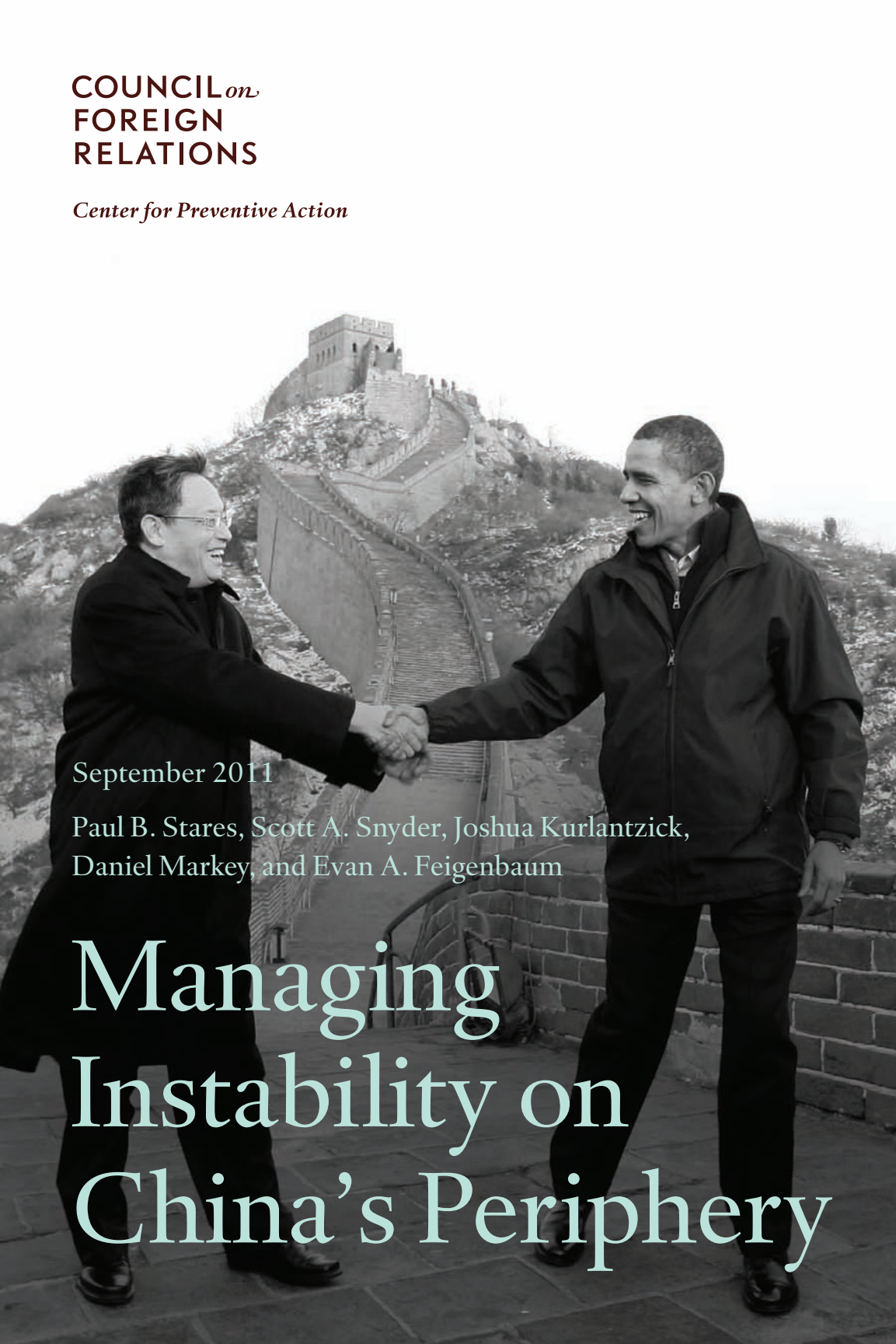


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A black and white photograph of Barack Obama and a Chinese official shaking hands on the Great Wall of China. The wall winds across a hillside in the background. Both men are smiling and wearing dark jackets.

September 2011

Paul B. Stares, Scott A. Snyder, Joshua Kurlantzick,
Daniel Markey, and Evan A. Feigenbaum

Managing Instability on China's Periphery

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Foreword

Paul B. Stares

In comparison to the more familiar sources of friction in U.S.-China relations—notably Taiwan and Tibet—surprisingly little attention has been given to how developments along China’s unstable periphery could strain and even potentially cause a serious rupture in bilateral relations. Certainly, there has been no systematic effort to examine and compare the most likely cases or to consider how the latent risks can be lessened. As a general observation, scholars and analysts in both countries tend to focus on specific subregions rather than engage in cross-regional comparative assessments.

With the goal of encouraging a broader assessment of potential sources of friction in U.S.-China relations and how they might be mitigated, the Council on Foreign Relations (CFR) embarked on this study, “Managing Instability on China’s Periphery,” which was made possible by the generous support of the John D. and Catherine T. MacArthur Foundation’s Asia Security Initiative.

Following my introductory overview of the principal issues that could put the United States and China on a collision course, CFR fellows Scott A. Snyder, Joshua Kurlantzick, Daniel Markey, and Evan A. Feigenbaum, respectively, discuss three countries on China’s periphery—North Korea, Myanmar, and Pakistan—as well as the collection of Central Asia states. Each paper considers current sources of instability, potential crisis triggers, U.S. and Chinese interests—where they converge and diverge—and policy options for preventing a major crisis and mitigating the consequences.

These papers were informed by two workshops—one in Washington, DC, in November 2010 and the other in Beijing in April 2011. We are grateful to the participants of both workshops and especially to our Chinese hosts at the Center for International and Strategic Studies at Peking University. In particular, we appreciate the support of its dean, Professor Wang Jisi, and Professor Zhu Feng as well as our colleague

Elizabeth C. Economy, senior fellow and director for Asia studies at CFR, who attended both workshops, and James M. Lindsay, senior vice president and director of the Studies Program at CFR for his valuable comments and advice.

Finally, I would like to thank my assistants Elise Vaughan, Stephen Wittels, and Sophia Yang for their help along the way.

Overview

Paul B. Stares

INTRODUCTION

If past experience is any guide, the United States and China will find themselves embroiled in a serious crisis at some point in the future. Such crises have occurred with some regularity in recent years, and often with little or no warning. Relatively recent examples include the Taiwan Strait crisis of 1996, the accidental bombing of the Chinese embassy in Belgrade in 1999, and the EP-3 reconnaissance plane incident in 2001, as well as several minor naval skirmishes since then. The ensuing tension has typically dissipated without major or lasting harm to U.S.-China relations. With China's rise as a global power, however, the next major crisis is likely to be freighted with greater significance for the relationship than in previous instances. Policymakers in both Washington and Beijing, not to mention their respective publics, have become more sensitive to each other's moves and intentions as the balance of power has shifted in recent years. As anxieties and uncertainties have grown, the level of mutual trust has inevitably diminished. How the two countries manage a future crisis or string of crises, therefore, could have profound and prolonged consequences for the U.S.-China relationship. Given the importance of this relationship to not only the future evolution of the Asia-Pacific region but also to the management of a host of international challenges, the stakes could not be higher.

China's growing global engagement and presence has increased the number of conceivable places and issues over which it could find itself at odds with the United States, but potential developments in the territories immediately adjacent to China remain the most likely—and the most worrisome—sources of friction. During the past ten years, the level of U.S. involvement in countries neighboring China has grown significantly and in ways that were unforeseen at the beginning of this century. The United States is now engaged in major counterinsurgency

operations in Afghanistan and periodic counterterrorism strikes in Pakistan, a longtime ally of China. It has also built up a major logistics hub at the Manas air base in Kyrgyzstan to support these efforts. Moreover, since the collapse of the Soviet Union, U.S. interest in the domestic governance of several Central Asian countries bordering China, not to mention Myanmar, has steadily grown. More recently, North Korea's provocative behavior, which is widely attributed to the leadership succession process under way in Pyongyang, has prompted heightened U.S. military activity and readiness close to China's northeast borders.

Many Chinese officials are wary of America's expanded political-military involvement on their doorstep, believing it to be part of a larger strategy of containment. After suffering from a series of humiliating depredations at the hands of the great powers in the nineteenth and twentieth centuries, China is especially sensitive to perceived foreign encroachment or unwelcome meddling close to its borders. The level of U.S. interest in countries bordering China is not likely to diminish, however, as the following overview of the principal U.S. concerns reveals. In fact, it could substantially and suddenly increase. While China shares some of the same concerns, which could provide a basis for greater cooperation with the United States, significant differences remain between the two countries in their respective views and policy approaches. Therein lays the potential for further friction and possible crisis.

NOT-SO-PERIPHERAL CONCERNS

The most serious sources of concern along the periphery of China relate to the following issues: nuclear weapons proliferation, transnational terrorism, third-party disputes, and the consequences of internal political instability.¹

NUCLEAR WEAPONS PROLIFERATION

North Korea poses several serious proliferation concerns for the United States and China. The first derives from its status as an emerging if still not fully recognized nuclear weapons state following two nuclear tests in 2006 and 2009. These tests evidently involved plutonium devices built with material generated from the nuclear complex at Yongbyon. Experts calculate that North Korea has produced

enough fissile material to make the equivalent of eight to eleven nuclear bombs.² Notwithstanding North Korea's proclamations about possessing a "nuclear deterrent," the operational status of its nuclear capability remains unclear, though it is generally assumed to have a proven warhead design for delivery by medium-range missiles. Furthermore, a recently revealed highly enriched uranium processing facility has raised the possibility that North Korea is producing additional fissile material for weapons use and may already have stockpiled some from clandestine sources. With the Six Party Talks stalled (involving North and South Korea, China, the United States, Russia, and Japan) and most experts skeptical of their prospects if they are ever resumed, there is a high likelihood of North Korea eventually becoming an acknowledged nuclear weapons power. Whether this would prompt South Korea and Japan to go nuclear will depend on other factors, such as their confidence in U.S. extended deterrence guarantees and the continuing behavior of North Korea. If the international nonproliferation regime starts to unravel as a result of mutually reinforcing assaults from Northeast Asia and potentially Southeast Asia, where Myanmar may be pursuing nuclear weapons—not to mention setbacks in other parts of the world—wider proliferation in the Asia-Pacific region cannot be dismissed as a possibility. Taiwan is another plausible candidate that could join the nuclear club, which would surely alarm China.

Even more alarming to the United States is the prospect of North Korea developing the capability within the next five years to strike U.S. territory with nuclear-tipped intercontinental-range missiles. This fear was evidently raised as a "core U.S. national security interest" by Secretary of Defense Robert Gates in his meeting with President Hu Jintao in January 2011 and most likely by President Barack Obama at the Washington summit soon after.³ Whether the United States would feel compelled to prevent North Korea from perfecting this capability by military means is open to speculation, but such action has been advocated in the past by responsible commentators, including a former U.S. secretary of defense and a current undersecretary of defense.⁴

A clearer "red line" that would probably prompt the United States to take military action against North Korea would be the transfer of nuclear weapons or other weapons of mass destruction (WMD) to a terrorist organization or other nonstate entity. There is no evidence of any intent or inclination by North Korea to do this, but it has nevertheless demonstrated a highly disturbing disregard for international nonproliferation

controls with its evident transfer of nuclear technology to Syria and reportedly Myanmar, not to mention its ballistic missile exports.

Pakistan presents a different set of concerns. For the United States, the primary fear is that Pakistan's growing stockpile of nuclear weapons may one day be controlled by a hostile regime in Islamabad. Equally worrisome is the risk that one or more nuclear weapons will be surreptitiously diverted to, or stolen by, a terrorist organization for use against the United States and/or one of its allies and partners. There has been much speculation about what the United States might do to preempt this situation from occurring or how it would respond after it happened, including the possibility of armed intervention. The successful 2011 U.S. raid that killed Osama bin Laden in Pakistan rekindled such concerns.

On the surface at least, China appears far less concerned than the United States about "loose Pakistani nukes," though it is hard to believe that Chinese security specialists are completely sanguine about the risks. The same could be said about the recent rapid expansion of Pakistan's nuclear stockpile, which will soon exceed India's—if it does not already. This could prompt an Indian nuclear buildup that ultimately undermines China's security.⁵

TRANSNATIONAL TERRORISM

Second only to nuclear proliferation in the hierarchy of U.S. security concerns is the threat of another mass casualty terrorist attack on U.S. soil. While the risk from al-Qaeda based in Afghanistan has been significantly degraded as a result of ongoing U.S. military operations, fear has been growing—especially after the failed 2010 attack on Times Square in New York City—about the potential for Pakistan-based militant groups to carry out a major strike against the United States. Besides rump elements of al-Qaeda, the Pakistan Taliban (TTP) and Lashkar-e-Taiba (LeT) are viewed as the principal terrorist organizations capable of executing an attack. The latter already demonstrated its ability to orchestrate a sophisticated international strike with the Mumbai assault in November 2008. The possibility of significant U.S. military retaliation against the location of suspected terrorist bases—as well as other actions directed against the Pakistani government if elements inside it were proven to have been in collusion with the attackers—cannot be dismissed. Given the invocation of Article 5 of the

NATO treaty following 9/11, a mass casualty attack against a NATO ally that emanated from Pakistan might also cause the United States to carry out similar countermeasures. Besides this growing short-term threat, there is a longer-term concern that terrorist safe havens will be reestablished once the United States withdraws from Afghanistan, as it will begin doing in 2011.

Much like the proliferation threat, Chinese officials have evinced considerably less concern about the activities of militant groups inside Afghanistan and Pakistan apparently because, with few exceptions, they have not been directed at China. The exceptions have been those working to support Uighur separatist movements in Xinjiang, notably the East Turkestan Islamist Movement (ETIM) and the Eastern Turkestan Liberation Organization (ETLO), which China claims is supported by groups operating in Pakistan and elsewhere in Central Asia (particularly the Islamic Movement of Uzbekistan—or IMU—and possibly al-Qaeda).⁶ The United States has designated ETIM as a foreign terrorist organization, though it clearly does not rank high on the list of U.S. counterterrorist priorities.

THIRD-PARTY DISPUTES

Besides the broadly contentious issues between the United States and China, there are a number of specific disputes involving China's neighbors that may produce conflict. The most obvious are over differing national territorial claims. Although China has resolved many disputed parts of its immense land border, important maritime sections remain unsettled.⁷ Two of these are with countries that the United States has defense treaty commitments: Japan with the Senkaku/Diaoyu islands and the Philippines with Scarborough Reef and the Spratly Islands in the South China Sea. The United States also has obligations to Taiwan, which disputes China's claims to Scarborough Reef and the Spratly Islands as well as the Paracel Islands. In the first case, the United States felt compelled to reaffirm its security treaty commitments to Japan during the September 2010 crisis caused by the collision between a Chinese fishing trawler and a Japanese coast guard vessel. It also reconfirmed its defense commitments to the Philippines following increasing tension in the South China Sea in June 2011.

