koreas themselves.

The United States has, however, naturally recouped some influence through its sway with multilateral bodies potentially crucial to the North's reconstruction, such as the International Monetary Fund, the World Bank, and the Asian Development Bank. The United States also

remains central to strategically important missile and satellite talks, as the high-level exchange of visits between North Korean military leader Jo Myong Rok and U.S. Secretary of State Madeleine Albright in October 2000 so clearly showed.

The most unfortunate victim of the new geopolitics is undoubtedly Japan—which is ironic, given that it is the economic giant of Asia. As an island on Northeast Asia's periphery, without the deep involvement with the region's commerce that it has with Southeast Asian trade, Japan will not receive the direct economic benefits from the relaxation of tensions in Korea that its continental neighbors anticipate. As the largest and most affluent economic power in the region, however, Japan could easily be saddled with the costs.

Questions of national security make many Japanese quietly uneasy about the increasing pace of collaboration between the Koreans. They sense that South Korean and Japanese interests may be diverging on such sensitive issues as economic assistance and North Korean Nodong mobile missiles capable of reaching Japan; Japan is also unwilling to forget that North Korea allegedly kidnapped ten Japanese citizens in the late 1970's a charge that derailed 1992 normalization talks between the two countries. Japan's cumbersome decision-making processes, hindered by bureaucratic rivalries and political factionalism, keep its responses to the fast-paced developments on the continent a step behind other nations' reactions. Japan's talks with North Korea remain deadlocked, despite the dynamic diplomacy being conducted by other regional actors.

Japan's deteriorating relations with China compound its other problems. Recent Chinese naval activities, including several contentious visits to disputed areas in the East China Sea and the first circumnavigation of the Japanese archipelago in more than 15 years, have accelerated this deterioration. During the past 20 years, \$23 billion in Japanese aid has helped neutralize bilateral tensions. But now a combination of steadily rising Chinese bilateral tensions. But now a combination of steadily rising Chinese military expenditures (a 12.7 percent increase last year alone, the eleventh double-digit jump in a row) and Japanese aid fatigue is eroding this long-standing pillar of interdependence. China's rising trade surplus with Japan, which surged 39 percent in the first half of 2000, has not helped.

The burst of diplomatic activity across Northeast Asia since the Pyongyang summit has been remarkable. Yet basic political and economic forces in the region could provoke even more sweeping and unexpected change. Storm clouds are gathering around China's periphery that contrast sharply with the dramatic and well-reported rapprochement between the two Koreas.

Leaders in the region face three long-term challenges that transcend Korea's current evolution: the emergence of democracy, rapid changes in defense technology, and transformations of long-standing international political and economic relationships. Many of the political and technological changes, to be sure, began quietly reshaping Asia a decade or more ago. Yet it was the Pyongyang summit that catalyzed change and suddenly intensified the immense challenges that now confront the region and the broader world.

### The Populist Change

In the long run, democratization in Northeast Asia will help bring about a more peaceful world. Yet in the short run, making governments more accountable to people introduces new uncertainties and limits into diplomacy. Opening foreign policy decisions to the public—especially at times of regional transition—makes national security a more central topic of public debate. Northeast Asian, governments remain unprepared for this emerging reality.

Recent regime changes in South Korea and Taiwan, for example, brought advocates of political reform to power. In South Korea, former long time long-time dissident Kim Dae Jung (whom military rulers tried to eliminate for a quarter-century) is now halfway through his five-year term as president. In May 2000, Taiwan elected to the presidency Chen Shui-bian, a radical civil rights lawyer and advocate of independence from China for two decades. In both cases, however government and opposition are locked in a precarious balance, with neither side enjoying a broad mandate. Indeed, Chen garnered only 39 percent of the vote in a three-way race and confronted controversial impeachment proceedings only months into his term.

The reform governments' fragility subjects their foreign policy to more intense scrutiny and pressure from domestic public opinion. It also has given outside actors—notably mainland China and North Korea—greater incentive to manipulate democratic politics for their own ends. Both on the Korean Peninsula and in the Taiwan Strait, the result is delicate, volatile, and often paranoid politics, with reformers trying simultaneously to transform domestic politics and to adapt diplomacy and foreign policy to the new geopolitics of the surrounding region.

