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**Benefits and Burdens:  
The Politically Dominated  
Economics of U.S. Alliances  
with Japan and Korea**

**Charles Wolf, Jr., and Michele Zanini**

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# **Benefits and Burdens: The Politically Dominated Economics of U.S. Alliances with Japan and Korea**

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## **1. Introduction and Road Map**

Alliances are organizations between or among independent entities that concert to produce “collective goods” for the mutual benefit of alliance members. The statement applies whether the alliances are between or among countries, corporations, universities, research centers, or other institutions. Of course, the nature of the collective goods, as well as the membership in the collectivity, differs across these cases. That the goods (or benefits) are “collective” means that their availability to one alliance member (or their production by any member) implies their availability to the other members of the alliance.<sup>1</sup>

Because the beneficiaries of collective goods cannot readily be excluded from access to them, the so-called “free rider” problem arises. As a result, “Let George do it” becomes the prevalent incentive structure. The more George does, the less is the burden (i.e., “cost”) on other alliance members, while the benefits are collectively available to all members.

Several corollaries follow with respect to the formation, functioning, and prospects of alliances in general, and those in Northeast Asia in particular:

First, while the benefits of an alliance are available to all its members, their respective *valuations* of these collective benefits may differ. It is also worth noting that *non*-alliance

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<sup>1</sup>In the case of “pure” collective goods, the resulting benefits are available to all members of the nation or society. National security is the classic example of a “pure” collective or “public” good. By way of contrast, “private goods” are consumed by individual purchasers. “Quasi”-collective goods are ones in which the benefits are shared between the individual purchaser and the larger community; education is a typical example.

members—for example, China—may appraise the putative alliance products as representing not benefits, but “dis-benefits” (threats or risks) for themselves.

Second, devising an appropriate formula for *sharing the costs* of producing the collective alliance benefits is complicated by the aforementioned differences in *valuations* among alliance members, as well as differences in their capacity and willingness to pay.

This paper addresses the general question of the collective burdens (costs) and benefits of the U.S. alliances with Japan and Korea, as well as the respective capacities and willingness of the alliance members to bear these burdens. The economics of these issues are inextricably linked with their politics, and so crisscrossing between these two domains occurs frequently in the paper.

The paper is divided into five sections. Section 2 addresses the economic capacities of the alliance members to bear alliance costs. Section 3 deals with the costs—both economic and non-economic—of each of the alliances. Section 4 assesses the security and other benefits of the alliances. Section 5 considers the politically dominated “willingness” of the alliance members to bear alliance burdens. And Section 6 provides a concluding assessment of the balance between the burdens and benefits of the two alliances, the interdependencies between the two alliances, and ways of enhancing the alliances while mitigating the drawbacks associated with what we refer to as the “China–Japan conundrum.”

## **2. The Economic Capacities of Alliance Members to Bear Alliance Costs**

The data presented in this section on the gross domestic products and the military spending levels of the United States, Japan, and Korea from 1970 through 2015 provide very rough benchmarks for judging the modest scale of alliance costs in relation to the aggregate economic capacities of the alliance members. We also present the corresponding GDP and military spending estimates for China, for comparative purposes.

### **Aggregate Economic Capacity**

Table 1 shows GDP data both in real (i.e., purchasing power parity) and nominal foreign exchange (FX) rates in trillions of 1997 U.S. dollar equivalents.<sup>2</sup>

The RAND estimates in Table 1 are controversial: uncertainties and disagreements arise from some of the assumptions underlying the estimates; the calculated rate of growth in total factor productivity can be questioned; the use of real exchange rates is arguable; and the accuracy and timeliness of the purchasing power parity (ppp) values are subject to question.

For example, use of the ppp exchange rates from the late 1980s in forecasts through 2015 is especially problematic. It would be more realistic to expect that the enormous discrepancy between the ppp and FX rates (i.e., for China) will diminish as the ppp rate decreases and, very likely, the FX rate (for the renminbi) appreciates. But, undertaking an analysis of this kind is beyond the scope of this paper.

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<sup>2</sup> For a discussion of the methodology used in the RAND work, and the reasoning behind the use of ppp rather than nominal exchange rates, see *Long-Term Economic and Military Trends, 1994–2015: The United States and Asia*, MR-627, Charles Wolf, Jr., K.C. Yeh, et al., 1995; and *Long-Term Economic and Military Trends, 1950–2010*, N-2757, Charles Wolf, Jr., Gregory Hildebrandt, et al., April 1989.

**Table 1**  
**Gross Domestic Products, 1970–2015: United States, Japan, Korea, and China**  
**(in trillions of 1997 ppp and FX dollars and annual percentage growth rates)**

	1970		1980		1990		1995		2000		2015	
	ppp	FX	ppp	FX	ppp	FX	ppp	FX	ppp	FX	ppp	FX
<b>U.S.</b>	3.9		5.1		6.6		7.4		8.5		11.6	
<b>Growth Rate</b>	2.8%		2.5%		2.5%		2.5%		2.1%			
<b>Japan</b>	1.3	2.3	2.0	3.6	3.0	5.1	2.9	5.0	3.4	5.8	4.9	8.4
<b>Growth Rate</b>	4.7%		3.7%		0.0%		3.1%		2.5%			
<b>Korea</b>	.094	.067	.21	.15	.39	.27	.50	.35	.64	.46	1.3	.91
<b>Growth Rate</b>	8.2%		6.4%		5.2%		5.2%		4.5%			
<b>China</b>	.59	.082	1.1	.16	2.1	.30	5.5	.77	6.7	.94	12.3	1.7
<b>Growth Rate</b>	6.6%		6.7%		4.7%		4.7%		4.0%			

Sources: Estimates shown for 1970–1990 are based on Wolf, Hildebrandt, Kennedy, Yeh, et al., *Long-Term Economic and Military Trends, 1950–2010*, RAND N-2757, 1989.

Estimates for 1995–2015 are based on Wolf, Yeh, Kennedy, et al., *Long-Term Economic and Military Trends, 1994–2015: The United States and Asia*, RAND MR-627 (1995). The estimates shown for China in 2000 and 2015 represent the arithmetic mean of two scenarios—a “stable growth” and a “disrupted growth” scenario—posited in the cited source. The estimates for Korea are for South Korea only, based on N-2757 (1989), projected through 2015 and expressed in 1997 ppp dollars.

Conversions from own currencies for the 1970–1990 data were based on purchasing power parities of 1980, while conversions for the 1995–2015 data were based on ppp values for 1990 from the Penn World Tables, Robert Summer and Alan Heston, *Quarterly Journal of Economics*, May 1991. The original estimates made in the cited sources were converted to 1997 dollars using the U.S. GDP implicit price deflator. (See *Economic Indicators*, June 1987, Joint Economic Committees, 105th Congress.)

The GDP estimates based on nominal (FX) exchange rates were made by reversing the procedure used in expressing the estimates based on real (purchasing power parity) rates. This procedure involved dividing the ppp dollar estimates by the corresponding ppp exchange rate for each country, and multiplying the resulting quotient by the ratio between the ppp rates and each country’s FX rate in the base year (1990). In turn, these estimates were converted to 1997 dollars using the U.S. GDP implicit price deflator. (See *Economic Indicators*, Joint Economic Committee, June 1997.)