Meanwhile, the U.S. and China's treaty commitments to South and North Korea, respectively, remain in a tense standoff. Rarely since the

conclusion of the Korean War has the periodic friction between North and South Korea caused U.S. and Chinese tension to rise. But following the deployment of U.S. naval ships to the Yellow Sea in the wake of North Korea's shelling of Yeonpyeong Island in November 2010, China responded angrily, denouncing such exercises in its economic exclusion zone, something it had previously accepted. With tension still high on the peninsula, there is a real risk that another serious incident will trigger an escalation in hostilities. If such a situation occurs, it could again bring the United States and China into contention over their ability to exercise restraint with their respective allies.⁸

Other Asian flashpoints appear less charged than the Korean peninsula to trigger U.S.-Chinese discord, but they nevertheless contain some risk. Aside from Taiwan, the most dangerous is the Indo-Pakistani dispute over Kashmir. Both the United States and China share a strong incentive to manage any future crisis and prevent escalation, but certain differences and misunderstandings could cause friction. The same is also true if tension flares up between India and China over their various border disputes.

INTERNAL POLITICAL INSTABILITY

China is surrounded by states classified by Western analysts to be "weak," "fragile," or at "high risk" of conflict. Seven of the fourteen countries that share a land border with China—Afghanistan, Pakistan, Myanmar, Laos, Nepal, North Korea, and Tajikistan—ranked in the top quartile of countries on the 2010 Failed States Index. Nine rated a score of five or more in 2011 on Freedom House's seven-point scale of autocratic states (Afghanistan, Myanmar, Kazakhstan, Kyrgyzstan, Laos, North Korea, Russia, Tajikistan, and Vietnam); seven have ongoing insurgencies (Afghanistan, Myanmar, India, Laos, Nepal, Pakistan, and Tajikistan), and seven were assessed to pose a high or extreme security and political risk for business in 2011 by the consulting firm Control Risks (Afghanistan, Myanmar, Kyrgyzstan, Nepal, North Korea, Pakistan, and Tajikistan).⁹

Despite their disinclination to become embroiled in the internal affairs of neighboring countries, China and the United States would find it difficult to ignore the consequences of acute political instability and unrest. In North Korea and Pakistan, for instance, the safety and security of nuclear weapons (and in the former case, other WMD) are significant concerns.

In Central Asia, the potential for terrorist groups to develop operational sanctuaries from “ungoverned spaces” that may emerge is another fear. There is also the risk to one’s own citizens residing in the countries under stress and the potential loss in some cases of substantial commercial investments.¹⁰ For China, the prospect of a massive influx of refugees due to conflict or a humanitarian emergency is especially worrisome. This fear has reportedly already prompted the government to create contingency plans that would establish a buffer zone in the border area with North Korea to stem the tide of refugees. In a serious crisis, the number of refugees could exceed a million or more people.¹¹ Similar concerns became a reality along the PRC-Myanmar border in August 2009 after Burmese forces attacked insurgent groups in Kokang Province, causing the largest refugee crisis for China since the Sino-Vietnam war.¹²

Finally, the desire to influence the political outcome of instability in neighboring countries where China already enjoys close relationships with the current leadership could prompt Beijing to intervene. Depending on the circumstances, this could cause considerable consternation in Washington. As recent events in North Africa and elsewhere attest, major humanitarian contingencies and especially the risk of mass atrocities can lead the United States to take rapid action in places that may not otherwise rank highly in terms of its national interest.

AVERTING THE WORST

Crises are inherently volatile events. Misinformation, miscommunication, and misunderstanding can all play a part in driving principal actors to move in unpredictable and sometimes undesirable directions. Decision-makers can also be exposed to domestic pressures that coalesce suddenly to limit their room for maneuver or ability to compromise.¹³ Certain policy options can, as a consequence, gain almost irresistible momentum to produce outcomes that might have seemed before the crisis to be wholly improbable based on prior behavior or rational expectations of the national interest.¹⁴

Senior officials in both China and the United States are sensitive to the risks inherent in major crises. As a result, they have pursued high-level dialogues to better understand each other’s interests and concerns. The resultant U.S.-China Strategic and Economic Dialogue (S&ED) is now a regular event on both countries’ diplomatic calendars. The scope

of these talks has also steadily expanded since their inception through the addition of a security dialogue as well as sub-dialogues on Africa, Latin America, South Asia, Central Asia, nonproliferation, climate change, and counterterrorism, among other issues. These discussions are invaluable, but a broader range of initiatives are also necessary to lessen the likelihood of serious crises arising and to manage the associated risks when they do. While some of these efforts can be done jointly, others will happen unilaterally but in a mutually supportive way.

Three broad if often overlapping types of measures can be considered as part of a comprehensive strategy to manage instability on China's periphery: risk reduction, crisis prevention, and conflict mitigation measures.¹⁵

- *Conflict Risk Reduction*: These measures are taken to minimize potential sources of instability and conflict before they arise. On the one hand, they encompass efforts to reduce the impact of specific threats such as controlling the development of destabilizing weapon systems or arms transfers that may cause regional power imbalances; restricting the potential influence of dangerous nonstate actors; and diminishing the possible negative effects of anticipated demographic, economic, and environmental changes. On the other hand, they cover measures that promote conditions conducive to peace and stability. Within states, such initiatives include encouraging equitable economic development, good governance, the rule of law, and respect for human rights. Between countries, stability can be enhanced through rules on the use of force, military and economic cooperation, security guarantees, confidence-building measures, functional integration, and effective arbitration mechanisms.
- *Crisis Prevention*: In states that are assessed to be particularly volatile or susceptible to violence, a similar set of measures can be applied to prevent the situation from deteriorating further. Much like risk reduction efforts, crisis prevention measures can be aimed at redressing the specific sources or drivers of instability and potential conflict and/or assisting the state(s) or group(s) that are threatened. In principle, a host of diplomatic, military, economic, and legal measures are available to alter either the contributing conditions or the decision calculus of the parties involved in the potential conflict. These include various cooperative measures (such as diplomatic suasion and mediation, economic assistance and incentives, legal arbitration,

and military support) as well as coercive instruments (diplomatic condemnation and isolation, various kinds of economic sanctions, legal action, preventive military deployments, and threats of punitive action). The two are not mutually exclusive and are frequently seen as most effective when applied together as “carrots and sticks.”

- *Conflict Mitigation*: If earlier preventive efforts fail or violence erupts with little or no warning, many of the same basic measures and techniques can be employed to manage and mitigate a crisis. These include efforts targeted at the parties involved in a conflict to facilitate cooperative dispute resolution and change their incentive structures to promote peaceful outcomes. Steps can be taken to identify and empower moderates, isolate or deter potential spoilers, and sway the uncommitted. More interventionist measures to protect endangered groups or secure sensitive areas through the use of such tactics as observer missions, arms embargoes (or arms supplies), and preventive military or police deployments are also conceivable. In some circumstances, preventive initiatives can be important to help contain a relatively localized crisis or flash point, thereby ensuring that it does not either spread or draw in others. Indeed, containment may realistically be the only crisis mitigation option.

Not all of these generic elements of a preventive engagement strategy are relevant to managing instability on China’s periphery. Where they are, they would still require careful adaptation to local circumstances.

- In the area of risk reduction, for example, collaborative efforts to promote economic development—particularly on infrastructure projects in Central Asia, Pakistan, and even potentially Myanmar—are desirable. Joint or coordinated programs to strengthen national and local law enforcement/border security capacities to counter organized crime or terrorist groups are also conceivable, especially in parts of Central Asia and Myanmar. Working with China to promote democratic governance is unlikely to be successful, but there may be ways to accomplish similar objectives by encouraging better “accountability,” “transparency,” and the “rule of law”—all goals that China values.
- Joint crisis prevention efforts would focus on known or anticipated flashpoints. With North Korea, for instance, this would entail closer consultation and coordination to prevent further provocations and promote the resumption of meaningful arms control and

disarmament talks. Other initiatives relating to the provision of food and medical supplies as well as nuclear reactor and missile launch safety are possible. The United States and China could conceivably work together to encourage India and Pakistan to stabilize, if not fully resolve, their dispute over Kashmir and also prevent the resumption of ethnic riots in Kyrgyzstan or a resurgence of Islamist militancy in Tajikistan. In Myanmar, closer cooperation to prevent a major outbreak of HIV/AIDS and other diseases has been proposed.

- To mitigate the potentially harmful consequences of a crisis, China and the United States could theoretically discuss how to handle specific scenarios in their various bilateral exchanges. As a practical matter, however, this is difficult to accomplish. Countries are understandably hesitant to discuss contingency plans that affect an ally with another power. They are also wary of disclosing how they might react in a crisis. Track 1.5/2 discussions involving nongovernment experts, however, can sometimes serve as a useful surrogate. Both China and the United States can also encourage bilateral crisis management discussions and mechanisms between potential adversaries. For example, the emergency communication channels between North and South Korea are unreliable and could be improved with encouragement from China and the United States, respectively. While similar arrangements between India and Pakistan are better, there is certainly room for improvement. China and the United States can also offer to serve as intermediaries. Regional contact groups already exist for certain subregions, such as the Six Party Talks for the Korean peninsula, and they can be encouraged to play a more active crisis management role.
- Besides these country-focused initiatives, additional bilateral measures can be taken. For instance, China and the United States can try to ensure rapid and reliable emergency communications, hold regular military-to-military exchanges to generate personal contacts and build trust, and convene joint exercises or simulations that focus on crisis management to familiarize both sides with their procedures and concerns. Scenarios that serve as surrogates for real concerns can be used to minimize political sensitivities. These various measures and initiatives would not preclude a major crisis on China's periphery from harming relations between the two powers, but they would certainly lessen the likelihood.

Instability in North Korea and Its Impact on U.S.-China Relations

Scott A. Snyder

INTRODUCTION

Despite the fact that many past incidents on the Korean peninsula did not have broader spillover effects on the region, two recent provocations—the sinking of South Korea’s warship *Cheonan* and North Korea’s artillery shelling of Yeonpyeong Island—became significant issues for the United States and China in 2010. These developments signal the possibility that more serious incidents could precipitate significant tension in the U.S.-China relationship. Moreover, the shifting balance of power on the peninsula toward South Korea (the Republic of Korea, or ROK) would likely be consolidated in the event of further North Korean instability or political collapse, a development that has the potential to bring American and Chinese interests into conflict with each other. Given apparently divergent American and Chinese preferred outcomes, this is a propitious time to reexamine sources of instability on the Korean peninsula and their potential implications for the U.S.-China relationship.

Instability in North Korea could unfold along a wide array of path-dependent lines that are likely to define the nature of the crisis and influence how external powers including the United States and China are likely to respond. The main scenarios that would evoke responses by neighboring countries and test prospects for coordination among major powers include:

- North Korea’s implosion, i.e., a complex humanitarian emergency and the collapse of the country’s governing structure that leads to refugee flows and a need to stabilize internal political order;
- North Korea’s explosion, i.e., a military confrontation and steadily rising confrontation for either internal or external reasons, probably at least in part as a means to reconsolidate political control;

- a political crisis among contending forces in North Korea, most likely due to a failure to consolidate leadership succession, which leads to civil war and appeals by competing factions for external support; and
- the possibility that North Korean proliferation might enable a successful terrorist attack involving the use of nuclear materials from North Korea or evidence of the transfer of knowledge that enables emerging actors to become nuclear-capable.

In each of these scenarios, a confrontation between the United States and China is not foreordained. Though both countries share an interest in a stable, denuclearized Korean peninsula, they have not established any way of coordinating an effective crisis response. Such planning is important because North Korean instability promotes strategic mistrust between the United States and China, as both China and Japan view a hostile Korean peninsula as a direct security threat and the United States has a treaty commitment to defend Japan against threats to its security.

Advance consultations regarding this range of scenarios do not imply their likelihood. If both sides agree that North Korean instability is possible, however, deeper discussions about their potential responses to such developments would be a valuable way to reduce the risk of unintended or unnecessary confrontation.

SOURCES OF NORTH KOREAN VULNERABILITY

In response to the *Cheonan* and Yeonpyeong incidents in 2010, governments and analysts have placed heightened attention on prospects for instability in North Korea. The U.S. and ROK militaries, for instance, have reportedly reviewed and exercised plans to respond to various scenarios in North Korea.¹ Additionally, South Korea's Ministry of Unification has commissioned a major study designed to create a North Korean instability index—which will measure economic, social, and political factors that could cause volatility—and examine the North Korean government's capacity to maintain control over events on its soil.²

Based on his analysis of North Korea's actions and options surrounding the sinking of the *Cheonan*, Paul B. Stares correctly anticipated the

possibility of renewed military escalation on the Korean peninsula, as reflected in the CFR Contingency Planning Memorandum, "Military Escalation in Korea," which was published weeks prior to the Yeonpyeong shelling.³ The International Crisis Group reported in March 2010 that "the pressures of cascading and overlapping 'mini crises' are unmistakable just as the country has had to face difficult succession issues."⁴ Although the North Korean leadership may have the capacity to manage a single crisis, multiple incidents requiring effective domestic management could overwhelm it. If this scenario looks increasingly likely, the agenda in South Korea could shift from focusing on the management of relations with North Korea to preparing for Korean unification.⁵

At this stage, it appears unlikely that any single source of instability would be serious enough to threaten Kim Jong-il's political control. It is useful, however, to identify several issues and situations that could become triggers for instability if they are mishandled or develop into a more complex crisis.

THE EFFECT OF THE CURRENCY REVALUATION ON CONFIDENCE IN NORTH KOREA'S LEADERSHIP

North Korea's November 2009 currency devaluation allegedly generated widespread public dissatisfaction. Policy mistakes in the course of implementing the revaluation temporarily froze the markets and stimulated high inflation, which coupled with a poor harvest led to a food crisis.⁶ For the first time, the public blamed the North Korean leadership for making some critical errors during the currency revaluation, which was reported to have deep and widespread ripple effects throughout society. For instance, the state failed to guarantee a supply of critical-need items, which triggered runaway inflation in North Korean markets. In addition, there were caps on the amounts of old currency that could be exchanged for new currency, and an apparent initial underestimation of the extent and effects of the devaluation that required immediate but limited adjustments in the weeks following the announcement. The effects of inflation on the currency revaluation wiped out any gains in purchasing power, disrupted distribution networks with China, and wiped out the wealth of the most economically active parts of the population while having limited effects on those who either engaged in barter transactions or who already did business in U.S. dollars.

