

## KOREA CHAIR PLATFORM

# The Asia-Pacific Order After 70 Years: May 2015 JoongAng Ilbo-CSIS Forum Keynote Address

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May 5, 2015

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Thank you for the invitation to be with you today. I have always felt a personal bond with Korea.

My late father, a veteran of World War II, was recalled to active duty with the U.S. Army during the Korean War. And I was born a day before the Armistice was signed in 1953. It appears that modern Korea and I began at the same time!

I have extraordinary respect for the accomplishments of the Republic of Korea. Students of development cite Korea as a great success story, rising from the rubble of war to build a globally competitive economy, earn high living standards, and establish a vibrant, free democracy.

Fifty years ago, Korea was poorer than Bolivia and Mozambique; today, as Marcus Noland of the Peterson Institute of International Economics has pointed out, Korea is wealthier than New Zealand and Spain. Koreans can be deservedly proud of what they have achieved.

When I served as President of the World Bank Group, I was pleased to participate in the G-20 Summit hosted by Korea. That was the first G-20 Summit convened by an economy outside the G-7, an example of then-President Lee's "Global Korea". One of Korea's principal themes for that event was development: Korea has generously helped other rising economies with its experience, ideas, and resources. As the home of the world's Green Climate Fund, Korea is in the vanguard of new multilateral ventures, too.

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Perhaps because my career combined economics and security, I have appreciated Korea's integration of economic diplomacy and strategy. For example, as the Cold War was ending in Europe, the United States worked with Australia and others to launch APEC in 1989. We wanted to foster a new economic network that would brace America's security shield in the Pacific. Korea was a founding member of APEC and convened the third meeting of ministers in 1991.

Together, the United States and Korea saw the advantages—for a reforming China and APEC—of inviting the PRC, Taiwan, and Hong Kong to become APEC members. But, you may recall, Seoul did not have diplomatic ties with Beijing in 1991, so the United States served as the go-between. I suspected then—and the years since have shown—that Beijing would recognize its interest in working with the Republic of Korea, thereby creating a more secure peninsula and perhaps a safer region.

During the East Asian financial crisis of 1997-98, many Americans empathized with Korea's shock. We also admired the resolve of Koreans to come back stronger. Later, I had the opportunity to advocate the Korea-U.S. FTA, which forged a new bond between us. This accomplishment was due to the sheer willpower and drive of my former Korean colleague and friend, Hyun Kim.

Korea and I have grown up and operated in an international order—underpinned by alliances, institutions, agreements, trade and investment—that arose out of the ashes of World War II.

Within that post-World War II structure, the Republic of Korea regained its independence, built an impressive economy with global reach, and forged a democracy.

Koreans also had to fight a terrible war of survival and endured the sufferings of their countrymen under a cruel regime in the north.

Sadly, the dividing line from 1945 remains deeply etched. A violent and dangerous clique to the north has survived the end of the Cold War elsewhere.

Yet the old order is now in flux.

Henry Kissinger's most recent book, *World Order*, portrays competing notions of international arrangements that may characterize the future.

The organizers of this conference recognize the criticality of the changing order to Korea's future.

To gain a better view of the geopolitical terrain upon which the 21st Century construction will be built, let's look back even beyond 70 years—to the late 19th and early 20th Centuries.

The East Asian land- and sea-scape of 1900 offers a perspective on today's challenges.

During the late Qing dynasty, China was struggling to modernize—technologically, economically, and politically.

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Having lost the Sino-Japanese War of 1894-95, China ceded influence and territory to a rising Japan. Imperial Russia was devouring China's frontiers; I recall a meeting in 1989 where Deng Xiaoping vividly described China's territory as the shape of a mulberry leaf, eaten away in the past by gluttonous Russian silk worms! By 1900, European colonialists had carved out so-called Treaty Ports along China's coasts and hungered for more.

Internally, China suffered spasms of revolts throughout the 19th Century, of which the Boxer Rebellion of 1900 was only the most recent.

Only two years earlier, in 1898, the United States went to war with Spain to secure Cuba's independence. In a far-distant theater, in Manila Bay, Admiral Dewey sunk a Spanish fleet.

