

It is a great honor and a deep personal pleasure to be invited to give this keynote address on the occasion of the 30th anniversary of Columbia's Center on Japanese Economy and Business. Hugh Patrick has provided the Center with extraordinary vision and leadership since he came to Columbia and created it in 1986. I want to congratulate him and to personally thank him.

I would like to use the limited time I have today to consider a few of the challenges East Asia's changing geopolitical environment pose to Japan, to the United States, and to the US-Japan alliance. The alliance is strong and it will remain critically important for maintaining peace and stability in East Asia for as far out as we can see.

But in thinking about the future of our alliance we need at the outset to remind ourselves of something about the past: that is that the US-Japan alliance was forged in the crucible of the cold war; that it was part of a global US containment strategy against the Soviet Union; and that it was negotiated at a time when Japan was a weak and defeated nation.

That is no longer the world we live in. The stability of a bipolar world order in which American economic, military, political, and soft power reigned supreme is becoming a distant memory. Yes, the US remains the most powerful country in East Asia and globally and it will continue to be so for years to come. But it is not the dominant economic power in Asia and it no longer enjoys a position of unchallengeable military supremacy. China does not have to fully match American military power to make the cost to the US of using that power very high; that cost will continue to increase as China's military grows stronger.

Bipolarity presented countries with a clear strategic choice as to how to position themselves in the world system. But East Asia now is evolving a multipolar system whose complexity makes the costs and benefits of different policy options more difficult to estimate, coordination among allies harder to achieve, and the dangers of misunderstanding, suspicion, and miscalculation all the greater. In the fluid, uncertain political environment in East Asia, every country in the region is thinking anew about its national security strategy.

Japan is no exception. It has taken steps to see to it that its strategy is relevant to the world as it is now, not as it was in the past. Prime Minister Abe has sought to strengthen Japan's military capabilities, but the driving force behind developments in Japan's security policy are the structural changes that have occurred in the international system. If Prime Minister Abe were to leave office tomorrow I do not believe there would be fundamental change in Japan's security policy regardless which LDP politician succeeded him.

As for Japan's political opposition, It is hard for me to believe that the Democratic Party is serious about repealing the national security legislation passed by the Diet last September and reversing the cabinet decision to reinterpret Article nine with regard to collective defense. Doing

so would create a crisis in Japan's relations with the United States and it would be an open invitation to China to increase its pressure on Japan over the Senkaku islands and other issues. I know that many Democratic Party Diet members share my view but unfortunately they are not speaking out.

The end of bipolarity, China's challenge to the regional status quo, and the complex power balance that is emerging in East Asia are changing the dynamics of the US Japan alliance in important ways. During the Cold War Japanese worried about the United States drawing their country into a conflict they wanted no part of. And it was not only the left that feared this kind of entanglement. The LDP itself adopted a large number of self imposed constraints on the government's security policy to reduce precisely that danger -- the ban on collective defense and on the export of weapons and weapons technology, a one percent ceiling on defense spending, the prohibition of the acquisition of offensive weaponry, and a doctrine of minimal homeland defense.

The Abe Administration now has removed or is weakening these constraints, aware of the necessity to do more to sustain the alliance with the United States, to strengthen its own defense capabilities, and to have greater influence in regional and global affairs. It is pursuing a strategy that does not diverge from but that builds upon and accelerates policy trends that have been evolving over the past half century. It is a strategy with three prongs: to have Japan to do more for itself; do more to strengthen the alliance with the United States; and to develop security relationships with other countries in the region and elsewhere.

Given the changed international situation in East Asia, skillful management of the US-Japan alliance requires a redoubling of the efforts of leaders in both our countries to enhance cooperation and coordination and also to engage in more power sharing, that is sharing not only burdens but decisions about what those burdens should be. That is a difficult adjustment for both of us, for America because we are accustomed to the US making decisions and then consulting with our allies about what their role should be in implementing them, and for Japan because power sharing involves taking risks.

Both countries also need to take into account the domestic political realities that provide the context within which foreign policy is made. The political reality in Japan is that the country is not on the cusp of becoming a so-called "normal" country; public opposition to the use of Japan's military forces for more than defending the homeland is profound and will continue to constrain the government. The political reality in the United States is that there is widespread public unease over the direction of American foreign policy caused by failed policies and unsuccessful wars in the Middle East, the popularity of the view that free trade agreements may be good for business but are bad for the American working man, and by an isolationist impulse, tapped by Donald Trump, that if we can't control the world's affairs we should demand more of others to help us do so or leave them to fend for themselves.