Despite reports of widespread public discontent, Kim Jong-il's government was able to bring the economic situation back under control, though at a cost to its credibility.⁷ The currency revaluation weakened its power just when it wanted to maximize its influence to ensure a successful and stable succession. While North Koreans know better than to publically criticize their leadership, this policy move reportedly made the North Korean public more restive and willing to voice indirect reproaches against the regime. It also underscored the inequities and risks that are inherent in North Korea's opaque economy.

INFORMATION DISSEMINATION AND THE EROSION OF NORTH KOREA'S SYSTEMIC STABILITY

North Koreans are increasingly exposed to information from external sources through methods that are outside the government's control, including propaganda and information dissemination efforts organized from South Korea. Surveys of refugees who have left North Korea show that increasing numbers have had exposure to South Korean radio, although word-of-mouth communication remains the most pervasive means by which outside information enters the country. There is strong anecdotal evidence that movies and other cultural products from South Korea have penetrated North Korea. South Korean nongovernmental organizations (NGOs) also try to disseminate information critical of the regime by launching balloons that carry leaflets.⁸

South Korean-led propaganda efforts have drawn particularly strong criticism and warnings from the North Korean authorities, who clearly regard them as a threat to their political control, most recently in the context of North Korea's exposure of secret inter-Korean dialogue efforts and criticism of the Lee Myung-bak administration. They also provide a pretext for clampdowns on internal dissent and political purges at a critical period of preparation for a leadership transition in the North.

SUCCESSION AND ITS IMPLICATIONS FOR REGIME STABILITY

The succession process could be a source of instability in North Korea as an older generation is removed from power and replaced with a younger generation of leaders that is presumably loyal to their apparent

Kim Jong-un. During 2010, there was a clear focus on strengthening arrangements to ensure a smooth transition to the next generation of leaders following Kim Jong-il's death. In the spring, for example, the National Defense Commission expanded to allow representatives from the security services to participate alongside the military. Around the same time, much attention was also given to the newly appointed vice chairman of the National Defense Commission, Jang Song-taek. On the other hand, a major party conference in September 2010 led to speculation that the role of the party might be revived and that the governing structure of North Korea might be normalized in order to support a transition to a third-generation Kim leadership under Kim Jong-un. Kim Jong-il has clearly selected Kim Jong-un to be his successor—as demonstrated by Kim Jong-un's appearance in photographs from the party conference, his assumption of the vice chairman position in the party's Central Military Commission, and his appointment as a general immediately prior to the party conference.

Meanwhile, a careful balancing act is taking place, as internal positions and responsibilities are shifted among members of Kim Jong-il's inner circle, in an attempt to lay the foundations for a smooth transition to Kim Jong-un. Additional evidence that a leadership transition is under way can be drawn from disappearances, accidental deaths, and removals of prominent North Korean leaders in a system in which post-holders generally die in office rather than retire.⁹ Despite these efforts to strengthen the Kim family's control over North Korea's leading institutions and to provide Kim Jong-un with the political standing necessary to assume leadership following Kim Jong-il's death, no one knows for sure whether the succession will unfold as planned. In the absence of Kim Jong-il, rivalry for power could erupt among competing bureaucratic interests. Nonetheless, these seemingly tactical adjustments—and the swirling rumors behind them—betray uncertainty about the future, abetted by information flows, systemic injustices stemming from the lack of economic governance inside North Korea, and rising public disaffection.

Some South Korean analysts have speculated that North Korean provocations during the past year reveal a particularly fatal lightning rod for inter-Korean relations related to succession. They have attributed the incidents to Kim Jong-un as part of an effort to show his leadership capacity by burnishing his military reputation. Some senior U.S. officials have also hinted at this possibility, although no public evidence

has been provided to back the assertion.¹⁰ Other analysts, however, point to a cycle of engagement interrupted by the *Cheonan* and Yeonpyeong incidents as well as the leaking of the existence of secret inter-Korean meetings in May 2011 as evidence of internal infighting over policy toward the South. They say that North Korean hardliners may be responsible for using aggressive tactics in an effort to kill potential improvements in inter-Korean relations.

Regardless of how well preparations are made for succession, the specific timing and circumstances under which it unfolds remain uncertain and could create flash points for instability. The duration and peaceful or violent nature of the process, and whether it is accompanied by direct or indirect external intervention, are all factors that could influence the outcome.

NORTH KOREA'S PROVOCATIONS AND SOUTH KOREA'S RESPONSE

North Korea's provocations during the past year have raised tension and heightened the chance that a conflict in the future might result in an uncontrollable escalation. If North Korea again provokes South Korea, President Lee Myung-bak might feel pressured by political circumstances to use decisive force in retaliation, following what was regarded as a tepid response to the Yeonpyeong artillery shelling. In addition, both adjustments in the rules of engagement and how they are interpreted suggest the possibility that actions taken at lower levels in the chain of command might result in unintended conflicts or escalatory activities and counterresponses that would be more difficult to manage.¹¹

This particular concern has emerged in various ways between the United States Forces Korea (USFK) and the ROK Ministry of National Defense. For example, after the investigation into the sinking of the *Cheonan*, USFK authorities were worried that tit-for-tat approaches by South Korea, including the reconstruction of loudspeaker towers for the purpose of airing propaganda toward the North, might induce an escalatory response that would be difficult to control. In another instance, following the North Korean artillery shelling of Yeonpyeong, Joint Chiefs of Staff chairman Michael Mullen travelled to South Korea to discuss the purposes and targets of any response to North Korea, North Korea's potential range of counterresponses, and the unintended consequences that might result from further escalation of conflict. Off the

record, senior U.S. officials have repeatedly voiced their concerns about the dangers of unintended or uncontrolled escalation that could result from a vigorous or disproportionate South Korean counterstrike. The Yeonpyeong incident resulted in further efforts to ensure a coordinated response to potential future North Korean provocations.¹²

NORTH KOREA'S MONEY CRUNCH AND INCREASING DEPENDENCE ON CHINA

Theoretically, North Korea's hunger for economic resources could be a source of leverage. The North Korean leadership depends on external capital both as a vehicle by which regime elites can buy favor within the system and as a means by which Kim Jong-il can buy the loyalty of elites, in combination with the extraordinary coercive measures that are at his disposal. A recent study, however, shows that neither enhanced enforcement of economic sanctions nor the provision of economic rewards is likely to be an effective tool for preventing North Korean proliferation efforts, or by extension for influencing North Korean stability.¹³

Increasingly, North Korea relies on China as its economic and political lifeline. Trade between the two countries represents more than half of North Korea's total external trade, and most critical items, including food and fuel, come from China. This dependency on China has been exacerbated by international sanctions and the Lee Myung-Bak administration's emphasis on reciprocity and denuclearization as conditions for providing economic assistance to the North. In the year following the *Cheonan* and Yeonpyeong provocations, inter-Korean trade dropped by more than 14 percent, which has only heightened North Korea's economic dependence on China.

The cash flows and financial balance sheet that underwrite Kim Jong-il's ability to survive and maintain political control are opaque, and they represent just one lever of power in a fully coercive system in which everyone is watching and being watched. While constraints on financial flows to North Korea are widely believed to have hurt the regime during the Banco Delta Asia incident in late 2005 and early 2006, the country's overall dependency on external capital does not seem as great as other states that have become objects of targeted financial sanctions such as Serbia or Iran. The ability of North Koreans to engage in official trade relations with China requires leadership approval and remains strictly controlled, primarily by entities with military ties. In the event of

instability or competition over succession, the ability to maintain control and draw on external economic flows will be an influential factor. A more detailed analysis of the main actors that manage trade relations with China, and the specific mechanisms by which they provide support to North Korea's leadership, will be important in understanding whether reductions or diversions of funds could accelerate instability in North Korea.

SCENARIOS FOR INSTABILITY AND POTENTIAL INTERNATIONAL RESPONSES

External reactions to North Korean instability will differ depending on whether it results from the leadership's internal demise as it loses the ability to govern (i.e., an implosion) or from an external provocation in which the regime lashes out for attention or to reinforce domestic unity (i.e., an explosion). Potential triggers for a crisis could stem from these two divergent types of challenges and may be grouped into four broad scenarios that can be used to illustrate a wide range of potential responses:

- A complex humanitarian emergency could cause the governing structure to collapse, resulting in refugee flows, economic challenges, and a need to stabilize internal political order. This form of instability would draw a reaction from North Korea's neighbors, but the likely response would probably fall short of direct intervention, at least in the initial stages. A humanitarian crisis is the instability scenario that most lends itself to a cooperative response, and in theory should represent an opportunity for active coordination between the United States, China, South Korea, and North Korea's other neighbors.
- In the case of internal instability, the North Korean regime may initiate an external military confrontation, either to gain resources from outside actors or to reconsolidate domestic political control. This scenario might occur as a result of the leadership's efforts to compensate for its loss of control over the main institutions in North Korea, including the military, public security institutions, the party, and potential challengers or other emerging actors outside the direct control of the state. It could involve the use of externally focused provocations as a means by which to unify against a foreign threat and to justify strengthening internal political controls.

- A complete breakdown in political control or the emergence of overt rivalry among or within institutions in North Korea could result in a civil conflict, with the possibility that competing factions might appeal to different external actors for material support. This scenario has the potential to draw larger powers into a proxy competition for influence over North Korea and poses the greatest danger of broadening into a regional conflict.
- If a successful terrorist attack occurs that involves the use of nuclear materials from North Korea or evidence of the transfer of knowledge that enables emerging actors to become nuclear-capable, it is highly likely that the United States might use force against North Korea. It would aim to punish and decapitate the North Korean leadership so that it could not engage in further proliferation-related activities.

SINO-U.S. INTERESTS AND THE KOREAN PENINSULA

The United States and China ostensibly have shared interests in the pursuit of peace, stability, and denuclearization on the Korean peninsula, but they have different priorities as they pursue those objectives. Since the 1990s, there had been a growing level of Sino-U.S. cooperation on issues such as the establishment of Six Party Talks and how to respond to North Korea's first nuclear test in 2006. After North Korea's nuclear test in May 2009, however, China has emphasized the strategic value of a strong Sino-North Korea relationship and placed coordination with the United States on denuclearization of North Korea as a secondary priority. In other words, stability takes precedence over denuclearization for China, in contrast to the U.S. emphasis on denuclearization of North Korea as its top priority, possibly even at the cost of regime change. This difference reveals an incongruity between the two countries in their respective approaches to North Korea, which became especially clear following the *Cheonan* and Yeonpyeong incidents in 2010.

The January 2011 Sino-U.S. joint statement reveals both commonalities and limits in the two countries' approaches to the Korean peninsula. It affirms their shared interest in promoting stable inter-Korean relations by calling for "sincere and constructive inter-Korean dialogue." It also recognizes enriched uranium as an item that should

be on the agenda of renewed Six Party Talks, underscoring a common interest in the denuclearization of the peninsula. However, the joint statement exposes limits to Sino-U.S. agreement on how to approach North Korea, failing to explicitly mention UN Security Council Resolutions 1718 or 1874, or the need for stepped up counterproliferation and export-control efforts focused on preventing the transfer of fissile material-related technologies or know-how. This is a significant omission because it dramatically exposes differing views on how to apply tools of economic statecraft as leverage to influence North Korean behavior. The statement also failed to explicitly mention or attribute responsibility for “recent developments” that have heightened tension on the Korean peninsula. There is no indication of agreement on a further UN role in addressing tension on the Korean peninsula. The statement does not explicitly define “necessary steps” that would enable a return to the Six Party Talks, indirectly underscoring the absence of a viable process for achieving the shared objective of denuclearizing the Korean peninsula.

The limits of Sino-U.S. cooperation revealed in the joint statement may be attributed to China's apparent concern with the potential for instability in North Korea, especially following Kim Jong-il's stroke in 2008. China may also believe that North Korea's denuclearization is unlikely, at least in the near term. While the United States has implemented economic sanctions and deferred dialogue with North Korea, China's trade relationship with the North continued to grow at double-digit levels in 2010 despite the fact that North Korea has made no significant steps toward economic reform in this period. Following Kim Jong-il's visit to China in May 2011, his third in eighteen months, two groundbreaking ceremonies were held for major new Chinese investment projects—one at an island in the Yalu river near the Dandong-Sinuiju border crossing and another at the Rason zone at North Korea's northeastern tip. China appears to be using economic cooperation as a tool for maintaining short-term stability while potentially promoting gradual change over the long term. It also seems to view its relationship with North Korea as a vehicle for maintaining its influence on the peninsula.

China often looks at the Korean peninsula through the lens of Sino-U.S. strategic relations. For example, although China allowed direct mention of North Korea's “enriched uranium” program in the joint statement it released with the United States in January, it opposed the issue being taken up at the UN Security Council and has rebuffed South

Korean efforts to even acknowledge the topic in Sino–South Korean joint statements.

China’s defense of North Korea has become a growing source of irritation in Washington. From the perspective of U.S. policymakers, China has seemingly turned a blind eye to North Korea’s actions and allowed Kim Jong-il’s regime to pursue provocations with apparent impunity. Washington’s growing frustration with China’s insistence on “calm and restraint” when dealing with North Korea was clearly reflected in President Obama’s remarks at the G20 Summit in Toronto, when he noted, “There’s a difference between restraint and willful blindness to consistent problems.”¹⁴ This feeling has only intensified since China’s response to the Yeonpyeong Island shelling, where there is no ambiguity about North Korea’s disproportionate and escalatory actions.

The deepest source of potential friction between the United States and China on Korean issues is that the two countries have different visions for the end state of the peninsula. Chinese anxiety about changes in the political balance (i.e., anything that might lead toward Korean unification) inhibits prospects for future Sino-U.S. cooperation and even raises the prospect of Sino-U.S. conflict as developments on the peninsula unfold. Above all else, China’s fear that internal instability might lead to a unified Korea has led it to attempt to shore up the status quo in the face of increasing North Korean weakness and instability. It has also prevented the Chinese government from cooperating with the United States and others despite common interests in preventing instability and promoting denuclearization of the Korean peninsula.

The worst-case scenario revolves around the need to mitigate potential conflict in the face of instability in North Korea. While all parties have a common interest in coordinating their respective responses to spillover effects, the U.S. and Chinese governments have failed to address these issues through official channels. As a result, regime failure in North Korea might lead to appeals from competing forces in an internal civil conflict for external support or cause a contest for power in the North. In the event of a complete system breakdown in North Korea, it remains unclear how China, the United States, and South Korea would intervene to restore stability. Would intervention decisions by each side act as an accelerant to escalation or even result in accidental conflict between special operations forces that might be dispatched, for instance, in an effort to ensure that North Korean nuclear materials remain secure?