Table 2 presents comparable GDP estimates by the World Bank from 1980 through 2000, using nominal FX rates to convert yen, won, and renminbi figures into 1997 U.S. dollars. The World Bank estimates in Table 2 are generally close to the FX figures shown in the RAND estimates of Table 1.

**Table 2**  
**Gross Domestic Products, World Bank Estimates, 1980–2000:**  
**United States, Japan, Korea, China (in trillions of 1997 FX\*\* dollars)**

	1980	1990	1995	2000
U.S.	5.0	6.8	8.3	8.9
Japan	2.7	3.9	4.2	4.8
Korea	.10	.25	.35	.49*
China	.19	.45	.80	1.11

Source: World Bank Development Indicators, 1997

\* Korea’s GDP forecast for 2000 derived by applying growth rate estimates from the *Economic Intelligence ViewsWire* (May 22, 1997) for South Korea to the World Bank GDP estimate for 1995.

\*\* Converted at nominal foreign exchange rates.

Although there are some differences between the two tables, both because of the methodologies used in making the forecasts<sup>3</sup> and the conversion rates adopted for expressing the results in 1997 dollars, for the purpose of this part of our discussion the result is similar: the economic “capacities” (i.e., the GDPs) of the alliance members are very large relative to the scale of alliance costs, to be addressed in Section 3 below.

All of the estimates for the period from 1995 through 2015 should be interpreted with particular caution because of the many uncertainties that underlie them, especially uncertainties concerning future developments within and outside the allied countries. For example, Japan’s growth rates might increase depending on the extent and the pace at which economic reform and deregulation proceed. Korean reunification may occur abruptly through various severe or less severe scenarios, or it may be deferred with quite different costs and consequences for Korea’s GDP growth and quite different repercussions for the region as a whole. Economic relations between the United States and Japan may develop in different directions, with quite different degrees of friction and cooperation in trade and investment affecting their respective growth rates—probably affecting Japan’s growth more

<sup>3</sup> The RAND figures for 1980–1995 were derived from the same forecasting model used to estimate the GDPs for the 1995–2015 period. See *Long-Term Economic and Military Trends, 1994–2015*, op. cit.

than that of the United States. Any or all such developments could have major effects on the economic capacities of the alliance members.

These capacities may also be impacted by global or regional developments external to the alliance members. For example, the extent to which “open regionalism” proceeds in the APEC region, and the extent to which the WTO is successful in its efforts to encourage openness and competition in services trade and in international investment, will have consequential impacts on the growth rates and ensuing economic capacities of the alliance members. It is also possible that economic growth in the United States, Japan, and Korea, as well as in China, could be significantly influenced by major political or military developments in the region—for example, relating to Taiwan, the Spratly Islands, and the progress of Hong Kong’s reversion to Chinese sovereignty over the next several years.

Finally, it is worth noting that the RAND estimates of China’s rate of economic growth are considerably lower than those of the World Bank and other sources. Although annual growth rates between 4 and 5 percent, as forecasted in the RAND estimates, are still substantial, they are well below estimates by the World Bank and several other sources of more than 8 percent annually for the next two decades.

The following reasons account for the slowdown forecasted by the RAND estimates:

- Implementation of an explicit government policy designed to transfer income from high-growth Eastern provinces to poorer Western ones—with a likely boost to consumption (versus savings) as a result;
- Some reductions in the inflow of capital and associated technology and management from “maritime” Chinese and other sources, including Taiwan, Hong Kong, and South-east Asia;
- A rising capital-output ratio for new investment in China reflecting, for example, investments in transportation and other infrastructure projects, the enormous Three Gorges project, large continuing construction costs in Pudong, probable increased energy costs, and the need to reduce or reverse environmental effects of water and atmospheric pollution;
- Potential increases in military spending.

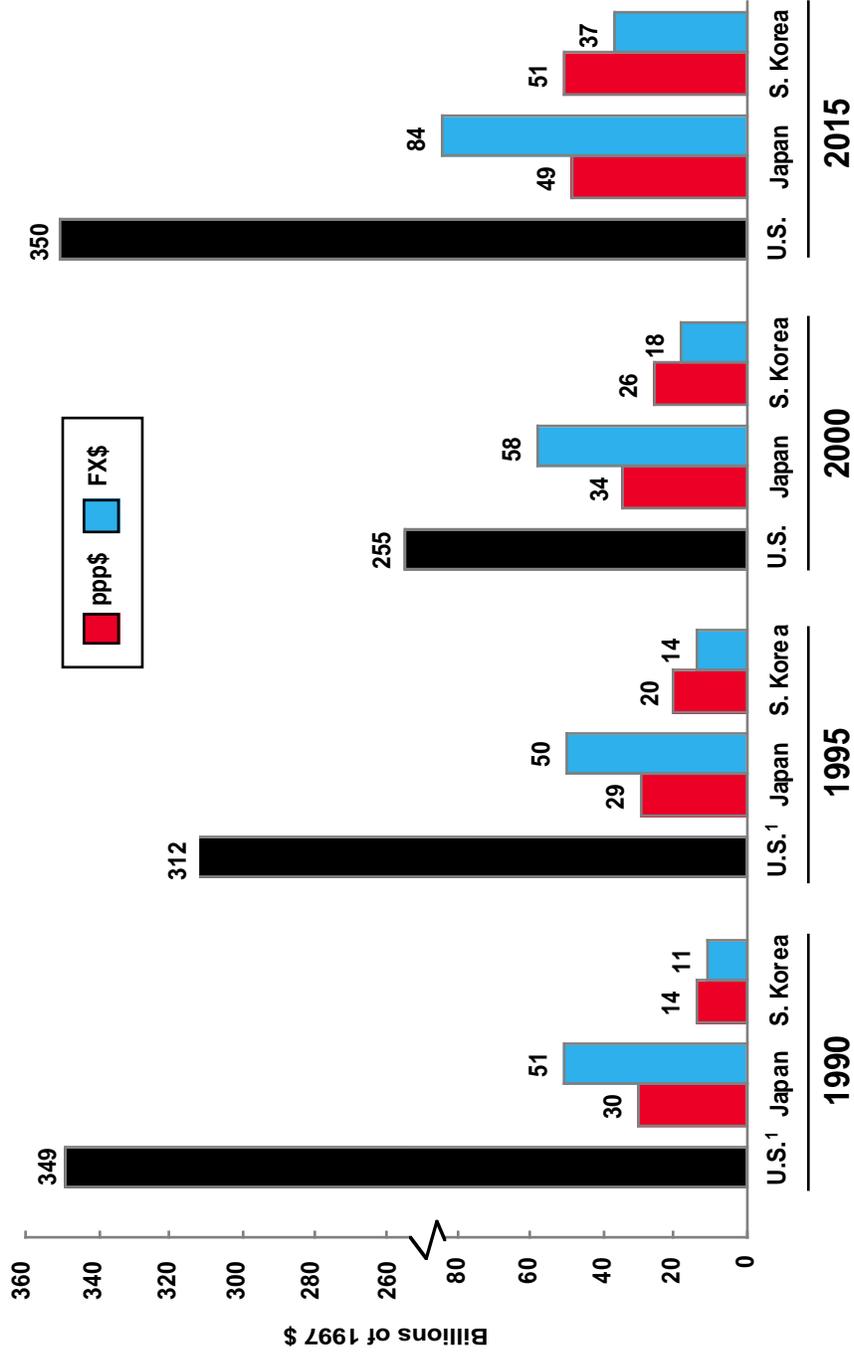
On the other hand, successful privatization of the burdensome state-owned enterprises could have a positive effect on China’s future growth that might offset, or at least diminish, the aforementioned decelerating influences.