At the turn of the 20th Century, the United States had earned the new status of a Pacific power. Indeed, the campaign in the Philippines led Americans to appreciate the strategic significance of Hawaii, which Congress annexed through a joint resolution in 1898—because President McKinley could not persuade two-thirds of the Senate to ratify a treaty! During 1899-1900, U.S. Secretary of State John Hay opposed the break-up of China and pronounced an Open Door Policy of trade with China.

With typical American pragmatism, the United States first resisted demands for an indemnity from China after the Boxer Rebellion, but once others insisted on payment, the United States accepted its share—and used the money to help create Tsinghua University and fund scholarships to America for Chinese students.

For Korea, the competition among Japan, Russia, and China led to an oppressive occupation after the Russo-Japanese War of 1904-05.

In the following years, Imperial Japan maneuvered to become a land power in northeast Asia.

A recent book by Rana Mitter, *Forgotten Ally*, narrates the harrowing experience of the Republic of China in the first half of the 20th Century. For China, the price of disorder was invasion, resistance, slaughter, and political intrigue. Mitter hints that Nationalist China might even have succeeded in modernizing the economy, defeating warlords, and establishing an open political system that could have evolved democratically—if Japan had not invaded in the 1930s.

In 1939, the clash between Soviet and Japanese armies prompted Japan to turn to a Southern Strategy—aiming at Southeast Asia and setting up an inevitable clash with the U.S. Navy.

Korea would not escape this cataclysm.

One recent volume on World War II opens with a story that typifies the global reach of that catastrophic war, including for Koreans. Landing in France in 1944, U.S. soldiers captured a Korean serving in the German Wehrmacht. As it turns out, the poor man had been drafted into the Japanese army; captured by the Soviets and impressed into the Red Army; and then captured again by the Germans and sent to the Western Front as an auxiliary soldier. The Americans sent their wayward prisoner to the U.S.—where he lived comfortably until a ripe old age!

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This lightning fast race through the past illuminates Korea's geopolitical challenge as we discuss a changing world order.

The fate of Koreans has been to share their home region with big neighbors—China, Russia, and Japan—that have jostled for primacy. Koreans are understandably sensitive to risks to their independence.

Geography and history have drawn Koreans toward two strategies that are in tension.

One approach is a fierce defense against outside influences that can weaken or even overwhelm Korea. This is the Korea of the “Hermit Kingdom.”

The second strategy recognizes the imperative of combining national strength with outside support. But this external strategy can be undermined by national chauvinism that might mutate into xenophobia.

The United States has provided assistance and protection to the Republic of Korea since 1950. At times, understandably, Korean dependence on American influence has sparked antagonisms. But Koreans have generally drawn on their partnership with America to build Korea's economic power and resilience. Seventy years after the United Nations resolved to protect the Republic of Korea, a Korean has risen to become Secretary General of the UN.

Koreans have deployed the attractions and capabilities of their economy to reach out to the wider region and world—to ASEAN, Australia and New Zealand, and all across APEC. Korea has an FTA with the EU as well as with the United States. Korea now has 11 FTAs in effect, covering more than a quarter of its trade.

Moreover, while history and geography offer a frame of reference, the modern Korean strategist needs to consider changed circumstances as well.

In 1978, China launched an incredible economic modernization. The internal challenges of this transformation remain tremendous, as President Xi Jinping's new structural reforms and Party revitalization have highlighted.

Yet amazing growth is also altering China's view of external interests, regionally and globally.

The North Korean regime—which China saved during the Korean War—is a conundrum for China. North Korea was once an ideological partner for China—but is now a hereditary, totalitarian danger. China still perceives North Korea as a buffer state—but against what? North Korea's belligerence necessitates strong and vigilant South Korean, American, and Japanese defenses on China's frontiers. No doubt China wants to avoid the chaos of a North Korean collapse. My sense is that today China is dissatisfied with its choices, and so for now is just perpetuating the past for lack of better ideas.