So let me speak about the US presidential election and what it may mean for US-Japan relations.

I believe Hillary Clinton probably will win the election, but I do not think we can count on it. Donald Trump and Bernie Sanders have shown us that there is a large number of angry, scared, frustrated voters who are responding to the appeal of anti-establishment candidates. And for many voters Hillary Clinton epitomises the establishment.

Eight years ago presidential candidate Barack Obama captured the support of people who wanted to see change.

Remember his slogans:

Yes, We can

Vote for change

A leader who can deliver change

A new beginning

Now it is Donald Trump who is running as the candidate of change.

I do not believe that Trump will move to the center when the nomination process is completed and he has to compete with Clinton in the general election. He will attack her as the establishment candidate who talks about her governmental experience and past accomplishments and not about what has to change. Trump will run on a populist, anti-immigrant, anti-free trade, isolationist platform. A Trump victory would be a disaster for the US and for the world.

But whoever wins the election, the fact remains that the Trump phenomenon, and the Sanders phenomenon as well, are indicators of deep divisions in American society that will not be repaired anytime soon. These are differences not only over policies but over issues of identity and values.

Inequality in America has created a deep social divide not just between the top 1% and the rest but between the top 20% who have seen their standard of living increase and the other 80% whose incomes have been stagnant.

Demography is changing the face of America. The percentage of the population that is white was 85 percent in 1960, is 63 percent today and will be less than 50 percent by 2045, within 30 years. Within the next three years, by 2019, the non-white population of people under the age of 18 will constitute the majority of that age group. By the middle of the century nearly one of every three Americans will be Hispanic. This diversity is the source of the dynamism and the strength of America but it is also the source of the fear and frustration that Donald Trump seeks to exploit.

Both the Democratic and the Republican parties are deeply divided internally. In the Democratic Party it is a divide between a moderate, socially liberal and internationalist wing represented by Hillary Clinton, and an anti-big business, pro big government, protectionist wing represented by the likes of Bernie Sanders and Elizabeth Warren. Interestingly, an increasing number of affluent people, those in the top 20%, are voting Democratic because they are liberal on social issues -- women's rights, gay rights, climate change, and so on. But they are not in tune with the party's left wing on economic issues, and that only exacerbates divisions within the party.

The Republicans are in a far worse situation. The party is torn between a religious evangelical and ideological right wing represented by the likes of Ted Cruz, and the more traditional moderate wing that John Kasich tried, unsuccessfully, to represent. Now the party is about to nominate as its presidential candidate someone whose views are either incoherent or anathema to the leaders of the party on whose ticket he is going to run.

So while upper middle class people with progressive social views lend support to Democrats, working class people who believe that free trade and immigrants have depressed their income if not robbed them of their jobs are enthusiastic supporters of Trump. America's political parties need to reorient themselves so that we once again have two parties, one on the center-right and the other on the center-left that offer the public clear policy choices but whose centrist orientation also offers an area of consensus and a willingness to compromise that is essential for the effective functioning of democratic government.

The point I want to underscore is that a Trump defeat will be a defeat of the man but not of the phenomenon he represents. His success should be a wake up call to a political elite that has lost touch with the average American. It also should, but probably won't, cause the broadcast networks to reflect on their behavior. They underestimated Trump's appeal and relied on his entertainment value to raise ratings even though doing so gave him billions of dollars of free advertising. The irresponsibility of the media was exemplified by the President of CBS television who commented that "the Trump phenomenon may not be good for America but it is damn good for CBS. Man, who would have expected the ride we're all having right now? The money's rolling in and this is fun. Bring it on, Donald. Keep going."

Trump's recent foreign policy speech was criticized by nearly all foreign policy experts for being full of contradictions, soft on Russia and hard on our allies, protectionist, militaristic, and isolationist. But I am sure many Americans who are not experts on international affairs listened to that speech and heard a lot that they agree with: that it is time that allies ponied up more for their own and for the common defense, that the US should get out of the business of nation building and concentrate on rebuilding our own nation, and that we should stop signing free trade agreements like NAFTA and the TPP that move jobs out of the United States to China and elsewhere.

Trump offers a choice of domination or isolationism. The United States cannot afford to retreat into isolationism and it does not have the power to dominate. Here in Japan within the LDP there is a view that once Obama is gone, and under a stronger leader, the US will resume playing the leadership role it played in the past. This is not realistic. The American public will not support a policy that involves sending ground forces to fight yet another failed war in the Middle East. Domestic political pressures will limit the ability of the President to pursue free trade agreements. Obama may be able to get the TPP through Congress during the lame duck session though I think that is unlikely. If TPP is not passed into law, it will only raise further doubts about the reliability of America's commitments and global leadership no matter who the next President is.