### **Military Spending and Military Capital**

It is also useful to benchmark the costs of U.S. alliances in Northeast Asia in relation to two other security-related indicators of resource allocations: military spending and military capital (representing the accumulated stock of military procurement, plus military R&D, minus depreciation of the previously accumulated military capital). These indicators are summarized in Figures 1 and 2.

A few comments about China’s military spending and military capital are worth noting because of their relevance to the alliances and the resource allocation of their members shown in Figures 1 and 2.

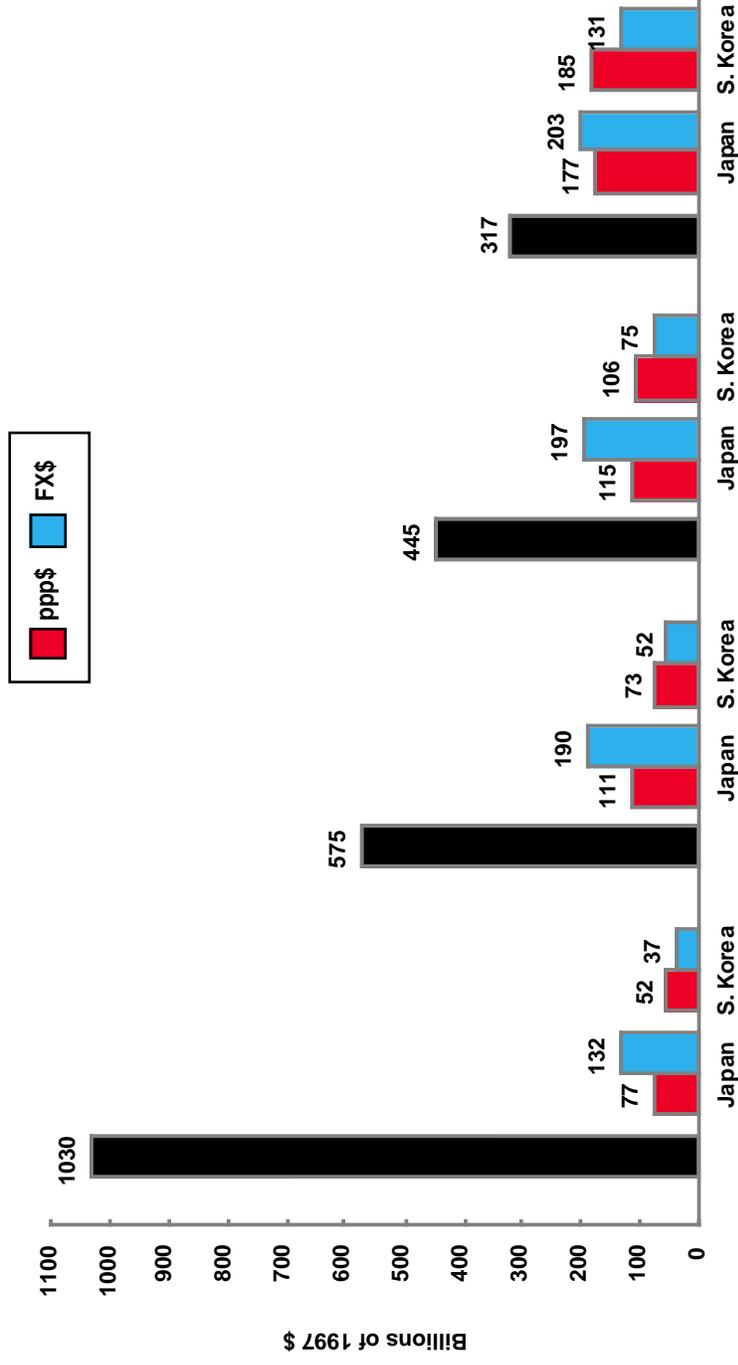
**Figure 1**  
**Military Spending of Alliance Members, 1990–2015 (in billions of 1997 ppp and FX dollars)**



Sources: See Table 1. The same procedure described in Table 2 was used in making the ppp and FX dollar conversions from original estimates in own-country currencies.

<sup>1</sup> U.S. defense outlays in current dollars in 1990 and 1995 were \$290 billion and \$259 billion, respectively. The outlay figures shown for these years have been adjusted to constant 1997 dollars.

**Figure 2**  
**Military Capital Stocks of Alliance Members, 1990–2015 (in billions of 1997 ppp and FX dollars)**



Sources: See Table 1. The same procedure described in Table 2 was used in making the ppp and FX dollar conversions from original estimates in own-country currencies. For South Korea, the estimates are derived from Wolf et al., N-2757, op. cit.

Estimates of China's military spending and military capital vary widely, and the controversy accompanying the estimates is sometimes hot and heavy. For example, China's recent military spending has been estimated to be as low as \$10–15 billion, and as high (in the RAND ppp estimates) as \$150 billion. This enormous range, and the controversies related to it, depend on many factors, including the following:

- Whether the estimates are in nominal FX dollars or ppp dollars (ppp estimates boost the upper end of the range);
- What fraction of the Chinese GDP and the Chinese central government budget is allocated to military purposes;
- Whether and how much military spending—especially for military procurement and for military R&D—is lodged in ministerial budgets other than that of the Ministry of Defense (e.g., the Ministries of Aeronautics and Astronautics, Telecommunications, the Commission on Science and Technology for Industry, etc.);
- The prices at which procurement and other military expenditures occur—specifically, whether they occur at world market FX-related prices, purchasing power parity prices, subsidized prices, or on the basis of barter terms of trade.<sup>4</sup>

Estimates of China's military capital stocks also cover a wide range, with the highest estimates amounting to about 20 percent of that of the United States as of 1995, perhaps growing to nearly 50 percent of that of the United States by 2015.

Of course, military capabilities (let alone intentions relating to their use) cannot be inferred from either military spending or military capital accumulations. This is not only because the estimates themselves may be wrong. Even if the estimates were accurate, military spending represents only an input to military capabilities, not the resultant output of military capabilities. And military capital itself is only one of the ingredients that affect the output of military capabilities. Capabilities are strongly influenced by such other factors as training and morale; command, communications, control, and intelligence; military leadership and doctrine; and maintenance and logistic support. These other ingredients are not readily inferred from or demonstrably associated with levels of spending or military capital accumulations. China's effectiveness and competitive position in these areas are relatively weak.