China also needs to make a larger strategic choice. China's development—like Korea's and Japan's—has benefited from the security stability offered by the United States—in concert with allies and partners. If China pursues a new Asian security order that seeks to exclude the United

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States, China will face resistance and could reawaken old geopolitical rivalries. If China's concept of world order is based on tributary relations—as Henry Kissinger suggests is China's traditional practice—there will be a conflict with the American-led security framework in the Asia-Pacific.

As one Chinese scholar told me, some Chinese feel that they cannot just accept the international architecture designed by the Americans—but the Chinese also are not confident that they know what the successor system should look like.

The expanding shadow cast by a rising China has increased worries in Japan. Today's Japan is a very different place from Imperial Nippon, although I know that past Japanese aggression has left deep wounds.

Japanese democracy has reached great heights economically and technologically. But an aging Japan is losing about 250,000 people a year. The primary aim of Prime Minister Abe's economic reforms is to enable Japan to maintain influence in decades to come. Japan will value allies and partners who can help secure a peaceful order in the Asia-Pacific.

The new U.S.-Japan defense guidelines should be viewed in this context. To sustain America's commitment to protect Japan—an assurance that has been a cornerstone of the post-World War II order—Japan needs to be able to help counter possible attacks on U.S. forces.

The United States must remain the insurer of security in the Asia-Pacific. But this responsibility is not America's alone. The 21st Century security order needs a partnership of mutual defense—a threat to none, but a reassurance to all.

In the years since the onset of the global financial crisis, the United States has again demonstrated its ability to recover and move beyond the technological frontier—for example through innovations in energy, software, use of Big Data, robotics, bio-engineering, and other ventures.

Our federal government has stumbled in facing structural reforms—of tax policy, slowing the rate of increased spending, immigration, trade—but some state governments are working their way toward improvements.

And I believe that America is fully capable of making structural reforms.

Americans of both political parties recognize that our destiny is inextricably linked to the evolving order in the Asia-Pacific. For example, the 2014 Survey of U.S. public attitudes by the Chicago Council on Global Affairs reported that over 60 percent of Americans continue to support the commitment of U.S. troops to South Korea.

To paraphrase Napoleon, the borders of a nation's interests are marked by the graves of its soldiers. One of my colleagues on this visit, Rich Armitage, risked his life in a Southeast Asian war. Koreans know the price of war in Northeast Asia. The Cold War in Europe was very hot in the Asia-Pacific.

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The U.S. aim is to deter conflict, preserve the peace, and build prosperity.

The Trans-Pacific Partnership will help provide the economic underpinning of deeper integration and cooperation. The Korean-US FTA has done so for our two countries.

From a strategic perspective, it seems that Korea, as one of the world's major trading nations, should be participating in the region's pre-eminent and most advanced trade and investment arrangement.

I certainly understand the political challenges of passing trade agreements. Yet I hope, at some point, that Korea becomes a TPP partner, too. A recent study by the Peterson Institute of International Economics details the extensive benefits for Korea under TPP; Korea is already pursuing many of the required policy reforms as part of its U.S. and EU accords.

Indeed, the Korean negotiators who designed those FTAs have in effect already influenced the construction of the TPP.

In parallel, the United States, Korea, and others should support China's structural economic reforms through companion efforts of international economic liberalization. Korean businesses have been very successful in China, and Korea has a strong interest in the future direction of China's economy.

The U.S. and EU negotiations with China on Bilateral Investment Treaties could assist China's reformers in a manner similar to the way Zhu Rongji leveraged China's WTO accession to boost reforms in the late 1990s. China's commitment to liberalization in the WTO Service Sector negotiations would also aid its shift to consumption-led growth, higher productivity, and better living standards.

Ultimately, Korea's place in the changing world order depends on the decisions all of you will make.

Today, Korea is sensitive to being squeezed between high technology Japan and a China that is seeking to move up the value chain of production.

Korea will be best positioned if it can combine two initiatives: First, to develop fully Korea's own human and institutional resources in an open and dynamic system; and second, to multiply the strands of Korea's global network, both public and private.

Reliance on barriers against outsiders will just leave Korea weakened and isolated.

Start with Korea's people, your country's greatest resource. The working age population in Korea will likely start to fall after 2016. Korea needs to tap the energies and skills of all its people.