According to the June 2009 U.S.-ROK Joint Vision Statement, the U.S. government supports Korean reunification: "Through our Alliance we aim to build a better future for all people on the Korean Peninsula, establishing a durable peace on the Peninsula and leading to peaceful reunification on the principles of free democracy and a market economy."¹⁵ This statement reflects confidence in South Korea as an internationally responsible player and close ally under the Obama administration. It also highlights an increasingly deep pessimism in the U.S. foreign policy establishment that North Korea is sustainable in its current form or that the North Korean regime will be willing to pursue a negotiated path to achieve the U.S. objective of denuclearization of the Korean peninsula. The joint statement provides reassurance to Koreans that U.S. and South Korean governments agree on the desirability of Korean reunification. It may, however, impede relations with North Korea or hinder Chinese cooperation given that Beijing holds a different view regarding the desired end state on the Korean peninsula.

China's response to the shelling on Yeonpyeong Island reveals two significant gaps between the United States and China. One is China's failure to address the issue of uranium enrichment at the UN Security Council for fear that UN statements on the matter will further inflame the North Koreans. The second is China's call for an emergency meeting of the heads of delegation to the Six Party Talks. China's desire for a mechanism to moderate tension is understandable and constructive, but its call for an emergency meeting was unrealistic because it failed to recognize North Korea as the instigator of the crisis. The call for talks also revealed that China and the United States hold different views about whether the purpose of the talks is to achieve North Korea's denuclearization or to simply manage the symptoms of the crisis and prevent tension from escalating.

POLICY RECOMMENDATIONS

Based on historical experience, namely the Korean War, instability on the Korean peninsula clearly has the potential to engender Sino-U.S. misunderstanding and lead to significant conflict. At the same time, a high level of Sino-U.S. coordination on Korean policy may help deter rising tension. Clearly, the United States and China need to engage in a dialogue about contingency planning and crisis management on Korean issues to

minimize the potential for accidental conflict in the event of instability. Ideally, conversations would also include South Korea and might attempt to address the countries' divergent views on Korean reunification. The United States and China might also take the following measures to strengthen their ability to respond to the four scenarios listed above.

First, the United States and China should work together to address humanitarian needs in North Korea so as to forestall the possibility of a humanitarian crisis in the country. Developing a coordinated approach to food assistance would be a positive first step. Another desirable result might be a clearer understanding of how to meet the North Korean refugee population's needs in China, especially if there is a drastic increase in refugee flows. The humanitarian sphere is one area in which all countries have a common interest in cooperation to mitigate human suffering.

Second, both the United States and China have a common interest in restraining North Korea from provocative actions that could lead to unanticipated conflict on the peninsula. The leaders of the two countries signaled their cohesion on this issue in their January 2011 joint statement, but there is no sustained means by which the United States and China can jointly signal their desire to control inter-Korean tension.

Third, the United States and China must engage in further discussions regarding their respective strategic intentions, the end state of the Korean peninsula, and possible implications for regional stability. In anticipation of such a dialogue, the United States might clarify more concretely its own vision for stability in Northeast Asia, including the desired state and role of the Korean peninsula as a factor in promoting long-term stability in the region.

Fourth, the United States should work closely with China to convey the existential dangers that North Korea would face if its weapons proliferation led to an incident of nuclear terrorism or a radiological attack. Toward that end, the United States and China should cooperate at the international level to fully implement existing UN Security Council resolutions against North Korea. They should also cooperate bilaterally to strengthen Chinese implementation of export control laws denying North Korea the ability to sell or procure materials that can be used in its nuclear or missile programs.

There is clearly a need for a strategic dialogue between the United States and China regarding the future of the Korean peninsula. But such a dialogue is hard to imagine given the lack of trust in the U.S.-China

relationship and the narrative that the influence of a rising China will eventually eclipse that of the United States. This situation creates problems for both sides. For China, it provides a pretext for delay, as Beijing props up North Korea in the hopes that it will be powerful enough to have a greater influence on the future of the peninsula by the time reunification arrives. On the U.S. side, it creates the need for constant reassurances to allies regarding the credibility of defense commitments and limits flexibility in providing China with assurances about U.S. intentions toward the Korean peninsula.

Ultimately, a U.S.-China bilateral dialogue on North Korea may not be feasible. More likely, productive conversations about security arrangements on the Korean peninsula and in the region will include South Korea. In addition, the real security dilemmas regarding the future of the Korean peninsula lie between China and Japan, which means that any decisions about the future of the peninsula must incorporate Japanese views.

Myanmar: Sources of Instability and Potential for U.S.-China Cooperation

Joshua Kurlantzick

THE CHALLENGES FROM MYANMAR

Although the dangers to regional and international stability from Myanmar may not receive as much public attention as those from North Korea or Pakistan, the country poses a serious and largely unexplored threat. The United States as well as China and other Asian nations are unprepared for what would happen if Myanmar were to spark a refugee crisis, instigate large-scale conflict along its borders, or successfully reach nuclear breakout capacity. Three or four years ago, most American and Asian observers viewed stories of Burmese nuclear and ballistic missile programs as little more than rumor. In the past year, however, they have begun to take these reports far more seriously as credible evidence has emerged of the Burmese regime importing nuclear and missile technology from North Korea.

The American and Asian intelligence communities know even less about Myanmar's nuclear ambitions or the armed ethnic armies operating in Myanmar's northeast, one of the largest ungoverned regions of the world, than they do about notoriously hermetic North Korea. Few U.S. officials have ever even met the senior leadership of the Burmese regime. Though Myanmar held national elections last fall, for the first time in twenty years, they were dominated by a party backed by the military regime, which has ruled the country in various iterations since 1962. Nonetheless, the new parliament has taken some modest steps toward more effective economic management, improved transparency, and reconciliation with the political opposition. Most notably, President Thein Sein has appointed U Myint, a close ally of opposition leader Aung San Suu Kyi, as a senior adviser, and has held a dialogue with Aung San Suu Kyi.¹ In general, however, the government continues to make major decisions with little transparency, and the ongoing role of the senior military officers who until now controlled the government remains unclear.

Chinese leaders have had more interactions with top Myanmar officials, and in recent years China has made enormous investments in Burmese resources. Chinese analysts express more doubt over whether the Burmese government could be developing a nuclear program and believe that the issue may be a new rhetorical weapon for the West to use to criticize Myanmar. Yet Chinese analysts and officials admit that the Myanmar government has done an exceedingly poor job of promoting development and political reform, and, despite its investments, China still cannot control the senior leadership of Myanmar. In the most obvious example of China's lack of power, the Burmese military launched an offensive in summer 2009 against the Kokang, the primarily ethnic Chinese minority militia operating in northern and eastern Myanmar, despite warnings from China not to do so.² The offensive pushed tens of thousands of ethnic Chinese refugees across the border into China and forced Beijing to scramble a large deployment of the People's Liberation Army to the border region.³

SOURCES OF POTENTIAL INSTABILITY

Myanmar faces several potential sources of instability that could threaten its neighbors, including China. These threats are arranged below in order of severity and likelihood, with the first being both the most severe and the most likely.

NUCLEAR AND MISSILE PROGRAMS

During the past year, concerns that the Burmese military regime had an interest in building a nuclear program have become far more serious. In 2010, the first significant examination of Myanmar's nuclear ambitions, relying on reports from high-level military defectors who had visited significant military installations, found that the Burmese junta had imported technology designed to process uranium, tried to develop uranium refining capacities, and launched programs to build technology needed to make weapons-grade uranium and other nuclear components. The report also concluded that North Korea was the major outside state assisting Myanmar. Many of these allegations were seconded by another brief analysis of Myanmar's nuclear ambitions produced by the Institute for Science and International Security (ISIS).

The ISIS analyzed satellite photos of a range of suspicious facilities in Myanmar, some of which showed North Koreans coming in and out, and found that none seemed to have a real civilian use. In fact, many appeared to be making machine tools, centrifuges, and other technologies that had no real use in the economy. Newer reports have said that the North Koreans were helping the Burmese military build reinforced underground facilities and tunnels.

The U.S. intelligence community, which only a few years ago doubted that the Burmese regime had either the interest or ability to build a nuclear program, is now beginning to cautiously revise its assessment. The U.S. State Department now increasingly tracks suspicious North Korean exports to Myanmar. One intelligence analysis found that Myanmar was importing from North Korea large numbers of parts that had no other obvious use than for a ballistic missile program; military officials from the North Korean division devoted to its nuclear program have begun arriving in Myanmar and working with senior Burmese military officers in underground and hidden facilities. Thailand and the United States have intercepted suspicious North Korean ships docking in Myanmar that appear to be offloading machine tools, which would have no purpose in the Burmese economy other than for a nuclear or missile program. Some Chinese officials do not believe that Myanmar is developing a nuclear program, a view seconded by some Western analysts including Australian officials and academics such as Andrew Selth.⁴ On the other hand, other Chinese officials knowledgeable about Myanmar, though reluctant to criticize a country with which China enjoys close relations, have privately expressed concern that the Burmese government has ambitions to build a nuclear and missile program, even if those ambitions are far from being realized.⁵

A Burmese nuclear and missile program, breaking the Southeast Asian Nuclear Weapons-Free Zone (SEANWFZ) treaty, would have far-reaching policy implications. For one, it would put the most dangerous weapons into the hands of a regime that, other than North Korea, is probably the most isolated and unpredictable of any government in the world. Additionally, a Burmese nuclear program could trigger other Southeast Asian nations to develop their own nuclear programs. Already, an arms race has begun in Southeast Asia. According to the Stockholm International Peace Research Institute (SIPRI), the amount spent on weapons purchases in Southeast Asia nearly doubled between 2005 and 2009, and these increases are expected to continue in 2010 and

2011, despite the global economic downturn.⁶ In addition, large areas of northern and eastern Myanmar remain outside of central government control, dominated by a variety of different ethnic minority militias. If Myanmar develops nuclear weapons, the material and technology could slip out of the regime's control, which, though powerful, is also notoriously corrupt, and into the hands of militias operating in northern and eastern Myanmar. From there, the technology or material could easily be sold to terrorist groups, other countries, or other nonstate actors.

UNRESOLVED ETHNIC CONFLICT

Renewed conflict between the Burmese regime and ethnic minority militias could lead to a collapse of authority in the northern and eastern areas of Myanmar and create a zone of instability that would affect China, India, and Thailand. Of the possible scenarios for instability in Myanmar in the near future, this is the most likely; its impact on regional stability would be severe, though not as detrimental as a Burmese nuclear breakout. A serious humanitarian crisis now looms in the ethnic minority regions and Chinese officials largely concur that development has not spread there. These areas are patrolled by a range of ethnic minority armies, the most powerful of which, the United Wa State Army, has more than twenty thousand armed men and has supported itself by building one of the largest narco-trafficking organizations in the world. Over the past two years, the Burmese government, which has maintained shaky cease-fires with most of the ethnic militias for more than a decade, has expressed its desire to essentially disarm the ethnic minority militias in order to make them part of a regime-controlled border guard force.

Not surprisingly, many insurgent groups do not want to lay down their arms. Their control of these regions has not only allowed their people a high degree of autonomy but also has allowed them the chance to profit from lucrative trades in gems, timber, and drugs. Several of the militias, in fact, are boosting their arsenals, getting the cash to buy new weapons by upping their drug sales.⁷ Following a widening circle of skirmishes between the regime and the militias in recent months, there is now a real possibility of a significant armed conflict in these regions. This type of violence would spark massive refugee flows, and, most likely, raise rates of HIV/AIDS and narco-trafficking in the border areas of China and Myanmar's other neighbors. (Myanmar already has the

second-worst prevalence of HIV/AIDS in Asia.) Such instability could easily drive hundreds of thousands of refugees across the border into Yunnan province, where local governments and also, potentially, the People's Armed Police and the People's Liberation Army would have to develop a policy for how to handle them.

POTENTIAL DIVIDES WITHIN THE MILITARY

Since taking power in 1962, the Burmese military has remained in control of the country in part because it has prevented any schisms within the armed forces from developing into an outright coup of the kind that has roiled Thai politics for generations. However, the Burmese armed forces have not been immune from internal dissension. A possible split in the military is less likely than conflict with ethnic minority militias, but it is not out of the question. In 2004, Senior General Than Shwe placed Khin Nyunt, the intelligence chief and number three in the junta at that time, under house arrest in order to consolidate power. Than Shwe's supporters also arrested hundreds of Khin Nyunt's men, some of who remain in prison.

Now Than Shwe is nearly eighty years old, suffers from numerous ailments, and has made no apparent succession plan clear. The decision to hold elections for a parliament, which convened earlier this year, was not a succession plan; the military still, from behind the scenes, controls levers of power within Myanmar. But it is unclear how much power Thein Sein and the other leaders of the civilian parliament have, and how much Than Shwe is still being consulted on major decisions. Many younger officers are angry at how the most senior leadership has increasingly enriched themselves and a small circle of cronies; the wealth of the senior leadership has not trickled down to lower-level officers and field commanders. A leaked video of the wedding of Than Shwe's daughter, at which she was draped in diamonds, stoked resentment among officers as well as the broader Burmese public.

Predicting whether younger officers might stage an intervention is even harder than analyzing elements of Myanmar's potential nuclear program. Still, given the widespread anger among lower and mid-level officers, a rupture does not seem impossible. It appears more likely than a popular uprising but less likely than a civil war with ethnic militias. If there was such a schism in the military, it would most likely happen among mid-level commanders posted outside Rangoon and Naypyidaw

and Mandalay, in areas where the economic benefits have not accrued as much to them. They could take over large swaths of the country, given that the army is highly federalized, and essentially shut down central authority—a situation analogous to the early days of independent Myanmar, when the government's power barely reached outside Rangoon. However, there is little reason to believe that lower- and mid-ranking officers would be more moderate in their views of economic and political reform than the current senior leadership. Because of Myanmar's years of isolation, the lower- and mid-ranking officers usually have as little foreign experience or schooling as the senior officers. The most educated military men had been serving in Khin Nyunt's directorate of intelligence, but they were nearly all cashiered or arrested in 2004.