The more delicate and dangerous of the two situations lies in the Taiwan Strait—the longer ambiguity of Taiwan's international status is further complicated by the mutual lack of trust. Beijing seems wary of Chen's intentions on the all-important independence issue. Chen, supported by only a weak plurality of the presidential vote and confronted by Beijing's active efforts to isolate him, may be and confronted by Beijing's active efforts to isolate him, may be tempted to take the locally popular course of confrontation with China to solidify his domestic support base. Chinese President Jiang Zemin, constrained by a 2002 Communist Party decision on his continued tenure, cannot actively seek compromise. Were both sides in the confrontation less beset by domestic pressures, accommodation would undoubtedly come easier.

In South Korea, in contrast to Taiwan, popular sentiment favors *de-tente* rather than confrontation. More than 7.5 million South Koreans—roughly 15 percent of the population—have relatives in the North. The initial round of family reunions, heavily covered in the media, seems to have awakened a deep yearning for renewed social ties between North and South, although some skepticism about Northern intentions later emerged. Transportation breakthroughs such as the August 2000 North-South agreements to build freeway and railway links across the DMZ, as well as a proliferation of tourism and contract manufacturing ventures, have also stimulated new economic incentives for deeper integration.

## Juche Twilight

One nation, of course, remains immune to the populist tendencies sweeping across much of the region: North Korea. Despite new signs of apparent pragmatism in foreign policy, its people remain hermetically sealed off from the outside world. The regime's ideological rationale for this isolation has been *juche*, or self-reliance. This approach is clearly now in its twilight—thanks to a severe famine and a North Korean manufacturing production capacity and energy supply that have shriveled by 50 percent in the last decade. Deepened economic, if not political, interdependence with the outside world has a powerful logic that may well be further reinforced by the *de'ente* now in progress.

The decline of *juche*, or a *juche* twilight, in North Korea is a complex political and economic reality with fateful implications for the neighboring nations and for the United States as well. It has three key elements: a precarious North Korean economic situation; a political order that, although highly repressive, continues to be surprisingly stable, under Kim Jong Il consolidation of power; and economically pragmatic but military-oriented leadership in Pyongyang. For example, Kim Jong Il government tolerates, and even promotes, economic interdependence with other nations at levels low enough not to threaten political stability at home. At the same time, North Korea continues to expand its capacity to project military power against the outside world. *Juche* twilight is, to a greater extent than many outside observers realize compatible with greater North Korean economic cooperation with the surrounding world. Broad economic and political liberalization, to be sure, could sound the death knell of the current North Korean regime (and thus spread chaos and substantial economic adjustment costs across the region). Yet this is not the sort of the economic interdependence that either Pyongyang or many of its prospective regional economic partners have in mind. Provided that political interactions with the outside world remain controlled, the North Korean regime could still survive if, for example, it allowed energy and transportation infrastructure projects to pass through its territory en route from South Korea to Russia and beyond. Indeed, such transit projects could very well help to perpetuate *juche* twilight by providing North Korea with the revenue to alleviate its current severe economic crisis.

Virtually all key actors of Northeast Asia have an economic interest in the indefinite persistence of *juche* twilight, which is essentially an enervated, pragmatic version of the vigorous North Korean militancy of recent years. South Korea, in particular, would prefer to defer the challenge of a merger until its economy grows stronger. President Kim Dae Jung has suggested that full integration of the Northern and Southern economies should take 20-30 years. Surrounding nations, for various reasons, have a similar economic stake in an extended *juche* twilight.

The danger in *juche* twilight obviously comes on the security side. Among North Korea's few sources of leverage with the world are the military threats that it poses, on the land against South Korea as well as through its missile, chemical, biological, and nuclear capacities against Japan and even the United States. Economic relations with the outside world may provide Pyongyang with new technologies and the economic resources to amplify those threats. The longer *juche* twilight persists, and the more effort that the North puts into military programs to increase its international leverage, the more provocative and threatening these challenges could become, even as the North Korean political economy slowly crumbles.