### **3. The Costs of the U.S.-Japan and U.S.-Korean Alliances**

#### **Economic Costs and Burden-Sharing**

Like many concepts of economic costs, those associated with U.S. alliances with Japan and Korea (as well as in NATO) are complicated. The complications include the fundamental character and precise definition of the collective goods that alliances produce for their

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<sup>4</sup> See MR-627, op. cit.

members, and the differing incentives and choices faced in sharing the joint costs associated with alliances.

The most common form of cost-sharing between the United States and the allies that either host U.S. forces, provide venues for prepositioned equipment, or engage in planning to do so in a time of crisis can be divided into two categories: on-budget costs borne by the host nation (i.e., direct cost-sharing); and off-budget costs calculated as imputed values of forgone revenues (indirect cost-sharing).

Direct cost-sharing covers the costs borne by host nations in support of stationed U.S. forces for rents on privately owned land and facilities, labor, utilities, and facilities and vicinity improvements. Direct costs also include in-kind contributions, such as the provision of supplies and materials. Indirect cost-sharing includes forgone rents and revenues from government-owned land and facilities occupied or used by U.S. forces at no cost or reduced cost to the United States, as well as tax concessions and customs duties waived by the host nation.<sup>5</sup>

The United States currently has about 47,000 troops stationed in Japan, in addition to some 17,000 naval personnel of the 7th Fleet based in Japan and generally at sea, and about 36,000 in Korea. These numbers compare with U.S. deployments in Europe of about 107,000.

Japan's contributions to meeting the costs of those forces based in Japan amounted to \$4.1 billion in 1995, of which \$3.3 billion was direct support and \$.8 billion represented indirect support. Korea's contributions to meeting the cost of U.S. forces based there were \$1.7 billion in 1995, of which \$.3 billion represented direct support and \$1.4 billion was indirect support. Both Japan and Korea have agreed to increase their support for U.S. forces through 2000 under the Special Measures Agreements (SMA) negotiated with them in 1995.

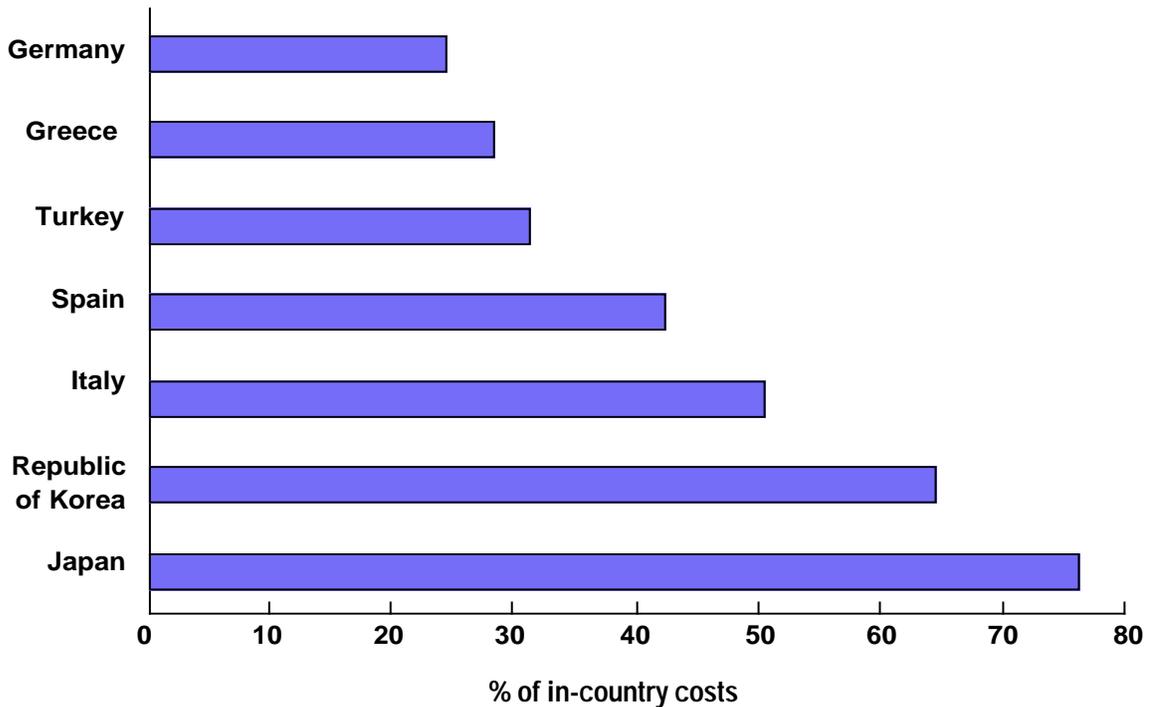
For purposes of comparison, NATO contributions by alliance members to meeting the costs of U.S. forces based in Europe in 1995 were \$1.6 billion, of which more than 95 percent represented indirect support and less than 5 percent was direct support. Of the total cost-sharing in NATO, nearly 70 percent was provided by Germany. However, in terms of the share of U.S. costs per soldier stationed in each NATO country, the German share of the per-soldier costs was well below that of several other NATO members (e.g., Italy), reflecting the fact that most of U.S. NATO forces are based in Germany.

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<sup>5</sup> Report on *Allied Contributions to the Common Defense*, Department of Defense, March 1997.

Figure 3 shows the portion of U.S. overseas stationing costs paid by U.S. allies in 1995. Japan, with 76 percent of in-country costs, and Korea, with 64 percent, are the largest burden-sharers, while Italy is the largest relative contributor in NATO in terms of meeting stationing costs per troop stationed in each country.

**Figure 3. Burden-Sharing of Japan and Korea Compared with NATO**



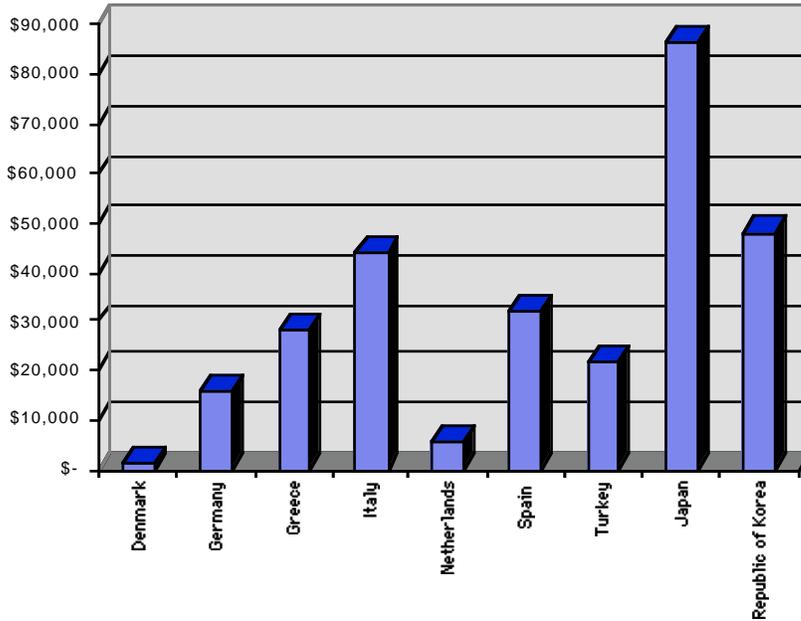
*Adapted from Report on Allied Contributions to the Common Defense, 1997.*

The share of total U.S. stationing costs borne by Korea and Japan is thus substantially above any and all of those provided by NATO members in Europe.