FRUSTRATED NATIONWIDE POLITICAL AMBITIONS

Since 1962, when the military took power in Myanmar, there have been several massive anti-regime and pro-democracy protests, all of which have been crushed. In 1988, thousands of Burmese were killed after the regime cracked down on national demonstrations, and following a relatively free 1990 election won by Aung San Suu Kyi's National League for Democracy, the regime cracked down again, essentially annulling the poll results. In the 2007 "Saffron Revolution," more than one hundred thousand Burmese monks, as well as other civilians, marched into the center of Rangoon to demand political change; again, the government crushed their protest. Chinese officials and academics agree that Myanmar's process of political development has been stunted, and that the "seven-step" road to democracy enunciated by the government has not produced the type of complete political reform and social transformation needed to make the populace feel it has a say in national affairs. However, Chinese analysts and officials often argue that Myanmar needs more time to complete its process of political reform, and that criticism of its reform by the West is not useful and possibly counterproductive, since it isolates the regime and prevents engagement between the international community and the Burmese government.

Up until now, none of these large-scale civilian protests has toppled the Burmese regime. Today, a national uprising that topples the regime appears less likely than a split in the military or fighting in ethnic areas, but it cannot be completely ruled out. Some Burmese activists recently have asked why, if countries like Egypt could launch popular uprisings

that successfully overthrew ruling regimes, could Myanmar not do the same? But unlike in Tunisia or Egypt, the Burmese military has repeatedly proven that it is unified at the top levels and willing to use massive deadly force against Burmese civilian protestors—it has done so at least five times since the early 1960s, and there is no evidence it would not do so again.

Still, compared to 1990 or even 2007, frustration and anger among average Burmese citizens is much higher today, and the potential for protests to spiral into violence is more severe. Although the Burmese economy has posted moderately high growth rates over the past five years, the regime's poor economic management has led to multiple bank runs and rising food and fuel prices. There is some hope that the new civilian parliament will produce better macroeconomic management, but only time will tell. To this point, the new civilian leadership has rhetorically embraced some reforms, such as allowing Burmese political exiles to return to the country and working with the political opposition on development projects, but these are, so far, small steps that could be easily reversed. In the meantime, inequality is soaring compared to the time of the last major protests. A new class of tycoons linked to the military, many of whom flaunt their wealth in ostentatious ways, has grown rich on the privatization of state assets, trade in natural resources, and other concessions. Some analysts have begun to call Myanmar a kind of "mafia state" similar to Cold War-era kleptocracies like Zaire.⁸ Average people's anger at this nouveau riche class has erupted into violence on several recent occasions, and there has been a string of unexplained bombings at prominent Rangoon nightlife spots and gathering places, including a recent bombing in the new capital of Naypyidaw that killed two people.⁹ Some of this anger has also been directed at China, as many of these tycoons have extensive business links with China. Chinese officials are privately worried about growing anti-China sentiment in Myanmar.¹⁰ In addition, average Burmese no longer have the optimism that fueled the protests in the late 1980s and early 1990s, a time when much of Asia and Eastern Europe was undergoing democratic revolutions and average Burmese believed their nation would too. Today, the mood in major Burmese cities is far sourer and more explosive. Small skirmishes between troops and Burmese civilians escalate into violence against military forces more quickly than in the past.

The Burmese regime maintains its grip on power through cooption and force. By drastically improving the military's social service

networks, it has made average Burmese who want better health care or schooling for their families dependent on military connections. By moving the capital from Rangoon to Naypyidaw in 2005, the regime isolated its top soldiers from most middle-class Burmese, making it easier for the government to develop riot-control task forces that are more willing to fire on civilian protestors because they no longer have connections with average men and women.

Still, there remains a chance that another popular protest will erupt, and that with frustration so high, it will devolve into larger-scale violence. The biggest potential spark would be a decision by the regime to again arrest opposition leader Aung San Suu Kyi or even to try to kill her, as it apparently did in 2003 when it attacked her convoy on a rural road, injuring her and killing at least seventy of her supporters. Another such attack on Suu Kyi is hardly out of the question: Senior General Than Shwe reportedly detests the opposition leader, and his closest subordinate allegedly masterminded the 2003 attack.¹¹ Though the government and some foreign analysts have over the years repeatedly written her off as a marginal player, every time she is released from arrest and appears in public, she draws tens of thousands of followers to events, often with little advance notice. This past summer, Suu Kyi traveled across Myanmar and was greeted by fervent well-wishing crowds wherever she went.

THE UNITED STATES' INTERESTS IN MYANMAR

The United States' economic interests in Myanmar are relatively limited. Due to sanctions that have existed since 1997, the United States has minimal trade with Myanmar and provides almost no aid. The U.S. State Department does not even have an ambassador in Myanmar. Recent trips to the country by Deputy Assistant Secretary of State Joseph Yun and Assistant Secretary of State Kurt Campbell did not result in visits with top military leaders, though Yun was allowed to see Suu Kyi.¹² (In mid-2011, the U.S. appointed a special envoy to the country, respected Asia official Derek Mitchell.) Even if sanctions were removed, the poor business climate in Myanmar would make it a low priority for most U.S. companies other than oil and gas firms.

The United States' strategic interests in Myanmar are somewhat greater. Washington is extremely concerned about the potential of

Myanmar developing a nuclear program, which would radically alter all relationships in Southeast Asia and make Myanmar a major proliferation risk. Furthermore, guaranteeing a degree of stability in Myanmar is important to the United States because conflict in the country, and its spillover effects, could destabilize neighboring nations that are U.S. treaty allies (Thailand) or close partners (India). But Washington balances its desire for stability with its desire for political reform and human rights in Myanmar. Perhaps more than with any other nation in the world, human rights and democratization dominate U.S. policy toward Myanmar—in part because of America's limited economic interests in the country. Advocates argue that this focus on human rights and democracy has made the United States the primary voice for real reform in Myanmar, holding a hard line that forces other nations, such as Japan and European countries, to join. Opponents of U.S. policy, including most Chinese analysts, argue that it has essentially dealt the United States out of policy toward Myanmar and alienated some of the United States' allies in Asia.

CHINA'S INTERESTS IN MYANMAR

Given China's proximity to Myanmar, its interests in the country are far greater than those of the United States. The long and porous border between the two nations is home to many of the ethnic minority insurgent groups. The heroin crisis in Yunnan and other southern and western Chinese provinces essentially originated in these border areas, and they played a major role in the spread of HIV/AIDS throughout China. As a result, stability and greater control of the border is of paramount importance for China. Any development of nuclear or missile technology in Myanmar, which would only make its regime more recalcitrant and harder to deal with, certainly would not be in China's interests.

China views Myanmar as a strategic buffer against India, though Chinese officials sometimes debate whether the advantages of a relationship with Myanmar are worth the negative consequences—HIV/AIDS, refugees, narcotrafficking, poor public relations on the international stage, and having to defend Myanmar at the United Nations. Myanmar also offers potential ports and intelligence facilities that could be used by the Chinese navy and naval intelligence.

In addition, over the past decade, Myanmar has become an important economic partner for China. In particular, trade with and investment in Myanmar has become critical for Yunnan province, which has many enterprises operating in Myanmar, particularly in timber, gems, and other extractive industries. Myanmar is developing numerous road networks and ports that will help link Yunnan to other parts of mainland Southeast Asia and eastern India, making it a hub for the new Southeast Asian overland trade networks. No accurate census exists, but some experts estimate that somewhere between several hundred thousand and one million businesspeople from Yunnan and neighboring provinces have moved to Myanmar, where they increasingly dominate construction, retail, shipping, and other industries.

Myanmar also has become a growing source of oil and gas for China. Last year, the China National Petroleum Corporation (CNPC) began the construction of pipelines from offshore areas of Myanmar to Yunnan and Guangxi provinces that will pump 240,000 barrels of oil per day in its first phase, as well as twelve billion cubic meters of gas per year. When they are operational in 2013, the pipelines will allow China to diversify its petroleum imports away from the Middle East and Africa, and to reduce the percentage of its petroleum shipped through the volatile Straits of Malacca.

POTENTIAL AREAS OF FRICTION BETWEEN THE UNITED STATES AND CHINA

There are several major obstacles to closer U.S.-China cooperation regarding Myanmar, most of which relate to domestic politics in China and the United States. These obstacles are detailed below.

DOMESTIC POLITICAL ENVIRONMENTS

U.S. policy on Myanmar is largely determined by Congress, which has several members who are focused on human rights abuses in the country. While the Obama administration came into office advocating greater engagement with Myanmar, the failure of this policy to produce tangible results, including the failures of recent visits to the country by Yun and Campbell, has actually led many hard-liners in Congress

to increase their support for sanctions. (Congressional sanctions on Myanmar are a rare issue of bipartisanship: The sanctions bill passed last year by a vote of 99 to 1.) The executive branch in the United States plays a largely subsidiary role in Myanmar policy.

Chinese leaders, who come from a system with a strong executive branch, often have trouble understanding the role of Congress, and overestimate how much leverage the White House has over Myanmar policy. More importantly, Congress's control over Myanmar policy means that sanctions are unlikely to be abolished anytime soon. In turn, any U.S.-China joint initiatives regarding Myanmar will have to be relatively limited or involve third parties, such as the World Bank or the Association of Southeast Asian Nations (ASEAN), supported by the United States.

China's domestic political environment also could be a roadblock for greater cooperation. Though some U.S. politicians automatically assume that Beijing controls all elements of Chinese foreign policy, in reality the leaders and businesspeople of Yunnan province (who are often the same people) enjoy significant leverage over Chinese policy toward Myanmar. On numerous occasions, Yunnan province officials have essentially ignored policy directives from Beijing about Myanmar—such as those regarding cross-border environmental management.

VIEWS OF POLITICAL REFORM IN MYANMAR AND THE ROLE OF AUNG SAN SUU KYI

Both Beijing and Washington have dim views of the leadership capabilities of the Burmese regime, but Washington's Myanmar policy is closely tied to promoting political change in the country, while Beijing's policy is focused on supporting economic reform and promoting stability. In recent years, Chinese officials have reached out to pro-democracy Burmese exiles living in Thailand and other countries to gain a better understanding of their parties and their policies. Beijing is unlikely, however, to support the wholesale political change in Myanmar that the U.S. government, particularly Congress, desires. Some Chinese officials think that U.S. congressional policy toward Myanmar is simply an opportunity for senators and congresspeople to burnish their human rights records, given that the United States, far from Myanmar, is not affected on a daily basis by the actions of the Burmese regime. In

addition, many Chinese analysts argue that Myanmar is not the threat to regional and global stability portrayed by the United States and that concerns about Myanmar are overstated, though this is hardly a unanimous view in China.

Any real U.S.-China cooperation on political reform in Myanmar seems highly unlikely. If the Burmese regime places Aung San Suu Kyi under arrest again, there will be vehement criticism of Myanmar from U.S. leaders, which will freeze any chance of a U.S. policy shift toward the country. At the same time, the limited reforms initiated by Myanmar's parliament in spring 2011 have not significantly swayed opinion of the political stasis in Myanmar among U.S. policymakers. A lack of a statement from China on Suu Kyi's potential detention could easily lead some U.S. policymakers, particularly in Congress, to harshly criticize China as Myanmar's enabler—a situation that was seen in the wake of the 2007 Saffron Revolution. While China certainly does not have control over the Burmese regime—as demonstrated by the Kokang incident of 2009—it is true that, on numerous occasions, China has refused to support tougher UN measures condemning the Burmese leadership for human rights abuses. Beijing does so both to maintain its traditional defense of sovereignty and to maintain a closer relationship with the Burmese leadership. On the other hand, a continuation of the limited political opening begun in the summer of 2011 in Myanmar would help foster U.S.-China cooperation on Burmese politics.

MYANMAR'S NEIGHBORS

Another potential area of friction between the United States and China is Washington's relationship with Myanmar's other neighbors. During the past decade, the United States has cultivated an increasingly close strategic and economic relationship with India. In that same period of time, India, which once resolutely supported Myanmar's democratic opposition, has increasingly engaged the Burmese regime. Still, India has not gained as much from this engagement, in terms of access to resources, as China has, and New Delhi views any U.S.-China cooperation regarding Myanmar as worrisome. Reassuring India about the strength of the Washington-Delhi relationship while simultaneously cultivating China to cooperate on Myanmar could be a tricky balancing act for the U.S. government.

POSSIBLE REALMS OF COOPERATION

MYANMAR'S ECONOMY

The United States and China could collaborate to promote reforms in Myanmar that improve the well-being of average people and reduce the possibility of widespread instability. In the past five years, bank failures, food shortages, and other economic triggers have sparked numerous protests in central Myanmar. Both Washington and Beijing could support such reforms, if they remain narrowly focused on the Burmese economy, because they would not involve a clear challenge to the political status quo in Myanmar. In fact, they would probably benefit the large numbers of Chinese businesspeople currently operating in the country. Moreover, economic reforms might actually be welcomed by the Burmese regime, considering that a stronger economic climate would add to its legitimacy. It would also be more feasible to get approval for such limited types of economic assistance from Congress, and they already have gotten the support of many Chinese analysts and officials. Basic economic assistance from both the United States and China was initiated in 2008 after Cyclone Nargis, though the Burmese government kept tight controls on the aid flows. Reforms also could include greater investment in secondary and technical education in Myanmar, whose school system is among the weakest in the world.

NUCLEAR COOPERATION

Given the close convergence of interests regarding Myanmar's weapons program, the United States and China can work together in preventing the country from developing a nuclear or ballistic missile program. China does not want another nuclear-armed state on its border and Chinese leaders realize that, though the Burmese regime today obtains considerable aid and investment from China, many senior Burmese leaders remain highly skeptical of the Myanmar-China relationship. Some of the most senior Burmese generals fought insurgent groups backed by China when they were young officers and retain strongly anti-China sentiments from that time.

Furthermore, unlike in Northeast Asia, there is more potential with Myanmar for U.S.-China cooperation on nuclear issues given that the

country is a much lower strategic priority for Washington. The United States has no deployments of troops in or near Myanmar, as it does in Northeast Asia, and Chinese strategists do not view Myanmar as the same kind of vital buffer state as North Korea.

COMBATING NONTRADITIONAL SECURITY THREATS

The United States and China already enjoy a close working relationship in combating nontraditional security threats such as narcotics, pandemic disease, terrorism, and piracy in Southeast Asia. This cooperation exists both on a high level and within the day-to-day operations of agencies such as the U.S. Centers for Disease Control and the Federal Bureau of Investigation. Of course, if a conflict in northeastern Myanmar led to increases in refugees, HIV/AIDS, and narcotrafficking, Beijing and Washington would need to cooperate even more closely to combat these nontraditional security threats.