If Clinton becomes President, US foreign policy will be characterized by continuity and by an emphasis on maintaining strong alliances with Japan and others. But President Clinton will not be able to turn a deaf ear to the voices of those in her own Democratic Party who argue for more protectionist trade policies and those among the public at large who believe that America carries too large a share of the burden for providing for regional and global security.

Close consultation between the US and Japan will be more important than ever in the coming years. That is especially true in dealing with the two greatest threats to regional peace and security in East Asia: North Korea's nuclear weapons program and China's thrust for regional power and influence.

Let me first speak briefly about North Korea.

There are situations in international relations as there are in life in which there are no good options, in which nothing works. That is the history of efforts to get North Korea to abandon nuclear weapons and its program to develop missiles to carry them.

Positive inducements to get the North to give up nuclear weapons have been unavailing and have provided the DPRK regime with funds to invest in its weapons of mass destruction programs. Sanctions have not worked either because they have been undercut by the Chinese government's preference to keep an odious regime in place rather than deal with the possibility of regime collapse, chaos and unification under a Korean government that has a military alliance with the United States.

So what to do about North Korea? The route to finding a way to bring about change in the policies of the North Korean regime goes through Beijing, as it always has. China has good reason to be concerned about the US, Japanese and South Korean response to North Korea's latest provocations. Deployment in South Korea of the THAAD anti-ballistic missile system would mean that its sophisticated high altitude radar would provide coverage not only over North Korea but over China as well. A tougher sanctions regime is going to increase the cost to China of keeping North Korea on economic life support. The question is whether the US and South Korea can work with China to change the behavior of the North Korean regime.

There is every reason to try to make diplomacy work but no reason to be optimistic. Although the Chinese have agreed to support the latest round of tough UN sanctions, they will not go so far as to undermine the stability of the North Korean regime. A resumption of the six party talks or some other format for engaging North Korea in dialogue about tension reduction might slow down its nuclear and missile development programs, but North Korea insists on being recognized as a nuclear weapons state, something the US and Japan and South Korea will not do. It strains the imagination to come up with any combination of carrots and sticks that would induce North Korea to give up its nuclear weapons.

There is only one long term solution to the North Korean problem and that is the collapse of the regime and eventual unification of the peninsula under the ROK. In the meantime, which may be a long time, containment is the only realistic option.

I would add though that while we need to be vigilant we should not exaggerate the North Korean threat to Japan or to the United States and to peace and stability in East Asia and let it be used as a reason for an arms buildup that will increase tensions rather than reduce them. Kim Jong Un knows full well that an attempt to use nuclear weapons would bring about the utter and complete devastation of his county. I see no evidence to support the notion that his actions are irrational. We need to be cool and strategic in dealing with this odious regime.

Now to China. How the US and Japan and other countries manage relations with China will be the most consequential question facing political leaders in East Asia well into the middle of this century. Turned around, the question is whether *China* will manage its rise to superpower status in a manner that generates confidence that it is committed to the peaceful settlement of disputes and to observing global rules and norms and that its policies do not threaten the vital interests of other nations in the region.

Recent Chinese actions, especially with regard to land reclamation activities and expansive claims of sovereignty over disputed waters in the South China Sea, do not offer encouragement to those of us who hope to see China pursue such a peaceful course. China's challenge to Japan's administrative control over the Senkaku Islands has only served to strengthen the US-Japan alliance. Its actions in the South China Sea have had a similar impact on strengthening security relations between the US and the Philippines and with Vietnam. And it has triggered a degree of security cooperation between Japan and several ASEAN states that is unprecedented.

The US, Japan, Australia, South Korea, and ASEAN have a common interest in maintaining a balance of power in East Asia. Given China's growing capabilities and ambitions, maintaining a balance of power in East Asia necessarily means balancing against China. But balancing is not containment. Its purpose is not to bar China from playing a large and central role in international institutions and exercising a leading role in world affairs. Maintaining a balance of power is

necessary to dissuade it from doing so at the expense of the vital national interests of other countries.

US strategy in East Asia needs to be rooted in a commitment, and most importantly it needs to be perceived by countries in the region - friends and potential adversaries alike - as being an unshakable commitment, to maintain a regional balance of power. I have no doubt that the Obama Administration is committed to such a policy. That after all is what the much heralded pivot or rebalance to Asia is mostly about.