Recalling once again that alliances produce collective goods for the benefit of their members, Figure 3 conveys another important message: the United States itself pays only 24 percent of the current stationing costs of U.S. forces (apart from the salaries of personnel) based in Japan, and 36 percent of the costs of U.S. forces based in Korea, compared to much larger proportions of the stationing costs paid by the United States for U.S. forces based in NATO. The residual figures cited for the costs borne by the United States do not, of course, include the large U.S. costs of military equipment (i.e., investment costs) associated with these forces, nor of the corresponding military investments by the other alliance members for their own forces.

Figure 4 summarizes the cost per stationed soldier provided by alliance members in direct and indirect country support in 1995.

**Figure 4. Host Nation Support Per Stationed Soldier:  
Japan and Korea Compared with NATO**

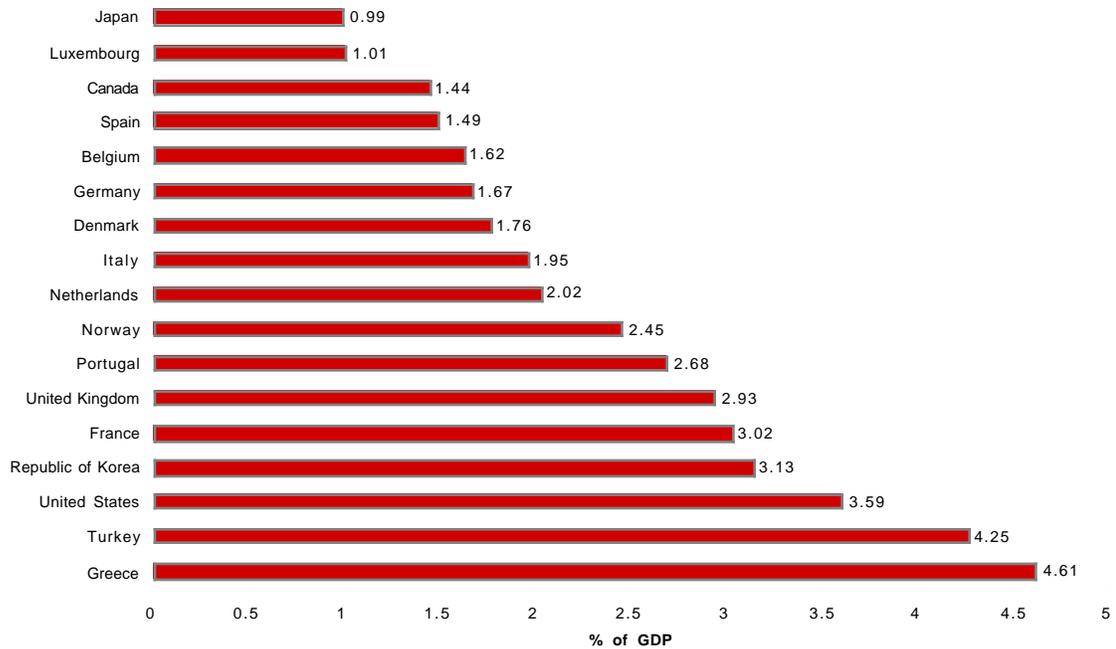


*Source: Adapted from Report on Allied Contributions to the Common Defense, 1997.*

According to the estimates shown in Figure 4, Japan contributes nearly \$90,000 per U.S. soldier per year, while South Korea contributes about \$48,000 per U.S. soldier per year. In NATO, Italy bears the largest burden, \$44,000, while other NATO members incur appreciably lower costs per U.S. soldier stationed in-country.

Finally, Figure 5 displays a more aggregative measure of military burden-sharing in the form of defense spending as a proportion of GDP in 1995 for alliance members in Asia and in Europe.

**Figure 5. Defense Spending Shares of GDP (1995): Japan and Korea Compared with NATO**



With regard to the data summarized in Figure 5, the Defense Department contends that “defense spending relative to GDP combines the most comprehensive indicator of defense efforts with the most comprehensive indicator of ability to contribute.”<sup>6</sup> Others demur from this judgment, largely on grounds that the United States has other interests, objectives, and obligations besides its formal alliances, and these other stakes affect its military spending. As Figure 5 indicates, Turkey and Greece are the only two allies that spend more on defense relative to GDP than does the United States. However, in the case of Turkey and Greece, much of their military spending is motivated by the threat that each perceives from the other alliance member!

South Korea’s relative spending levels are close to those of the United States, while Japan’s proportion of about one percent ranks lowest among all of the U.S. allies. However, it should also be noted that Japan is the only U.S. ally that has increased its defense spending, both as a percentage of GDP and in real terms, over the last several years; all other alliance members—including the United States—have reduced their defense spending in real terms and as a percentage of GDP, with Germany experiencing the largest contraction (more than 40 percent).

<sup>6</sup> Report on *Allied Contributions to the Common Defense*, III-1.

The costs of U.S. alliances with Japan and Korea are quite modest in relation to the aggregate measures of economic capacity previously discussed: namely, the GDPs, military spending, and military capital of alliance members. From the standpoint of the United States, in particular, the alliance costs are especially small, both because the economic aggregates for the United States are large and because the sharing of costs by Japan and Korea is relatively high.

Although the alliance costs are relatively larger for Japan and Korea because their respective GDPs and military spending aggregates are considerably smaller than those of the United States, the alliance burdens they bear are still modest compared with their economic capacities. The modest scale of the costs borne by Japan and Korea is highlighted when viewed against the backdrop of another consideration: were the alliances to be abridged, let alone terminated, there is a high likelihood that both Japan and Korea would increase their defense efforts and expenditures by multiples of the costs they are presently bearing in support of their alliances with the United States. It is less clear that the United States would increase its defense spending were it to abridge its alliances with Korea and Japan. Instead, the United States would be more likely to modify its strategic objectives and military posture.

### **Competing Claims for Federal Budgetary Resources**

In evaluating the scale of U.S. alliance costs, a somewhat different picture emerges if one considers as a benchmark the claims on federal budgetary resources that compete with those represented by the costs of alliances.

The pattern of federal resource allocations has, in the past decade, steadily shifted away from defense-related spending toward allocations for human resources and entitlements, including social security, health care, welfare, education, training, veterans' benefits, and grants to state and local governments. In 1985, for example, federal outlays for national defense made up 27 percent of the total budget, for international affairs about 2 percent, and for human resources and entitlements about 49 percent. The remainder was divided among interest on the public debt (14 percent), infrastructure development (6 percent), and 2 percent for other uses. In 1996, the corresponding figures were 17 percent for national defense including alliance costs, 1 percent for international affairs, 62 percent for human resources and entitlements, 15 percent for net interest payments, 4 percent for infrastructure, and 1 percent for all other purposes.