POLICY RECOMMENDATIONS

ECONOMIC REFORM

The United States and China should collaborate to promote reforms in Myanmar that improve the well-being of average people, though passing any legislation through the U.S. Congress will be challenging. Meaningful reforms could include Chinese and U.S. assistance—delivered through third parties like the World Bank or Asian Development Bank—to improve technical and secondary education in Myanmar and to strengthen Myanmar's weak banking system. A stronger banking system would make more capital available for Burmese businesses and prevent the types of bank runs that spark panic. Reforms could also include a U.S. promise to support Myanmar's garment sector, which could be a major source of jobs, but which has been hit hard by sanctions. Congress could exempt garments from the sanctions, and could create a monitoring group, similar to in Cambodia, to make sure no gross violations of human rights are committed in Burmese garment factories.

NUCLEAR AMBITIONS

On the Chinese side, Beijing could put pressure on North Korea to halt exports of possible dual-use technology and material to Myanmar, and to open its facilities in Myanmar to Chinese inspectors, if not to international bodies. China and the United States—along with other regional actors including India, Thailand, and Singapore—could share intelligence on Burmese weapons purchases and shipping manifests to make it harder for the Burmese regime to use middlemen to purchase potential dual-use technologies. Washington, Beijing, and Southeast Asian nations could also raise the international profile of the SEAN-WFZ treaty, which was signed by all ten countries in the Association of Southeast Asian Nations, including Myanmar, and commits all of them not to develop, manufacture, or otherwise acquire, possess, or have control over nuclear weapons. By raising the profile of the treaty through high-level advocacy, the United States, China, and Southeast Asian nations could set the stage for Myanmar to be punished seriously if it breaks the treaty. Such a punishment could include being removed from ASEAN. Membership in ASEAN provides the Burmese regime with its greatest international legitimacy, and the possibility of being evicted would be a significant weapon against the regime.

ETHNIC MINORITIES/NONTRADITIONAL SECURITY THREATS

The United States and China already cooperate effectively in addressing nontraditional security threats, but even closer collaboration in this area is possible. Regarding Myanmar, the two countries could improve their combined efforts to address the looming conflict in ethnic minority areas, where nontraditional threats like narcotrafficking and refugee flows originate. China has far better contacts among the ethnic minority groups than the United States does; some senior leaders in groups like the United Wa State Army previously trained or traveled in China. Closer U.S.-China collaboration could include greater U.S. assistance for HIV/AIDS and other pandemic diseases in Myanmar, including funds to send larger numbers of Burmese doctors, scientists, and other professionals for study in the United States, China, and other countries. (Currently, U.S. assistance for disease prevention

and response in Myanmar is miniscule compared to the aid it gives to neighboring nations.) This assistance, matched by grants from China, could potentially be delivered into ethnic minority areas from across the Chinese or Thai borders, where infrastructure for aid operations already exists. For its part, China could use its influence over several of the most powerful ethnic militias, such as the United Wa State Army, to help negotiate a new series of cease-fires between them and the Burmese regime. These cease-fires would aim to prevent renewed conflict in the northern and eastern areas of Myanmar. They would provide incentives for both the militias and the Burmese regime, and would grant greater autonomy over local resources to these ethnic groups. They could also offer the militias financial and political incentives to disarm and place their troops in a national army of reconciliation, the Burmese regime's ultimate goal.

Pakistan Contingencies

Daniel Markey

INTRODUCTION

The potential for catastrophic instability in Pakistan threatens the United States and China alike. Yet in many cases Washington and Beijing have different perspectives on the causes of Pakistan's instability and the means by which a destabilizing crisis should be addressed. Pakistanis also view the United States and China very differently. Since the U.S. raid on Osama bin Laden's Abbottabad compound, Islamabad has been increasingly skeptical of Washington's motivations and interests, and Pakistani leaders have sought to shore up relations with China. Under these circumstances, Washington would benefit from consultations—and, where possible, cooperation—with Beijing. China, keen to maintain regional stability and to avoid a breakdown in U.S.-Pakistan relations, might also open the door to conversations with the United States that would otherwise have been impossible.

Pakistan faces numerous sources of instability, including entrenched terrorist networks and their extremist sympathizers, ineffective governing institutions, a weak economy, tension with its regional neighbors, and longstanding social and socioeconomic cleavages. Many possible events could threaten core Pakistani institutions and trigger a crisis, but the most plausible ones are: a terrorist attack against the United States that is traced to Pakistan-based militants; a war with India; a major terrorist attack that eliminates top Pakistani leaders; and massive popular protests that the army is unable or unwilling to put down. In the aftermath of such an event, a major split in the military's ranks, new or additional terrorist attacks, or armed interventions in Pakistan by the United States or India could accelerate instability.

In several important respects, the United States and China see eye to eye with regard to Pakistan. Both aim to counter Islamist terrorism,

avoid Indo-Pakistani war, and more generally improve prospects for regional and economic stability. However, Washington and Beijing are less likely to agree on the specific activities and relative influence that India, China, and the United States should have in South and Central Asia. They also tend to hold different perspectives on Pakistan's civilian democratic institutions and its nuclear program.

To improve prospects for stability in Pakistan, the United States and China could consider a range of counterterrorism and assistance strategies designed to reduce the threat posed by violent extremists, to enhance the discipline and capacity of Pakistan's security institutions (especially its intelligence agencies), to limit the potential for nuclear brinkmanship or use, and to improve opportunities for broad-based economic growth.

To mitigate the consequences of a crisis, Washington and Beijing could consider unilateral and multilateral means of coercion and inducement to limit an escalation of violence by Islamabad (and/or New Delhi, if relevant). They could also assess options for pre-planned multilateral crisis coordination with other states that have influence in Islamabad (e.g., Saudi Arabia, Turkey, the United Kingdom, and the United Arab Emirates). Additionally, they may explore ways of improving secure communication links with a range of Pakistani institutions, particularly those charged with defending Pakistan's nuclear facilities.

Since U.S.-China cooperation on Pakistan is now relatively limited, many opportunities exist for improved information sharing, joint planning, and—above all—the harmonization of ongoing assistance programming (both military and civilian). Over time, Washington and Beijing could expand their cooperative efforts to better train, equip, and motivate Pakistani security forces to counter terrorism and insurgency, implement a large-scale Pakistani development plan, and encourage Pakistan to adopt a nuclear doctrine of minimal deterrence.

COUNTRY ASSESSMENT: PAKISTAN

Over the next one to three years, Pakistan faces five structural sources of instability: entrenched networks of sophisticated terrorists and extremists; ineffective governing institutions; a sputtering and unstable economy; tension with neighboring India and Afghanistan; and social and socioeconomic divisions.

TERRORISM AND EXTREMISM

Even after the May 2, 2011, U.S. raid in Abbottabad, Pakistan's territory remains home to the world's most sophisticated and dangerous terrorists.

Some militant organizations, such as the Pakistani Taliban (TTP), openly oppose the state. In response, roughly 140,000 Pakistani soldiers have mobilized along the Afghan border to battle TTP and affiliated insurgents.¹ At the same time, other militant organizations, such as Lashkar-e-Taiba (LeT), receive active support from Pakistan's military and intelligence services in return for undertaking operations in neighboring Afghanistan and India.

All told, this toxic mix of violent extremists is the single greatest threat to Pakistan's stability. In 2009 and 2010, more civilians died from terrorism in Pakistan than in Afghanistan. Militant groups that once restricted the majority of their operations to Pakistan's Federally Administered Tribal Areas (FATA) and Khyber-Pakhtunkhwa Province (KPK) have extended their reach into the nation's urban centers.²

Pakistan's terrorist networks depend on sympathetic extremists for safe haven and resources. Militants have embedded themselves in local communities, using tactics of humanitarian outreach as well as ruthless intimidation. The extent of Pakistani support for extremist ideologies is difficult to gauge with confidence, although public opinion polls tend to show that only small minorities actively support terrorism.³ That said, the muted public response to recent assassinations of high-profile, liberal Pakistani leaders suggests that extreme views have gained ground, or that many Pakistanis are afraid to express their political beliefs openly, fearing reprisals by extremists. These dynamics have been exacerbated by the fact that Pakistan's untethered media provides a megaphone to some of the nation's most extreme ideologues and is generally unmediated by a tradition of journalistic responsibility. Within this violent political context, it is unsurprising that Pakistan's civilian and military institutions have often failed to take aggressive leadership roles in confronting militancy and extremism.

INEFFECTIVE GOVERNANCE

A second source of instability in Pakistan is the ineffectiveness of its governing institutions. The Pakistani state suffers from a lack of

administrative capacity, corrupt and hyper-partisan politics, and highly disruptive rivalries between competing power centers in the military, executive branch, legislature, and judiciary.

Ineffective governance contributes to a range of social ills and underlying sources of insecurity. The nation's public educational system fails to prepare students for employment, its decaying infrastructure hinders industry and agriculture, and its poorly resourced law enforcement and judicial officials often cannot keep the peace.

Pakistan's political parties suffer from their internal structures—dynastic and feudal rather than democratic—and from their toxic, hyper-partisan patterns of interaction. The two largest national parties, the Pakistan Peoples Party (PPP) and the Pakistan Muslim League–Nawaz (PML-N), are highly centralized around individuals and their families and have each been accused of corruption on a massive scale. During the past several years, partisan politics have stalled or reversed efforts to enact economic reforms, such as a revised taxation system, that could place Pakistan's government on firmer fiscal ground. Throughout its history, Pakistan's civilian leaders have been unable or unwilling to bring about more fundamental changes, such as land reform, that would begin to address the nation's deep socioeconomic inequalities.

Decades of rocky politics, alternating between civilian and military rule, are partly to blame for the underinvestment in Pakistan's civilian bureaucracy and facilities. Today, the military, rather than the president or prime minister, still holds the power on all matters relating to national defense and foreign policy. Recent halfhearted attempts to assert civilian control in these areas have fallen flat. The capability of Pakistan's civilian institutions to effectively govern is also hampered by intense competition between different branches of the federal government, particularly between the executive branch and the judiciary. Rather than functioning as an independent arbiter of justice, Pakistan's judiciary has become another—often quite disruptive—political power center.

SPUTTERING ECONOMY

Pakistan's weak economy is a third source of potential instability. The economy faces a variety of problems, ranging from a dangerously small tax base—1 percent of the population—and a public utilities sector

plagued by circular debt to unsustainable levels of government spending.⁴ Political uncertainty and rising levels of violence have discouraged private investment. Last summer's massive floods only worsened Pakistan's economic woes, bringing an estimated \$10 billion worth of damages. They displaced millions from their homes, killed crops and livestock, and destroyed already-fragile public infrastructure.⁵

For much of its history, Pakistan has depended on foreign loans and assistance to stay afloat. Since 9/11, massive injections of assistance from the United States (as well as from other international donors) have paid down Pakistani debts, subsidized both military and civilian expenditures, and supported humanitarian relief in times of crisis. At present, Islamabad remains solvent by the grace of IMF loans that have yet to create incentives (or threats) sufficient to drive necessary structural reforms. Because of its rapid population growth, Pakistan needs an estimated two million new jobs per year to keep a lid on unemployment. Given that nearly 60 percent of Pakistanis are under the age of twenty-four, the specter of rampant unemployment threatens to amplify public discontent, expand the influence of Islamist extremists, and stoke anti-state violence.

REGIONAL TENSION

Pakistan's "neighborhood" presents a range of challenges that threaten to undermine national stability. Pakistan's military devotes the vast share of its conventional resources to countering India, in spite of the fact that its top leaders have publicly described internal militancy as the nation's greatest security threat. Throughout its history, Pakistan's sense of vulnerability has enhanced the power and budgets of its military and intelligence establishments, depriving their civilian counterparts.

Pakistan's large and fast-growing nuclear arsenal as well as its aggressive doctrine of "first use" is intended to deter and balance against India's conventional military advantages.⁶ But Pakistan's own preparations may raise the potential for regional instability. In particular, Pakistan is planning to deploy tactical nuclear warheads, a step that would create new concerns about command and control, nuclear terrorism, and accidental launch.⁷

Pakistan's use of proxy militant/terrorist forces in both India and Afghanistan has increased the potential for a violent blowback into Pakistan itself. After the 2008 attacks in Mumbai, there is little question

that militancy in Pakistan has the potential to significantly derail Indo-Pakistani relations. Meanwhile, to the west, a return to civil war in Afghanistan would provide increased operating space for militant groups to recruit, train, arm, and ramp up their fight against the Pakistani state.

SOCIETAL CLEAVAGES

Pakistan's social and socioeconomic divisions have sparked violence throughout its history. National and provincial political institutions have not been structured in ways that mitigate long-standing ethnic and linguistic divisions. Minority grievances have played an important part in fierce debates over the terms of federalism, devolution, and resource sharing. Ethno-nationalist conflict continues to rattle the country in almost every corner, from Baloch and Pashtun militants to the Mohajir-Pashtun gun battles in Karachi. Sunni-Shia tension routinely leads to bloodshed in Pakistan's cities and in the remote tribal areas along the Afghan border.

Feudal landlord-tenant relationships in Pakistan's villages and grinding urban poverty also divide Pakistan between the haves and the have-nots. Pakistan's elite landowners and industrialists have a firm grip on political power and have blocked the passage of reforms that would tax their income and property or challenge their monopolies. For tens of millions of people, there is little space for upward economic mobility or even for airing legitimate grievances. This divide has been exploited by extremist organizations, which have repeatedly challenged traditional social structures, whether in the form of tribal elders, feudal landlords, or the state's corrupt police and judiciary.

CRISIS TRIGGERS

More than most other countries, Pakistan seems to lurch from crisis to crisis. It routinely experiences high levels of internal violence, political drama, poverty, and suffering. Yet the central features of the state and society have persisted—with a few noteworthy exceptions—since independence in 1947.⁸ This could change. At least four scenarios have the potential to trigger fundamental instability in Pakistan.

The first trigger scenario is a Pakistan-based terrorist attack against the United States. If handled poorly, such an attack could permanently

derail cooperative relations between Washington and Islamabad, move the international community to impose a range of punitive measures against Pakistan, and even escalate into a significant military exchange. Because the United States and Pakistan are already in the midst of a diplomatic crisis, accentuated by the Raymond Davis affair and the Abbotabad raid, a further deterioration in relations is easy to imagine.

A second scenario is the onset of a major war between India and Pakistan. War could be the product of any number of factors between the two enemies, the most probable of which is another Mumbai-style terrorist attack against India. A series of limited Indian strikes against Pakistani terrorist training camps could escalate rapidly through a tit-for-tat exchange. In a worst-case scenario, Pakistan could take the conflict past the nuclear threshold.