## Confronting Technological Change

The most serious technological danger for the Northeast Asian leaders today is missile proliferation. Every government in the region is now both a large-scale consumer and a major producer of missiles. This unsettling reality, unique among the major regions of the world, is a disturbing product of the last decade-and the consequent dangers have been growing more pronounced over the past three years.

Technological advances and rapid deployment in China are a major part of the picture: the fastest developments have occurred in short-range missiles, such as the Dong Feng 11, which China tested near Taiwan in 1996 and has since deployed along the Taiwan Strait. These deployments grew from 20 missiles in the mid-1990s to 200 by 1999 and have recently been increasing by roughly a missile per week.

China has also been developing and deploying longer-range missiles capable of hitting other locations in Asia, including U.S. bases in Japan and South Korea. In August 1999, it tested the solid fuel, road-mobile, 8,000-kilometer-range Dong Feng 31. A longer range variant is reportedly being planned. In May 2000, China also began importing Russian Sunburn SSN-22 supersonic cruise missiles for its 24 new Sovremenny-class destroyers.

China's steady buildup of short-range missiles increases the prospects of multiple waves of attacks launched in many directions. This development is potentially destabilizing, because it has naturally provoked a counter-response from across the Taiwan Strait. Taiwan has already deployed American Patriot antimissile defenses while developing its own Skybow surface-to-air missile and Cheng Kung missile frigates. A new Taiwanese strategy to offset the Chinese buildup would reportedly involve preemptive long-range strikes on major Chinese command, communications, logistics, and economic centers. Taiwan has also begun large-scale research and development on a theater missile defense system and upgraded its information-warfare capabilities.

North Korea, of course, has further exacerbated regional missile proliferation –and a protracted *juche* twilight threatens to make matters worse. Starting with basic Soviet Scuds, North Korea test-fired the indigenous, mobile Nodong I in 1993. Since 1997, it has deployed the Nodong in substantial numbers. Simple in design and difficult to preempt due to its mobility, the 1,300-kilometer-range Nodong is viewed as a credible terror weapon against large cities in western Japan. Indeed, Japanese analysts continue to see the Nodong as the principal North Korean missile threat to Japan despite possible problems with its accuracy. And Japan is not the only country threatened. In one of the most provocative recent developments in the region, North Korea also tested the Taepodong I missile, which has an 8,000-kilometer range, over Japanese airspace in August 1998. Furthermore, the fact that the North Korean threat figures prominently in American strategic planning shows that the Northeast Asian missile race has consequences well beyond the region.

Japan, limited by constitutional constraints and a gridlocked political system, has responded in a relatively moderate, defensive, fashion. In December 1998, three months after the North Korean tests, it approved joint ballistic-missile defense research with the United States. It has also made plans to launch eight observation satellites by 2008. So far, the United States has

concentrated its attention on the longer –range Taepodong missile issues. Yet the strategic threat that Japan confronts from North Korean Nodongs, not to mention recent Chinese missile advances, also remains real.

### A Swiftly Tilting Continent

The third major challenge confronting Northeast Asian leaders is the rapidly changing international environment. Its complex interaction with the democratic, political, and technological challenges noted above makes this hurdle particularly difficult to manage. The rapidly shifting leverage of key parties also means that continuous international consultation is more necessary than ever.

Three characteristics distinguish the new international context. First, and most frustrating for the United States, no single power is clearly in charge. Perry’s negotiating efforts put regional change under Washington’s direction, but now the two Koreas, rather than the United States, are driving the pace of regional change (Secretary of State Madeleine Albright’s recent efforts notwithstanding). Russian and Chinese diplomacy has also shaped the emergent *de’tente*. And Japan remained a force to be considered.

But a second, related feature of the post-Pyongyang situation is the passivity of those, including the G-7 powers and international financial institutions, with the resources to actually undertake the massive economic restructuring that diplomatic developments may provoke. Some caution is clearly warranted as long as North Korea equivocates on key security issues. Yet as contact between the Koreas deepens, the world must prepare for the possibility of major, unanticipated economic change.