The competition for federal budget resources has been aptly characterized by Secretary of State Albright:

The dominant questions of the day in virtually all of these countries [of Europe and Asia], as in my own, involve matters close to home—educating children, building businesses, cutting deficits, fighting unemployment...we run the risk of forgetting the decades-long work of diplomacy and institution building that has made it possible for the great majority of people to worry about domestic improvement rather than national survival.<sup>7</sup>

The costs of U.S. alliances—with Japan and Korea, as well as Europe—are encompassed by Secretary Albright's comment. In the competition for federal budgetary resources that is

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<sup>7</sup> *The Economist*, February 15–21, 1997, p. 21.

implicit in her statement, even the relatively small scale of alliance costs is vulnerable to a secular trend of tightened funding for defense and international activities.

### **Non-Economic Costs of Alliances**

In the post–Cold War environment, the rationale and evident basis for the U.S. alliance with Japan is not as clear and convincing in the political debates within each country as was the case during the Cold War. On the other hand, as long as there remains a threat from North Korea, the U.S. alliance with South Korea retains a significant deterrent value that sustains the alliance’s rationale and saliency. But, if the threat from the North recedes and perhaps evaporates, the rationale for the Korean alliance will weaken. Indeed, anticipation of the diminished threat from the North has already led to doubts and debate in both the United States and Korea concerning the alliance’s future prospects.

In the United States, reservations about the alliances with Japan and Korea are sometimes expressed on the grounds that there are no threats to essential U.S. national interests justifying the forward deployment of U.S. forces in Japan and Korea. Russia no longer constitutes a threat, and it remains unclear whether or when China might present any such consequential threat.

In Korea, of course, the situation is clearly different in view of the profound uncertainties about North Korea’s intentions as well as capabilities (the latter including both nuclear and other weapons of mass destruction). However, if and when that “wild card” is removed, the debate over maintaining forward deployed forces on the Asian mainland is likely to heat up again. Confronted frequently with the question of why the United States should act as the “world’s policeman,” the American president—whether Democratic or Republican—incur political costs in trying to hang on to the substance of the two alliances and maintain support for forward deployed forces in Japan and Korea.

The political costs that the governments of Japan and Korea incur over the alliances take somewhat different forms, and sometimes are expressed in more strident terms, than in the United States. Arguments opposing the alliances reflect indigenous nationalism, and sometimes resentment at the apparent continued “dependence” on the United States that the alliances represent. Instead, it is contended that both Japan and Korea should be more self-reliant, not only because of their own substantially enhanced economic and technological capabilities, but also because of the possible inconstancy and unreliability of the United States as an ally. To be sure, these views tend to be expressed by the political left or right in each country, rather than by their respective centers. Nevertheless, in both countries debate over the alliances does entail political costs for the incumbent administration if it is to maintain support for the alliances with the United States.

While political costs are thus associated with the alliances, these non-economic costs should not be exaggerated. Public opinion polls in both the United States and Japan reflect overwhelming support for the U.S.-Japan alliance. For example, a May 1997 Harris poll found that 79 percent of those polled in the United States affirmed that the treaty “is necessary to maintain.” A poll by the *Asahi Shimbun* in April 1997 found that 76 percent of Japanese backed the treaty.

Of course, polls are a shallow and volatile type of evidence. Perhaps a more substantial source of support is reflected in the non-binding resolution adopted in May 1997 by the U.S. House of Representatives International Relations Committee in support of the current deployment of U.S. military forces in the Asia Pacific region.

## 4. Security and Other Alliance Benefits

U.S. alliances in Northeast Asia were conceived and formed in a global security environment very different from the present and prospective ones. Consequently, the role and the benefits of these alliances, like those of the U.S. alliance in Europe, need to be reevaluated in the light of the new environment.

The current and future environment is much more difficult to characterize than its predecessor. The Cold War had a reasonably clear structure, notwithstanding its other malign characteristics. In this structured environment, it was usually evident who was on which side of particular international disputes or conflicts and why. What is conventionally referred to as the “post-Cold War environment” lacks such a structure. However, there seem to be certain defining characteristics of the new global environment, and these provide a broad political context within which U.S. alliances in Northeast Asia, as well as the U.S. alliance in NATO, will operate and should be evaluated.

The defining attributes of this new environment are fourfold: complexity, volatility, permeability, and domesticity.

*Complexity* means simply that there are more players in the international arena than there used to be. There are not only more countries with more resources to devote to their international activities, but also more non-national entities, multilateral organizations, regional and sub-regional groups, multinational corporations and international business alliances, transnational financial institutions and networks, and non-governmental organizations and “quasi”-non-governmental organizations. So, the new environment is more complex than what preceded it.

*Volatility* means that the emerging environment is characterized by more change and by a more rapid rate of change, by more uncertainty, more current and potential contingencies and conflicts, and greater instability than there used to be. These contingencies may occur at different levels of violence and intensity, as reflected in recent years by such instances as those in Haiti, Somalia, Iraq, Kurdistan, the West Bank, Chechnya, the Taiwan Strait, and the Spratly and Senkaku-Diaoyu islands. So, the emerging environment is less predictable.

*Permeability* refers to the increased openness of the international environment—openness to flows of information, trade, capital, technology, and people. As a result of the ongoing information revolution, a perpetual transnational dialogue is conducted through the Internet. Negotiations among the increased number of players in business as well as governments—the “complexity” referred to earlier—have become global and round-the-clock, rather than localized and periodic. So, the global environment has fewer barriers to such transactions. “Iron curtains” have largely been replaced by porous ones.

*Domesticity* means that, notwithstanding the three preceding characteristics of the new global environment, there is in the United States and other countries a greater preoccupation with and priority accorded to domestic social, political, and economic issues. These domestic issues include economic growth, employment, education, health care, social equity, civil justice, environmental standards, crime, and substance abuse. Although many of these domestic concerns are significantly affected by developments in the international arena, these effects are often indirect, delayed, and inconspicuous. As a result, the heightened

priority accorded to domestic issues is often at the expense of attention to international affairs, including alliances.

However, it is misleading to characterize this shift in priorities as “isolationism.” Perhaps a more accurate label is “bounded internationalism.” Indeed, the increased permeability and openness of the international environment, and the increased economic, social, and cultural contacts that characterize this environment, lead to greatly expanded international contacts, linkages, and transactions. These hardly comport with “isolationism.” Nevertheless, some reordering of priorities, attention, and resources toward domestic affairs and policies, rather than toward foreign and defense policies and alliances, is characteristic of the new environment. How, then, should the benefits of the alliances be evaluated in this new environment?

At a very general level, U.S. alliances with Japan and with Korea, and the military forces, planning, and exercising involved therein, represent assets that may have utility for operating in the midst of the complexity and volatility characterizing this environment. More specifically, these alliances and the associated forward deployment of U.S. forces in the Pacific are viewed by the U.S. policy community as having the following benefits:<sup>8</sup>

- Contributing to a rapid and flexible worldwide crisis response capability.
- Discouraging the emergence of a regionally dominant power and enhancing American ability to influence a wide spectrum of other issues in the region.
- Overcoming the handicaps of time and distance presented by the Pacific Ocean, and realizing significant economies of force by reducing the number of U.S. forces required to meet national security objectives.
- Providing to U.S. friends, allies, and potential adversaries a tangible indication of American interests in and commitment to the security of the entire region.