A third scenario is a successful terrorist attack against Pakistan's top military and civilian leadership. Over the past decade, there have been a number of successful and attempted assassinations of top leaders, from Benazir Bhutto to Pervez Musharraf. Convoys, official compounds, and national landmarks have all been attacked, some with devastating results. Operatives of the Pakistani Taliban and al-Qaeda would be the most likely perpetrators.

A final crisis scenario is one in which a combination of factors sparks massive street protests that overwhelm the capacity or will of the Pakistani military to impose order. Pakistan's security forces have considerable experience with massive street demonstrations and have responded with massive force in Karachi, Baluchistan, and the northwest (FATA and Khyber-Pakhtunkhwa). However, the Punjabi-heavy military would likely have a harder time mustering the force to put down a large-scale protest movement in Lahore or other parts of Punjab province.

CRISIS ACCELERATORS

The instability triggered by any of these four scenarios could be accelerated by three major factors: a split in the ranks or leadership of Pakistan's military, additional terrorist attacks, and/or an armed intervention on Pakistani territory by the United States or India. A range of other unrelated circumstances, such as spikes in food or energy prices, national elections, or natural disasters could also exacerbate a crisis, although probably to a lesser extent.⁹

First, a serious split in the ranks or leadership of the Pakistani military would do more to accelerate instability in Pakistan than any other factor. In fact, it could cause state failure in itself, given that the military remains Pakistan's preeminent national institution, dominating foreign and defense (including nuclear) policy. A split could be the product of internal divisions over how to respond to U.S. or Indian military and diplomatic pressure, who should assume authority in the vacuum created by the killing of top national leaders, or what measures to take against domestic upheaval. An internal army split would send shock waves throughout the country, prompt a panicked exodus by wealthy elites, and pave the way for opportunistic violence by a range of aggrieved groups, from separatists and extremists to criminals.

Second, Pakistan-based terrorist organizations could conduct attacks inside Pakistan or overseas that would heighten instability. The United States or India would almost certainly face greater domestic pressure to undertake aggressive military reprisals against Pakistan if they suffer a rolling series of terrorist attacks after a crisis starts. Islamabad would also find it harder to resolve tension with Washington or New Delhi if terrorists target its conciliatory leaders. In the event of major protests or assassinations within Pakistan, additional terrorist attacks would cause further panic and reduce public confidence in Pakistan's domestic security apparatus.

Third, the use of armed force by the United States (or India) against Pakistan would certainly speed up a crisis. The U.S. raid on Abbottabad demonstrated that even limited military reprisals by Washington or New Delhi can open rifts among Pakistan's leadership—and between its leaders and public—over the most appropriate response. The situation is even more tenuous now, after the killing of bin Laden. In the future, if Islamabad responds to a U.S. (or Indian) incursion, it would run the risk of a costly escalation. Once the dust clears from such an exchange, Pakistan would find itself with fewer international backers and a depleted military machine. In the worst-case scenario, a war with India could cross the nuclear threshold if Pakistan's army determines it cannot defend the state by conventional means or if its nuclear command is blinded to the point that it authorizes a first strike.

U.S.-CHINA INTERESTS IN PAKISTAN: AREAS OF POTENTIAL CONVERGENCE AND DIVERGENCE

In Pakistan, the United States and China both aim to counter Islamist terrorism, avoid Indo-Pakistani war, and, more generally, improve prospects for regional and economic stability. However, Washington and Beijing diverge in their preferences for the regional balance of influence and they hold different assumptions about the desirability of promoting Pakistan's civilian democratic institutions. In the past, Pakistan's nuclear proliferation and military technology sharing have been especially contentious issues for Washington and Beijing.

China and the United States each have areas of special sensitivity in their bilateral relationships with Pakistan, although this may be more the case for Beijing than for Washington. China remains reluctant to engage in open, extensive dialogue and cooperation with the United States on Pakistan, perhaps for fear of alienating allies in Islamabad or appearing aligned to the (often unpopular) Americans. This could change, but it will not happen quickly or easily.

AREAS OF POTENTIAL CONVERGENCE

The United States and China both perceive a significant threat of Islamist terrorism in Pakistan, but they tend to prioritize different aspects of that threat. Since 9/11, Washington has placed its highest priority on al-Qaeda and its affiliates. The U.S. intelligence community also tends to cite threats from the TTP, the Afghan Taliban (Haqqani Network and Quetta Shura) and, especially after November 2008, LeT. That said, the U.S. intelligence community has come to view the wide range of terrorist groups in Pakistan as deeply entangled, arguing that it is increasingly difficult to separate their roles in any given operation.

China stands with the rest of the international community in its opposition to al-Qaeda. It also supports Pakistan's effort to combat the TTP. That said, Beijing's highest priority has been the pursuit of militant outfits connected to the Uighur separatist movement based in the western province of Xinjiang. Chinese officials have alleged that the East Turkestan Islamist Movement (ETIM) exploits a safe haven in Pakistan to acquire arms, raise funds, and train for operations in the Chinese

mainland or against the more than ten thousand Chinese nationals who work in Pakistan.¹⁰ China appears far less concerned about other militant organizations, including LeT and the Afghan Taliban.

Chinese and U.S. views on regional terrorist groups have the potential to converge, however, largely because Beijing recognizes the potential for LeT to spark an Indo-Pakistani crisis. LeT's propaganda machine directly targets China, holding it responsible for what it deems to be discrimination and abuse toward Chinese Muslims. Beijing's interest in averting an Indo-Pakistani crisis rests in its economic ties to India and its strategic alliance with Pakistan.¹¹ (China now does seven times more trade with India than with Pakistan, and China's trade with India tops U.S. trade with India.) In recent crises between Islamabad and New Delhi, Beijing has been a reliable and influential voice of restraint. But it remains unclear whether China has taken any significant steps to share its concerns about LeT with Islamabad. Beijing's policy of noninterference and deep operational connections to Pakistan's intelligence services may be hindering such a move.

From Washington's perspective, an Indo-Pakistani crisis would undermine the U.S. war effort in Afghanistan and distract Pakistan from ongoing counterterrorism and counterinsurgency operations. Even a brief, unforeseen disruption of Pakistan's military, intelligence, and law enforcement operations in the FATA could impose high costs on the United States. An Indo-Pakistani crisis would also harm U.S. interests by further weakening the stability and capacity of Pakistan's frail governing institutions.

Washington's security interests explain its concern for Pakistan's economic and political stability. U.S. assistance programming, from post-flood recovery to the Kerry-Lugar-Berman funds, is driven by a desire to make Pakistan more resistant to extremism and militancy. Beijing shares similar concerns, but for China, Pakistan's location and resources have the potential make it a significant part of a broader regional development strategy. As part of China's plan to gradually reduce its dependency on the Straits of Malacca, Beijing has invested in the expansion of the Gwadar port and the construction of various roads and railways to act as transport routes to cities in western China.¹² Beijing also has an interest in Pakistan's energy supply, demonstrated by the presence of thousands of Chinese workers in the gas fields of the restive Baluchistan province.¹³

AREAS OF DIVERGENCE

Neither Washington nor Beijing would benefit from a crisis in Pakistan, but they diverge in important ways when it comes to their preferred regional balance of power. In particular, they have different views regarding India's role.

During the past decade, Washington has sought to forge closer ties with India and to assist its rise to global stature. U.S. efforts have taken concrete form in the bilateral civil nuclear deal and President Barack Obama's support for India's permanent United Nations Security Council membership. These steps have been taken in spite of Pakistani and Chinese objections, within the context of Washington's "de-hyphenation" strategy designed to build independent ties with both New Delhi and Islamabad.

China, on the other hand, has historically viewed its relationship with Pakistan as a means to balance and contain India's regional ambition. This remains true today, even as Beijing and New Delhi enhance their economic cooperation. China supports Pakistan's military and nuclear programs as essential pillars in its regional strategy. It is Pakistan's largest arms supplier.¹⁴ China has also provided diplomatic support to Pakistan's anti-Indian militant groups, shielding them from international sanctions.¹⁵

Neither Washington nor Beijing is entirely comfortable with the expansion of the other's influence in South and Central Asia. Chinese observers have expressed some fear that the U.S. war in Afghanistan and engagement in Pakistan might be part of a broader plan to "encircle" China.¹⁶ And some American observers worry that Chinese ventures in Afghanistan and Central Asia, including investments in energy and other natural resources, will allow it to profit most from the Afghanistan war, taking advantage of the security provided at great cost by U.S. and NATO forces.

Inside Pakistan itself, Washington tries to support the development of civilian democracy, operating under the principle that Pakistanis prefer it and it offers the best opportunity for long-term stability and growth. As a practical matter, however, Washington has always worked closely with Pakistan's military, recognizing its role as the dominant power center on defense and foreign policy issues.

In contrast, China publicly hews to a nonintervention line on Pakistan's domestic political institutions. That said, Beijing appears to be

more comfortable with a Pakistan that is unified under military rule and holds less confidence that a democratic form of government is necessarily the best fit for the country's turbulent and developing society.

Finally, although the United States and China would clearly like to see a Pakistani weapons program that is safe and secure, they have taken very different approaches on the nuclear issue. Washington has, at least since 9/11, provided Pakistan with limited, quiet assistance to support the army's strategic plans division in its effort to improve the physical security of its nuclear arsenal and facilities. China, on the other hand, has actively supported the expansion of Pakistan's nuclear program, including the planned construction of two new nuclear reactors at Chashma.¹⁷ Many American observers believe that China's policy of assistance to Pakistan's nuclear program demonstrates a cavalier lack of concern about the potential for terrorist attacks and unauthorized access to radioactive materials as well as a disregard for global nonproliferation norms.

POLICY OPTIONS TO REDUCE THE LIKELIHOOD OF INSTABILITY IN PAKISTAN

To reduce the likelihood of catastrophic crises in Pakistan, the United States and China have a number of policy options. Some could be pursued jointly, others by Beijing or Washington alone.

To help mitigate the chance of an attack by Pakistan-based terrorists against the United States, India, or Pakistan's own leaders, Washington and Beijing could coordinate efforts designed to improve the discipline and capacity of Pakistan's military and intelligence services to undertake counterterrorism and counterinsurgency operations. First, Washington and Beijing might seek to compel Islamabad to undertake major reform within Pakistan's Inter-Services Intelligence (ISI) directorate. Over time, both the United States and China could work together to expand their assistance to Pakistan, including training, equipment, and facilities for police, paramilitaries, and the army. Night vision, sniper, and surveillance capabilities all require improvement. Pakistan also needs helicopters and transport aircraft to rapidly deploy its forces in remote and difficult terrain.

Greater coordination between the United States and China might permit one or the other to fill these gaps in Pakistan's operational

capacity in a more politically astute manner than is currently the case. Even in highly sensitive military and intelligence operations—from the U.S. drone campaign to the Sino-Pakistani joint defense production and military exercises—it is possible that greater Sino-U.S. transparency would allow both Beijing and Washington to calibrate their own policies more effectively.

The most important thing China could do to reduce the potential for Indo-Pakistani conflict would be to shift its position on LeT. Only China could possibly convince Islamabad that LeT is a drain on its national security. Washington has few tools to counter LeT within Pakistan; greater Chinese pressure on Islamabad to diminish (and eventually dismantle) the organization would represent a major breakthrough. In the event of a real Pakistani shift against LeT, the United States and China could conceivably work together to underwrite demobilization, deradicalization, and vocational education projects for reconcilable members of LeT and affiliates.

Washington's efforts to reduce the threat of instability posed by Pakistan's expanding nuclear program are already bumping up against U.S. laws and treaty obligations. The status of China's efforts in this area is unknown. However, it is clear that Pakistan does not share China's attachment to a doctrine of minimal deterrence.¹⁸ Beijing, working alone or in partnership with Washington, could initiate a quiet dialogue with Islamabad on the topic in an effort to slow the growth of Pakistan's arsenal.

With respect to governance, the ineffectiveness of Pakistan's civil administration hinders law enforcement and alienates the public. Washington has attempted to improve the quality of Pakistan's civilian leadership through close working relationships and training programs. China could help train Pakistan's civil administrators in hospitals, schools, infrastructure maintenance, and law enforcement, either by bringing Chinese advisers to Pakistan or by sponsoring Pakistanis to train in China.

Finally, to improve opportunities for broad-based economic growth, the United States and China could be far more active in coordinating their investment and assistance efforts. A Sino-U.S. joint venture might succeed in ways that multilateral ventures, such as the Friends of Democratic Pakistan, have not. It would bring together Pakistan's two most significant economic partners and would be far more influential in helping Pakistani reformers overcome political obstacles. It

would offer greater leverage to Beijing and Washington alike, thereby enhancing prospects for Pakistani transparency and accountability with donor funds.

Without a vastly expanded and more effective development strategy, however, Pakistan will have little hope of escaping its dire demographic, environmental, and infrastructural trends. One way to jump-start large-scale development would be for the United States to liberalize tariffs on textile imports from Pakistan. This would provide employment opportunities for millions of young Pakistanis.¹⁹ If China builds complementary infrastructure and training projects, it would improve Pakistan's economy in tangible ways and could also serve China's long-term interest in integrating Pakistan's markets into the wider Asian region. Only through their close cooperation might Washington and Beijing manage to overcome potential opposition from other textile producers such as India.

U.S. POLICY OPTIONS TO MANAGE OR MITIGATE A CRISIS

If efforts to prevent instability in Pakistan fall short, the United States and China have meaningful options to manage a crisis and avoid worst-case scenarios.

PRE-CRISIS OPTIONS

Before a crisis starts, the United States and China could establish a small Pakistan crisis coordination group that includes major regional and global players with leverage in Pakistan, such as Saudi Arabia, the United Arab Emirates, and the United Kingdom. Such a group might help calm nerves, share information through secure channels, and influence calculations in the midst of a crisis.

Members of a coordination group could also work with Pakistan's most senior civilian and military leaders (including those charged with nuclear security) to establish a reliable communications facility and strategy. This plan might help avoid the sort of confusion that took place shortly after the Mumbai attacks in 2008.²⁰

U.S.-PAKISTAN CRISIS OPTIONS

In the event of a major terrorist attack against the United States that is traced to militants in Pakistan, Washington's first step would be to seek the unconditional assistance of the Pakistani government in bringing the planners of the attack to justice. All points of U.S. coercive leverage—from threats of military action to economic and political sanctions—would be in play. If Pakistan fails to take constructive action, Washington could conduct punitive strikes against Pakistan-based terrorist camps and sponsor a package of sanctions in the United Nations. The United States could intensify its military operations and expand its target set if its forces are actively opposed by the Pakistani military.