So gender equality is not only the right thing to do—it is smart economics, too. The 54 percent participation rate of Korean women in the labor force is 21 percent below the rate for men, and is one of the lowest among OECD countries. Korean women hold only about 9 percent of

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management posts, compared to an OECD average of 29 percent.

Similarly, the restrictions of Korea's labor market dualism and segmentation offer job protection and good compensation to some Koreans, while about one-third of workers face difficulties in gaining skills and are unable to advance. Even many recent university graduates cannot find jobs.

Korean manufacturing has been marked by robust productivity growth, yet productivity in the service sector has actually fallen—and is now only about one half of manufacturing productivity. A vibrant, innovative, and competitive services sector can offer greater balance to the Korean economy, while adding capabilities Korea will need in years ahead. For example, an aging Korea will need more efficient and better delivery of health care and pension support.

The financial sector could raise productivity by encouraging more savings and investment, increasing the efficiency of investments, and channeling capital to innovative businesses.

Korea is the fourth most prolific originator of patents—three times the number in Germany—but invention is not well connected to business development, startups, and the cross-border exchange of research.

The future security of Korea depends on its global network, not on its national barriers.

More comprehensive security ties with the United States—and other American allies and partners—will help protect Korea's networks. The 2009 U.S. Korean Joint Vision Statement offers a framework for closer cooperation on the peninsula, regionally, and globally. The Republic of Korea must continue to have the capability to deter North Korean aggression. Yet South Korea's strategic strength will be enhanced through more extensive defense diplomacy and the ability to share the responsibilities of the 21st Century order.

For example, Korea can achieve greater interoperability with U.S. forces, develop an integrated missile defense, and cooperate more closely with U.S. cyber defenses. A blue water Korean Navy can contribute to regional security, for example through anti-piracy and maritime humanitarian assistance. All of us have an interest in thwarting proliferation of weapons of mass destruction. And Korea's support for development assistance is also valuable.

Korea's regional and global networks are also an important investment in the future of the peninsula.

Twenty-five years ago, I was working with Secretary James Baker to negotiate German unification in the Two-plus-Four process. I recognize that the circumstances in Germany then and Korea now are very different. Yet it is useful to recall that the regional and allied context was critical for the Federal Republic of Germany's success. Even after 40 years of European integration and partnership, many of Germany's neighbors were fearful of the prospect of unification. Unification changed the regional order. Old historical anxieties were reawakened.

Germany's alliance with the United States through NATO—and our deep political partnership—offered a vital stabilizing reassurance for all parties, including the Soviets. Germany's integration within the then-European Community was also essential, and the political embrace of EC

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President Jacques Delors complemented the unwavering resolve of President George H.W. Bush to assist Germany in its hour of need.

Of course, the geopolitical context—and history—in Northeast Asia are far different from Central Europe. Yet a unification of Korea—whether or how it might transpire—would transform security, economic, and political links across East Asia and the Pacific.

A wise strategy for South Korea is to anticipate the unexpected. Korea can prepare for an uncertain future by strengthening ties, supporting a wider security network fostered by the United States, expanding and deepening Korea's economic connections, and reassuring all powers of Korea's peaceful aims.

The United States, for its part, will work with partners to preserve the successful international architecture of the past 70 years, while adapting to economic, security, and political shifts.

Some strategists, analogizing from history, assert the United States is a status quo power that must adapt to a rising power.

This view fails to understand America's history and nature. The United States, it is true, is now the established power in the Asia-Pacific and around the world. But America is not a status quo power. The United States is comfortable with a dynamic system. Our ethos as a country is to look ahead, to reinvent, and to seek a better world. We seek security, but we also prize liberty and value the potential of the common man to achieve uncommon dreams.

I hope you share my belief that the American vision of an evolving, improving order suits Korea's interest and values as well.

Over the past 70 years, Koreans rose to the challenge of building one of the world's most successful economies and establishing a competitive and open democracy.

Now Koreans and Americans face a new era of challenge.

Geopolitics lays the foundation for future designs. But it is up to us to create that destiny.

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