It can also be argued—although convincing evidence to corroborate the argument is difficult to come by—that military alliances in Northeast Asia generate positive “externalities” for the United States by increasing U.S. influence in the economic domain, both bilaterally and multilaterally through such organizations as APEC, ARF, WTO, and PECC.

Also, as long as Korea is divided, and in view of the possibility that weapons of mass destruction are or may be possessed by North Korea, the U.S. alliance with South Korea is a powerful deterrent to conflict on the peninsula.

Generally, throughout Asia, with a key exception to be noted below, U.S. alliances in Northeast Asia are viewed as a stabilizing influence that reduces the risk of conflict in the region and contributes to regional economic as well as security cooperation. The U.S.-Japan alliance is also generally viewed throughout the region as promoting regional stability by reducing concerns about a possible militarist revival in Japan. By enhancing stability and predictability, the alliances provide an added degree of assurance, if not insurance, to encourage trade, investment, and other commercial transactions in the region.

The key exception to much of the foregoing catalog of benefits is represented by China’s view of the alliances. The principal, and perhaps the only, benefit that many in China

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<sup>8</sup> See *United States Security Strategy for the East Asia-Pacific Region*. Department of Defense, February 1995.

associate with U.S. alliances—and particularly the alliance with Japan—is the contribution they make to “braking” or restraining Japan’s military modernization.

Many Chinese academics and members of the policy elite, as well as other policymakers and policy influencers in the region, subscribe to the proposition that the U.S. alliance with Japan may act as a constraint on Japanese military modernization. However, there are other aspects among the ostensible benefits of the U.S. alliance relationships about which policymakers in China demur. Their demurrals reflect a geo-political and geo-strategic perspective that can be summarized in the following balance-of-power syllogism:

- Peace and stability in the Asia Pacific region depend on a balance of power among the three major powers in the region, namely the United States, China, and Japan.
- At the present time and for the immediate future, power among the three is profoundly unbalanced because China is much weaker than the United States and Japan—economically, militarily, and in terms of international diplomatic and political influence.
- Therefore, peace and stability in the region will be enhanced by a substantial increase in China’s power in all of these dimensions relative to that of the United States and Japan, so that the triangular relationship among them will be more balanced.

This strategic vision is shared by many of China’s leaders as well as many of its intellectuals and academics, including many who are considered and consider themselves to be both “liberal” and favorably disposed to the United States. According to this view, developments that contribute to China’s increased strength relative to other members of this strategic regional triangle should be welcomed and even encouraged by the other members. Conversely, whatever might delay or obstruct this adjustment should be opposed or eschewed.

To the extent that U.S. alliances in Northeast Asia hinder a movement toward what, according to this view, would represent a better balance of power in the region, those alliances are a cause of suspicion, concern, and resistance in China.

China’s balance-of-power perspective is an example of the familiar aphorism “where you stand depends on where you sit,” as well as a corollary that can be added to it: “what you see depends on where you stand.” From China’s standpoint, the syllogism is reasonable and realistic. What China sees in the imbalance among the three apexes of the triangular relationship evokes a fear of encirclement and vulnerability.

But this is not the way the scene looks to others in the region. From Tokyo to Seoul, to Washington, to Hanoi, to Singapore, to Kuala Lumpur, to Jakarta, and even to New Delhi, the existing “imbalance,” and especially the forward presence of U.S. forces through the American alliances with Japan and Korea, provides a positive contribution to the region’s prospects for peace and stability. In the absence of the U.S. alliance network and the forward-based forces associated with it, what China’s neighbors see, in addition to the PLA’s large ground forces, is the largest naval force in the region, with sixty-three submarines and fifty-four principal surface combatants; the region’s largest air force, with nearly 5,000 combat aircraft; and land- and sea-based missile forces with both ICBM and IRBM capabilities.<sup>9</sup>

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<sup>9</sup> These order-of-battle data are taken from *The Military Balance, 1996–1997*, International Institute for Strategic Studies, 1997.

Of course, the effectiveness of China's military capabilities is not conveyed by these order-of-battle numbers. The operational effectiveness of China's large forces is severely limited by many factors, including the vintage and technological level of its weapons systems, rudimentary C<sup>3</sup> capabilities, poor maintenance and logistic support, and low rates of exercising and readiness. Nevertheless, in accord with the balance-of-power stance described above, it seems probable that many of these limitations will be remedied in the years to come as modernization and upgrading of China's forces proceed. For example, while the accuracy of China's missile delivery systems in the Taiwan Strait during the spring 1996 crisis seems to have been in the range of a 1–2 mile CEP (circular error probable, the standard measure of missile delivery accuracy), this accuracy is expected to improve to perhaps two to three meters CEP within the next few years.

China's balance-of-power view of the world, and the prospect of a substantial accretion in its relative power—especially military power—provide strong reasons for other countries in the region to upgrade their own military capabilities, and to develop a security structure that will either counter or co-opt China's weight. As a result, the Asia Pacific region was, until recently, the largest regional buyer in the current \$25 billion a year international weapons market. Absent the U.S. presence and its alliances with Japan and Korea, proliferation of advanced weapons would proceed at a much more rapid pace.

Finally, the U.S. alliances with Japan and Korea contribute to enhancing what Joseph Nye has referred to as "soft power." Although the concept is plausible and appealing, and no doubt has some validity, measuring it and assessing it in relation to other dimensions of power is elusive. As noted earlier, it is probably the case that American influence in the Asia Pacific region in general, and in other bilateral relations that the United States has in the region, is enhanced by the existence and vitality of U.S. alliances with Japan and Korea.

## **5. The Politically Dominated "Willingness" to Bear Alliance Burdens**

Previous sections of this paper have suggested that the economic and technical capacities of the respective alliance members—especially of the United States—are hardly strained by alliance burdens. Instead, what is at issue in considering the maintenance and adjustment of the alliances with Japan and Korea in the new regional and global environment is the *willingness* of each alliance member to bear and to share these burdens, and their assessment of each alliance's benefits as well as its burdens. Their willingness depends on the interplay among the following considerations, some of which enhance willingness and others of which diminish it.

- Debate and differing views within each of the alliance members as to the value and appropriateness in the post–Cold War environment of the alliance commitments and of forward-based U.S. forces.
- Competing resource claims, domestic priorities, and what we have previously referred to as "bounded internationalism."
- In Japan, arguments in favor of the alliance include a greater convergence of U.S. and Japanese security views and interests, as well as lessened divergence between the two countries in their respective economic policies and interests. Arguments against the

alliance reflect a reluctance to remain dependent on the United States, the appeal of a “Japan-that-can-say-‘No’” attitude, and a degree of uncertainty about the durability of the U.S. security commitment.

- In Korea, some of the same issues and concerns about the alliance arise as in Japan. As long as the threat from the North exists, support for the alliance with the United States is powerful and predominant. If and when that threat disappears, Korea’s willingness to sustain and support the alliance will be more in play. On the one hand, the alliance with the United States may be viewed as a valuable asset for a smaller country surrounded by larger neighbors. On the other hand, it can be expected that a desire for independence from the protective mantle of the United States may grow.