The prospective burden of a Korean merger would be much greater than what West Germany faced a decade ago in absorbing the East. According to a recent Bank of Korea study, the North’s 1999 GDP was less than for percent of the South’s, and its per capita income of \$714 was just eight percent of South Korea’s. By contrast, in 1989 East Germany’s GDP was about 20 percent of West Germany’s. Combining the North and South Korean economies could cost anywhere from \$100 billion to \$500 billion. A South Korea just recovering from the Asian financial crisis –despite its recent \$80 billion trade surpluses– simply does not have the money to undertake this task alone.

Northeast Asia’s institutions are startlingly inadequate for coping with regional problems, given the enormity of the dislocation that prospective changes in Korea, could provoke. The Regional Forum (ARF) of the Association of Southeast Asian Nations (ASEAN) is a useful venue for casual dialogue, but it is not the solution. ARF has not even been able to mediate issues in ASEAN’s backyard, such as the East Timor question. In this dearth of capable institutions, long-standing bilateral treaties still provide the crucial backbone of military deterrence. Yet now something more is needed to smooth the wrenching transition to a new era and marshal the massive resources needed for reconstruction. In stark contrast with Europe, which has a rich organizational infrastructure, including NATO, the European Union, and the OSCE, Asia still lacks institutions to help it adjust to new challenges.

## Imperatives For The Future

The nations of Northeast Asia, together with the United States, need to fashion a new North Pacific framework that builds on the considerable strengths of the past to stabilize a potentially volatile future. The single most important imperative for the United States is to strengthen its military and political alliance with Japan. The United States and Japan together hold close to 40 percent of global GDP, lead the world technology, and contain nearly half of the world's savings. They thus make up a critical mass that can guide otherwise, fluid uncertain developments in Asia in a productive, stabilizing direction.

A central feature of American policy toward Northeast Asia is the presence of more than 80,000 U.S. troops based Japan, South Korea, and aboard the Seventh Fleet in the Pacific. These are by far the largest non-NATO American forces outside the United States and constitute the great bulk of American troops in the entire Pacific. The value of forward-deployed forces outside the United States is undeniable, particularly given the high levels of financial support—roughly \$5 billion a year in the case of Japan—that allies provide to keep them in the region. Yet two important, related issues remain to be resolved.

First, whether existing deployments remain strategically optimal needs serious review. Communications, information-processing, air defense, and mobile naval capabilities are gaining importance, given the missile buildups, revolutionary information-technology changes, and raising Asian dependence on oil and gas from the Middle East. Changes that make room for these new capabilities and spread U.S. forward deployments more fully across the Pacific need study. The new geopolitics makes a bottom-up review of the U.S. force structure in Northeast Asia imperative.

Second, deeper consideration must also go to sustaining the strategically vital (if not yet most also go to sustaining the strategically vital (if not yet most favorably configured) American military deployments across the region in the face of intensifying populist and international pressures. Popular calls for a reduction of the U.S. military footprint in Asia are already strong and may well grow more vociferous in the coming years. Yet the receptivity of local communities to the American military presence varies enormously across Northeast Asia, and U.S. policymakers need to be conscious of local sentiment, even when it cannot readily be accommodated. Continued and intensified efforts to broaden the perceived benefits that U.S. bases give to local communities are a crucial priority. Facilities made more available for joint civilian –military use, disaster-relief cooperation, international education centers, On-base internship programs, and efforts to reduce tensions between base personnel and the community are all helpful. So is cultivating a deeper, more balanced sense of partnership with local military units.

To strengthen the political credibility of the alliance, both Washington and Tokyo must devote much more attention to explaining to their general publics the comprehensive security goals they hold in common and the substantial progress in civil-military relations that they have already achieved at the local level. A new, more articulate elaboration of shared interests needs to legitimize their joint defense commitments while building a much more dynamic program that addresses mutual concerns beyond defense. A deepened common agenda between the two countries should focus more on high-profile issues that

attract widespread public interest, such as energy, mass transit, earthquake research, and education for the information age. The Cold War and the Korean rivalry legitimized and sustained a U.S.-Japan alliance based on narrow economic and security interests. In the post-Cold war era, partnerships must also draw strength from a shared world-view.