But it has been inconsistent in its strategy for implementing this policy. The Administration waited too long to order a freedom of navigation operation in the South China Sea, turning what should have been portrayed as a routine maritime exercise into a high profile political issue. It is important for the US continue such operations. It also should immediately challenge China if it declares an air defense identification zone over the South China Sea. Having Japan join a freedom of navigation operation either bilaterally with the United States or as part of a more multinational grouping, however, would be unnecessarily provocative and unwise. The Chinese response might well be a ratcheting up of its challenge to Japanese control of the Senkaku Islands.

The US and Japan need to have a vigorous engagement strategy toward China as well as a balancing one. China, quite naturally enough considering its economic clout and its political weight, is determined to play a leadership role in international affairs. It is not realistic to expect China to be a responsible stakeholder in the international system and then not provide space for it to exercise leadership. The decision taken by Tokyo and Washington to reject membership in the Asian Infrastructure Investment Bank was in my view ill-advised. It would be one thing if major reforms had been made in existing international economic institutions to account for China's importance in the world's economic and financial affairs. However, the Presidency of the World Bank belongs to the United States. The President of the International Monetary Fund is a European usually from France. The President of the Asian Development Bank is Japanese. If the so-called liberal international order is not reformed to make room for China to be a leader in existing important international organizations we should not be surprised to see it create its own.

One week from today Tsai Ing-wen, the head of Taiwan's Democratic Progressive Party, will be inaugurated as Taiwan's President, opening a new chapter in Taiwan-mainland relations. The Chinese are wary about the coming to power of a party whose roots are in Taiwan's independence movement but their reaction to Tsai's and the DPP's victory so far has been cautious and measured. China insists that Tsai recognize that there is just one China but it has not demanded that she say explicitly that she accepts the 1992 Consensus, which they know she will not do. Tsai for her part has emphasized her support for the status quo in cross Straits relations though she has not said exactly what she means by the status quo.

I am cautiously optimistic about Cross-Straits relations. The US has made it clear to President-elect Tsai that it opposes any actions on her part that would increase tensions with the mainland. The PRC has nothing to gain by sparking a cross-Straits crisis and will not do so as long as Tsai does not reject the one China principle.

I do have concerns about Japan-Taiwan relations, however. In Japan there are strong pro-Taiwan groups and politicians who would like to see Japan not just strengthen economic ties but develop a security relationship with Taiwan. It would be a grave mistake for Japan to do. Any moves in that direction would impact adversely on Japan-China relations, and it would elicit an unfavorable reaction from Washington as well.

As for Sino-Japanese relations, they are in much better shape today than was true a year ago. Prime Minister Abe has contributed to this improvement by not going back to Yasukuni and by issuing a statement on the 70th anniversary of the end of the war that expressed sympathy for Chinese who suffered as a result of Japan's wartime actions in China.

The positive turn in the relationship, however, has been mostly due to change in China's approach to dealing with Japan. It tried and failed to drive a wedge between Japan and the United States. It is concerned over the sharp decline in Japanese investment in the Chinese economy and over strong anti-Chinese sentiment in Japanese public opinion. And it is no doubt well aware that a threatening posture toward Japan only strengthens the Japanese public's support for a stronger defense posture.

China's shift toward a somewhat more positive approach to dealing with Japan is tactical, not strategic so it can change quickly if for tactical reasons China concludes that it is in its interests to do so. In short, peace in East Asia requires a concerted effort to maintain a balance of power in the region along with a comprehensive policy of engagement that would encourage China to understand that its strategic concerns are best met by cooperation with its neighbors and with the United States.

In terms of China's domestic situation there are two quite opposite reasons for concern. One concern is that China will become too strong too fast and be more aggressive in seeking to project its power in the region. The other is that China may become too weak, which would trigger havoc in global markets and could lead the government to try to deflect public anger against the regime by mobilizing nationalist sentiment against foreign countries, the US and Japan in particular. We can at least hope that a strong China will have the self confidence to prudently evaluate costs and benefits in deciding its policies. The actions of a weak China and of a Communist Party leadership concerned about its ability to retain control will be much less predictable and far more dangerous.

Everything we might do to have our alliance contribute to regional and global peace and security and prosperity is predicated on our having strong economies. In Japan the results of Abenomics have been disappointing. In the United States we face serious economic problems

that I have alluded to in part in this speech. But not being a professional economist I know better than to say more about economic issues in front of this distinguished audience of businessmen and economic experts. That is the job of the panelists who will be speaking the rest of this afternoon.

Thank you.