A final, overarching influence on the willingness of the members to sustain and reinvigorate the alliances may be capsulized as the “China–Japan conundrum.” Simply put, the conundrum is this: How can the U.S. alliance with Japan, and to a lesser extent with Korea, be justified without at the same time antagonizing China? Since there is no longer an apparent threat to either Korea or Japan from Russia, the Chinese ask: What is the threat against which the alliances are intended to protect? In the case of Korea, the alliance can still plausibly point to the threat from the North. But if that threat is dissipated, what then? In the case of Japan, what is the threat that justifies the U.S. alliance if that threat isn’t China?

In light of the balance-of-power perspective that we earlier attributed to China, the maintenance let alone revitalization of the U.S. alliance with Japan runs the risk of being viewed by China as directed against itself. The ensuing dynamic might well have a self-fulfilling character.

To the extent that the alliance members, and especially the United States—or particular influential groups within it—place a high value on improved relations with China and its “engagement” in bilateral and multilateral relations, the willingness of the alliance members to sustain the alliance with Japan and to bear its burdens may be weakened.

## **6. Concluding Assessment**

### **Balancing the Alliances’ Burdens and Benefits**

As the preceding section of this paper suggests, there are negative as well as positive factors that enter into an assessment of the willingness and disposition of the members to sustain their respective alliances. In an almost tautological sense, these factors represent differing valuations of the burdens and benefits of the alliances in the new global and regional security environment. While the positive factors arguing in favor of sustaining the alliances are dominant in the foregoing inventory, the negative ones have sufficient weight to warrant considering changes in the alliance relationships. These changes may include the following:

- Acceptance by the United States that Japan and Korea will assume more active roles and responsibilities, and will be more actively consulted by the United States in alliance decision-making, as a reflection of the already large shares of the alliances’ operating costs borne by Japan and Korea.

- Probable further reduction in U.S. forward-based forces in Japan and Korea while actual military capabilities are maintained or even enhanced through closer and more frequent joint planning, interoperability of systems, R&D, and military exercises.
- If on-site forces are somewhat reduced, the military capabilities of the alliances can be maintained and even enhanced by new operating concepts and new technology. These changes, reflecting the so-called “revolution in military affairs,” can significantly magnify the effectiveness of smaller, mobile forces equipped with advanced reconnaissance, surveillance, and target acquisition systems, combined with sophisticated command and control and remotely and accurately delivered firepower.

### **Alliance Interdependencies**

Although the U.S. alliances with Korea and with Japan have a common objective in promoting regional security and stability, the continued presence of a military threat from North Korea provides a distinctive and separate rationale for the U.S. alliance with Korea. Yet the two alliances are interdependent, both in military and political terms. Each alliance would be more problematic without the other. If and when the threat from North Korea dissipates, the basis for the U.S.-Korean alliance will probably be weakened, quite apart from the status of the U.S. alliance with Japan. And if the Korean alliance erodes, maintenance of the alliance with Japan would become more contentious.

Attenuation, let alone termination, of either the U.S. alliance with Japan or the U.S. alliance with Korea would be likely to affect military spending in both Korea and Japan, to a greater extent than in the United States. If the U.S. alliance with Korea were to terminate, it seems likely that military spending in both Korea and Japan would increase appreciably. The same effect would ensue if the U.S. alliance with Japan were terminated. On the other hand, termination of either alliance is likely to be accompanied by a scaling back of U.S. regional commitments that may not be reflected in increased defense spending by the United States.

### **Addressing the “China–Japan Conundrum”**

The conundrum posed by China and Japan—that is, how to sustain U.S. alliances, especially that with Japan, without in the process antagonizing China—has an interesting and perhaps instructive parallel in Europe. There the cognate problem has been how to proceed with the enlargement of NATO without in the process antagonizing Russia.

Resolution of this dilemma in Europe has been sought through the establishment of a direct consultative and cooperative security link between NATO and the Russian Federation. This link, established in the “Founding Act on Mutual Relations, Cooperation, and Security between the Russian Federation and the North Atlantic Treaty Organization,” was signed on May 27, 1997, by the Russian president and the secretary-general of NATO, and entered into effect on that date.

Among the act’s principal aims and commitments are the following:

“Development, on the basis of transparency, of a strong, stable, enduring and equal partnership and of cooperation to strengthen security and stability in the Euro-Atlantic area; ...

“Refraining from the use of force against each other as well as against any other state ...  
“Mutual transparency in creating and implementing defense policy and military doctrines”

To pursue these principles, the Founding Act provides for the establishment of a “NATO-Russia Permanent Joint Council (PJC).” The PJC is intended to focus and consult on specific areas of mutual interest, including “issues of common interest related to security and stability ..., arms control issues ... expanded cooperation between respective military establishments, ... developing mutually agreed cooperative projects in defense-related economic, environmental, and scientific fields.”

Despite the major differences between the European and Asian contexts, the NATO-Russia precedent may be adaptable to the China-Japan conundrum—that is, to the dilemma confronting the United States of how to reconcile a strengthened bilateral alliance with Japan with reassurance and engagement of China. Toward this end, the United States and China might consider steps pointing toward an “Enabling Act on Mutual Relations, Cooperation, and Security Between China and the United States.” Associated with this enabling charter would be the prospective establishment of a bilateral joint council between the United States and China, whose tasks and responsibilities would be to conduct regularly scheduled consultations on “issues of common interest related to security and stability” in the Asia Pacific region, to exchange information on planned military exercises, to provide for military-to-military exchanges for training and informational purposes, and to consider other activities that are jointly agreed upon.

The Founding Act between the Russian Federation and NATO and the establishment of the joint NATO-Russian Permanent Joint Council were motivated by a desire to reconcile the enlargement of NATO with reassurance to the Russian Federation that this enlargement is not directed against it. A similar purpose could be sought through the establishment of a U.S.-China Enabling Act and a U.S.-China Joint Council. Analogously, its aim would be to enable the U.S. alliance with Japan to be strengthened, while providing reassurance to China that the alliance is not directed against it and does not constitute a threat to it.



## **About the Authors**

**Dr. Charles Wolf, Jr.**, former dean of the RAND Graduate School, is senior economic advisor and corporate fellow in international economics at RAND. He is also a senior research fellow at the Hoover Institution, a director of Capital Income Builder Fund, Inc. and Capital World Growth and Income Fund, Inc., and a member of the advisory boards of the Carnegie-Mellon Heinz School of Public Policy and Management and the UCLA Management School's Center for International Business Education. His research and publications center on international economic policy, economic development, defense policy, interactions between economic and security issues, and relations between markets and governments.

**Michele Zanini** is a graduate fellow at the RAND Graduate School, and is working toward a Ph.D. in public policy analysis. Mr. Zanini received his B.S. in management science from the University of Warwick in 1994, and his master's in public policy from Harvard University in 1996. Mr. Zanini has worked on a number of RAND research projects focusing on NATO strategy, European security, ethnic conflict, and peace support operations.

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