Economic policy can also reinforce the broader alliance in creative ways. The United States and Japan should, for example, seriously study the feasibility of reviving comprehensive open-market negotiations, focusing on the high-technology and service sectors. They should encourage still further the recent surge of foreign direct investment into Japan by pressing Japanese policymakers for early changes in the Commercial Code (which regulates how business is conducted in Japan), consolidated taxation, and corporate governance. Given the political gridlock in Tokyo and the high levels of Japanese public debt, it will be difficult for government programs alone to open and revitalize the Japanese economy. Transforming the incentive structure of the private sector through technical but microeconomically important steps, which would encourage direct finance and greater business efficiency, would be far more effective.

A related imperative is reinforcing American relations with South Korea, which stands at the vortex of Northeast Asia's potentially volatile new geopolitics. Such an effort could include five basic elements. First, a more comprehensive U.S.-South Korean policy-coordination process should build on the recently initiated Trilateral Coordination and Oversight Group of the United States, Japan, and South Korea. Second, policymakers should undertake a broad review of U.S.-South Korea security relations, parallel to the U.S.-Japan Defense Guidelines process just completed. Third, intensified North Korean military maneuvers and delays in promised confidence-building steps with South Korea in recent months have rendered problematic the coordinated verification of Pyongyang's intentions regarding North-South de'tente. The North needs to take good-faith concrete steps regarding infrastructure investment in North Korea, technical training of officials involved in international commercial transactions, and measures to make previous nonaggression pledges irreversible. Fourth, Washington and Seoul should initiate working-level studies on appropriate coordination and sequencing of joint U.S.-South Korean responses to inter-Korean developments. And finally, there should be joint exploration of options for reconfiguring ground-force deployments in the event of a serious, verifiable reduction of North-South tensions, while retaining residual air and naval capacities and pre-positioned equipment.

Given the fluidity and complexity of developments in Korea and the broader region, the new U.S. administration should build on the Perry process of 1998-2000 by giving a presidential envoy with strong political and military experience the authority to coordinate policies toward Northeast Asia. Once the envoy and other key officials are in place, the new president should also consider a visit to Tokyo and Seoul to assess the recent changes in Northeast Asia and illustrate Washington's renewed emphasis on relations with Japan and South Korea as the cornerstone of American responses to those changes. Such a visit would help cement the invaluable transpacific working relationships on which a true alliance needs to be based. It could deal with important pending issues, such as reaffirming the profile of American forward-deployed troops in Okinawa. It could also be the occasion for a major programmatic statement giving some long-term direction to the alliance, as the Tokyo Declaration of 1992 and the Framework Agreement of 1993 were intended to do.

Given the complexity involved in transpacific dealings among massive political economics with different cultures and histories, forging a more coherent relationship among the United States, Japan, and South Korea is easier said than done. All sides clearly have divergent, as well as shared, interests. Yet they must see the value in strategically populist pressures will require cooperative steps, fundamental strategic reviews, and economic initiatives that build common collateral in the transpacific future.

### Reforming Japan

Northeast Asia's new geopolitics badly needs Japan to be a more active player, both in its alliance with the United States and in global affairs more generally. Japan is the real colossus of Northeast Asia and a potential force for both stability and prosperity. The Japanese economy remains five times the size of China's, and this imbalance is unlikely to change decisively for at least a generation, despite China's higher prospective growth rates. With 30 percent of global savings, Japan –the largest capital exporter on earth-cancontribute crucially to global financial and political projects; China could be a marginal financial contributor at best.

Yet to play a meaningful and active international role, Japan requires massive political and economic reform. Given the explosive pace of change and the rising fluidity of foreign affairs, three priorities deserve particularly serious consideration.

First, Japan must reform its overly regulated economy. The serious fragmentation in Japanese politics and administration means that a shift to new standards of corporate governance and direct finance would be far more effective in restructuring the Japanese economy than any government program. Since 1998, Japan has been moving toward a new business paradigm with its "Big Bang" in financial affairs, new bankruptcy legislation, consolidated accounting, and the advent of new venture-capital markets such as NASDAQ Japan. These reforms, if fully implemented, could in turn accelerate Japanese growth, deepen its interdependence with foreign trading partners, and make Japan a more viable competitive environment for many foreign firms.

Political restructuring is also necessary. Japanese politics, like its economy, is suffering a quiet crisis. The general elections in June 2000 graphically demonstrated voters' substantial frustration with the ruling conservatives, especially among urban and younger Japanese. Another electoral defeat for the ruling coalition in the July 2001 elections for the House of Councilors (the upper chamber of the Diet) could well catalyze broader political reform. But Japan's high levels of political regulation, the large financial resources available for the government to dispense, and the weak social base for pluralist politics in a largely homogeneous society make it difficult for political parties themselves to spearhead much-needed change. Market incentives and pressure from the outside world need to carry more of the burden of change in Japan than they do elsewhere.

Finally, the innovative decisions and diplomacy required by the new geopolitics make the Japanese political parties' sluggishness to change a more urgent problem. Thus decisive individual leadership has become an imperative for Japan. One option that attracts growing attention and support among Japanese is direct election of the Prime Minister on the Israeli model, although some fear the rise of demagoguery. At a minimum, most Japanese would

like their system to give more voice to younger, reformist politicians-and not just from the current ruling parties-in their nation's affairs.

### A Framework For The New Geopolitics

The Greatest Danger posed by the new shape of Asia, especially for status quo powers such as the United States and Japan, is that populist pressures and changing technology will incite a destabilizing struggle over the regional balance of power. The perils implicit in such a power struggle are especially acute because Northeast Asia, unlike Europe or even Southeast Asia, has no regional institutions capable of muting paranoid perceptions and setting mutual goals.

The region, to be sure, had the U.S.-Japan and the U.S.-South Korea security alliances, which are reinforced by U.S. forward deployments and are a vital cornerstone of stability. Yet the fluid world now emerging needs broader cross-regional support mechanisms. There is no obvious reason why ASEAN, based half a continent away, should be central in this process, although ARF is, as noted earlier, a useful venue for casual dialogue. And the four-party framework of the Koreans, the United States, and China, created to formalize a Korean war peace settlement, leaves out two key players and is therefore poorly equipped to address the most fundamental issues of Northeast Asia's future. Russia under Putin has become a dynamic player in Asian politics, and Japan will also inevitably play a crucial role in Korean reconstruction. Both deserve a seat at a table of expanded, six-party talks on Korea. Periodic meetings in this format, supplemented by a formalization of the U.S.-Japan-South Korea policy coordination processes that have evolved since 1998, should create an institutional basis for the new geopolitics,

A greater role in directing the North Pacific's future should also be reserved for "Track II" institutions and processes (unofficial contacts among nongovernmental actors), especially those that deepen triangular understanding among Washington, Tokyo, and Beijing. On issues of comprehensive security in particular-such as energy, food, and the environment -a remarkably sophisticated set of such energy, food, and the environment-a remarkably sophisticated set of such institutions, including the Council for Security Cooperation in the Asia Pacific, has begun to evolve. Partially because formal intergovernmental bodies have been so weak and diplomatic processes so complicated, these private-sector groups have come to play an important role. Track II processes could vitally help moderate what could otherwise be volatile, paranoid, destabilizing tendencies in the new geopolitics of Northeast Asia, especially on Taiwan-related issues.

From a set of static, rigid, Cold War relationships in continental Northeast Asia has emerged, with remarkable speed, a fluid, deceptive new world. Unanticipated dangers are becoming clear, even as new prospects for cooperation and reconciliation materialize. With their critical mass and shared stability concerns, the United States and Japan together have the potential to anchor and renew the North Pacific, if they can summon the requisite vision and decisiveness. Never has leadership been more difficult-or more consequential.