At the same time, the United States would need to calibrate its response. It would have to weigh domestic political pressures for action and the strategic value of a rapid reprisal against the costs of a shattered relationship with Islamabad, deep turmoil within Pakistan's government and military, and the loss of the primary supply route for NATO forces in Afghanistan.

China would undoubtedly oppose the use of U.S. force in Pakistan. Beijing could seek to mediate between Washington and Islamabad at the early stages of a crisis, pressuring Islamabad to respond to U.S. counterterror demands and impressing upon Washington its deep concerns about the use of force. If the crisis were to escalate, China could choose to oppose U.S. action in the United Nations, to leverage its economic clout in ways that would harm U.S. interests, and even to support Pakistan's defensive military effort against punitive U.S. raids through indirect or direct assistance.

As in the past, however, Beijing would be reluctant to support Pakistan unconditionally. China's desire to keep relations with the United States on an even keel would almost certainly overcome its desire to support Pakistan.

INDO-PAKISTANI CRISIS OPTIONS

If another major terrorist attack occurs against India that is traced to militants in Pakistan, Washington could first seek to introduce tactical delays in an effort to avoid rash military actions by either New Delhi

or Islamabad. This could include U.S. (and/or Chinese) investigative missions, as well as senior diplomatic visits to the region and/or multi-lateral forums.

To restrain Indian retaliatory action, both the United States and China could attempt to induce or compel Pakistan to act against the groups responsible for the attack. At the same time, Chinese and American leaders could warn New Delhi of the negative economic consequences of a war with Pakistan, a message that could be amplified by business leaders with operations and partners in India. The United States could also reiterate its commitment to assist India's counter-terror efforts by sharing intelligence and transparently conveying its attempts to compel constructive Pakistani action. In an extreme case, Washington could provide public support for a limited Indian military operation and even share intelligence with New Delhi on potential targets in Pakistan.

In an Indo-Pakistani war scenario, Washington and Beijing are increasingly likely to find themselves on different sides of the crisis. Washington would sympathize with New Delhi's defense requirements while Beijing would seek to guard its Pakistani "all-weather ally" from its larger Indian neighbor. This represents an important new point of possible friction between the United States and China. It places a significant burden on their ability to communicate and negotiate in the heat of a crisis.

PAKISTAN TERRORIST ATTACK CRISIS OPTIONS

In the event that a terrorist group successfully attacks Pakistan's military and civilian leaders, confusion among Pakistanis and the international community might be reduced if a single external actor, such as the U.S. Embassy in Islamabad, were to play a lead role in coordinating international efforts to learn of succession plans and to establish working relationships with new leaders. The fact that China—and other close Pakistani partners—could prefer to work outside such an arrangement might create friction.

U.S. officials would almost certainly defer to the most senior surviving army officers as the first elements of a reconstituted Pakistani leadership. Yet confusion, delay, or dissention would immediately raise fears about the status of Pakistan's nuclear arsenal, conventional forces, and political posture. Beijing and Washington might share similar sorts of

concerns, and could find that a joint outreach to Pakistani leaders—or simply extensive information sharing—provides a beneficial stabilizing influence. They could also encourage and assist Pakistan's new leaders to undertake rapid and extensive counterterrorism reprisals.

If the crisis persists and confidence wanes about security in Pakistan's major cities, the United States may seek to withdraw its personnel and citizens by way of military and civilian air and naval assets. If Pakistan's new leaders choose to take an actively hostile approach toward the United States, Washington may be forced to fundamentally alter its strategy for the region, withdrawing support to Pakistan and working to contain its influence. This could require closer collaboration with India, and would almost certainly pose short- and long-term challenges to relations between Washington and Beijing.

PAKISTAN POLITICAL/ECONOMIC CRISIS OPTIONS

If a protest movement overwhelms the Pakistani military's capacity to maintain order in major cities and provinces, the United States and China would share the goal of restoring a nonviolent political process in Pakistan before military and civilian institutions fall into disarray. Washington could urge Pakistan's leaders to accommodate the protesters' core demands, which might require significant political changes. But if a clear, public commitment to reform is issued by Islamabad, the actual changes could happen gradually over time. Given China's policy of noninterference, it would likely balk at public pronouncements on Pakistan's internal affairs. Beijing could instead express its concern about Pakistan's instability from behind closed doors, as it did in Musharraf's waning days.

If the protest movement's grievances are rooted in the economy—with concerns about unemployment and spiking food and fuel prices—the United States, China, and other international donors could offer emergency assistance. But the decision to do so would be tempered by an assessment of whether stopgap aid might undercut momentum for beneficial structural reforms to the Pakistani economy. It is possible that Washington and Beijing would instead attempt to use emergency assistance as leverage to compel reform by Islamabad. China and the United States might disagree, however, over the near-term consequences of instability and the relative merit of the structural reforms in question.

If the protest movement rages beyond Islamabad's control, U.S. officials could seek to establish an independent line of communication

with the protestors. Yet the pervasive anti-American sentiment among Pakistan's public could easily frustrate such efforts or even render them counterproductive. Both Washington and Beijing may find that other states, such as Saudi Arabia, would enjoy greater influence and could be drafted into leadership roles in framing and communicating an international response to Pakistan's turmoil.

POLICY RECOMMENDATIONS

Prior to the next crisis in Pakistan, there are a number of steps that the United States and China should take to improve their management of foreseeable circumstances. Above all, they should quietly assemble a crisis coordination group of states with the greatest influence and interest in Pakistan, including Saudi Arabia, Turkey, and possibly also the United Arab Emirates, the United Kingdom, and Japan. That group should invest in necessary facilities to enable the rapid and secure communication of sensitive information, including intelligence related to a possible nuclear exchange between India and Pakistan. It should also develop a backup means of sharing information—including data and imagery—between Indian and Pakistani leaders in the event that their own “hotline” fails, as well as with a range of Pakistani institutions in the event that top leaders are assassinated or temporarily incapacitated.

China and the United States should elevate the priority they place on Pakistan in their bilateral dialogues and should convene a separate dialogue solely related to Pakistan. Core topics should include the harmonization of civilian assistance and investment plans, counterterrorism and counterinsurgency strategy, and crisis management. Even if this dialogue manages only incremental progress, it would represent an important advance over the status quo.

In addition, Washington and Beijing should place special emphasis on three goals. Their first goal should be improving Pakistan's will and capacity to effectively undertake counterterrorism and counterinsurgency operations. In order to advance this effort, they should each deliver tough messages about the need for Pakistan to reform its intelligence services. If there is evidence of progress with these reforms, U.S. and Chinese assistance should support Pakistan's military, law enforcement, and administrative structures by identifying and filling the gaps—from basic gear for provincial police units to sophisticated

surveillance platforms. Over time, greater Pakistani capacity has the potential to reinforce its confidence and commitment to take action against entrenched militant groups.

The second goal for Washington and Beijing should be to develop a strategy for large-scale economic development in Pakistan. U.S. aid will never be sufficient to transform Pakistan's economic fate, no matter how effectively it might be implemented. China is better positioned to direct major investment into Pakistan, but its efforts thus far do not amount to a comprehensive program for promoting stability and growth. Together, Washington and Beijing could better leverage their investments to encourage Pakistan's own economic reform process while creating opportunities for job-creating growth.

Finally, because Pakistan has embarked on a program of rapid nuclear expansion that includes the development and deployment of tactical nuclear warheads, the third major goal for the United States and China should be to impress upon Pakistani nuclear strategists the utility of a minimal deterrent posture and the added risks to regional stability posed by tactical nuclear weapons. These conversations should take place along several tracks, including quiet Track 2 exchanges that include U.S., Pakistani, and Chinese participants.

Central Asia Contingencies

Evan A. Feigenbaum

ASSESSMENT OF POLITICAL AND ECONOMIC STABILITY

Is Central Asia stable? And to the extent that it is not, can the United States and China cooperate to forestall threats and help their partners in the region manage challenges to stability?

Central Asia is a diverse and complex area with six independent countries—Afghanistan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan—five of which emerged from the Soviet collapse.* Broadly speaking, Central Asian state building has delivered mixed results. Most Central Asian states remain fragile. Social tensions persist. All of the region's economies, albeit in widely varying degrees, remain vulnerable to external or internal economic shocks.

Kazakhstan has achieved relative stability, and Turkmenistan, too, is largely stable, albeit on a less encompassing scale. But the explosion of Kyrgyz-Uzbek ethnic clashes around Osh and Jalalabad in June 2010 underscores deeper vulnerabilities in the three countries that share borders in the Fergana Valley—Tajikistan, Uzbekistan, and the Kyrgyz Republic. Those events demonstrated just how rapidly social violence can escalate in scope and scale.

Tajikistan, in particular, is increasingly vulnerable to instability—first, because of the country's food crisis (prices for wheat, meat, and dairy products have risen some 30 percent since April 2011); second, due to violence associated with transborder narcotics trafficking; third, given the threat of terrorism and resurgent civil violence, especially if militant fighters again penetrate the Tajik border from Afghanistan; and fourth, considering the possible failure of state institutions. And

*Afghanistan is an essential part of Central Asia but presents distinct challenges in the region. Thus this memo seeks to highlight these five other countries.

Tajikistan is not the only Central Asian state with the potential to fail in the next decade.¹

The reasons for this fragility are both economic and political. Economically, and notwithstanding impressive growth rates, most Central Asian economies are brittle and their underlying fiscal fundamentals are poor. In some countries, labor remittances have fluctuated, although more recent trends suggest a rise in labor outmigration and a rise in revenue from potential remittances—for example, as thousands have fled Kyrgyzstan over the past year. Imported inflation from rising global food and commodity prices holds the potential to exacerbate social and political tension.² Governance in Central Asian countries has been weakly responsive to popular demands, and political patterns differ across the five countries. For the most part, however, politics, governance, and the division of national wealth remain disproportionately managed by national elites.

The influence of criminal groups has grown in several Central Asian countries—most notably the Kyrgyz Republic.³ In some states, a combustible mix of corruption, narcotics, poverty, joblessness, and terrorism threatens states, economies, and social cohesion. In such an environment, transnational cooperation is essential, both to generate economic opportunities and to assure security. But such cooperation has proved elusive. External powers, not least the United States, have often shown greater enthusiasm for regional cooperation than Central Asian capitals themselves. Independence erected international borders where none had existed, separating upstream water resources, for example, from downstream farmers and fields. In the Soviet period, Moscow often settled disputes by administrative fiat. But independent Central Asian governments, no longer able to rely on Soviet diktat, have been forced to negotiate complex intergovernmental agreements on everything from crossing a border to sharing water. And in most cases, they have failed to reach effective, much less enduring, agreements.

What accounts for such fragilities in some of Central Asia's new states? At least some of the reasons derive from a poisonous combination of landlocked geography and poor economic policy. In the seventeenth century, the marginal cost of maritime trade dropped below the cost of continental trade. Central Asia, which once had been integral to the Silk Road and the great caravan trade, was pushed to the fringes of the world economy. Landlocked countries, such as those in Central Asia, can face a growth deficit as high as 1.5 percentage points because

transaction and other costs are so high.⁴ Thus, reconnecting Central Asia to the global economy through infrastructure and market forces is essential to bolstering opportunities for growth and security. Regional economic integration through tariff reduction and related measures can, in turn, facilitate such external linkages.

These economic risks to stability suggest that micro- and macro-economic reforms will be necessary if Central Asian countries are to maintain growth, create opportunity, and attract and sustain inflows of foreign capital. However, the pace and scope of reform have varied widely across countries, and the need for capital has only grown. While total emerging market private capital inflows tripled in the three years prior to the 2007 peak of the global credit bubble, investment flows to Central Asia remained low, in part because barriers to investment are so high.⁵

At the same time, traditional social and political risks to stability endure. Central Asian countries would be more stable today if the region's leaders had set up institutions that were more responsive to popular expectations and demands. As with their economies, political experiences and practices have diverged in Central Asia. The development of civil society in, for example, Kyrgyzstan has gone much further than in Uzbekistan, where the development of such outlets remains constrained. But, generally speaking, reform of state institutions and improvements in the quality of governance will increase the chances of state success as social pressures rise.

Across the region, better governance and some institutional reforms will be necessary in coming years. Tajikistan, in particular, faces a gathering crisis of governance as state institutions continue to fail to meet popular expectations. The results are evident in Kyrgyzstan too, where popular discontent has overthrown two Kyrgyz presidents in just five years. There is no one-size-fits-all solution to this problem because Central Asian countries are diverse. As they develop, their political forms may diverge. But all Central Asian states will remain vulnerable, to varying degrees, if they fail to tackle corruption, establish credible legal systems, enforce contracts, and make institutions more responsive and predictable.

Two final ingredients will be important to assuring regional stability in coming years: stable and legitimate political successions and effective management of security risks. More predictable institutions can help to assure an orderly transfer of power as Central Asia's aging presidents

leave office in coming years. These transitions will come, ultimately, in every country in the region. Yet they will each play out differently. Successions in some Central Asian countries could be contested—both *among* elites and *between* elites and the populace more broadly.

Security, too, remains a risk, not least because Central Asia's security environment could deteriorate in tandem with the prevailing environment in Afghanistan. In 1999 and 2000, extremist fighters sheltered by the Taliban entered the Kyrgyz Republic. Such threats remain palpable, not least for Tajikistan but for other countries as well. The Taliban's rule and al-Qaeda's presence to the south were once viewed as principal threats to security across Central Asia. As the United States and its coalition partners scale down their military commitment in Afghanistan in the run-up to 2014, security realities in Afghanistan will matter greatly to Central Asian stability.

U.S. AND CHINESE INTERESTS IN CENTRAL ASIA

Against this dynamic backdrop, the United States has some enduring interests in Central Asia. Four main objectives have guided U.S. policy across four administrations through the entire post-Soviet period since 1991:

- To preserve the independence of these five Central Asian states and their ability to exercise sovereign political and economic choices, free from external coercion.
- To diversify transit options, thereby reducing the dependence of Central Asian economies on a single market, infrastructure link, and/or point of transit.
- To build institutional capacity so that states can govern effectively and justly, deliver services, and resist pressure from those who seek to violently overthrow legitimate institutions.
- To reconnect this landlocked region to the global economy, increasing the prospects for sustainable economic progress.

Ultimately, all four of these U.S. objectives are linked.⁶ In the energy sector, for instance, one of the most prominent and longstanding U.S.

initiatives has been to create trans-Caspian oil and gas pipelines. In doing so, the United States has aimed to bolster Central Asian independence by fostering new economic opportunities for hydrocarbon producers, such as Kazakhstan and Turkmenistan. And recently, the United States, working in concert with major international financial institutions, has undertaken an effort to reconnect Central Asia's electricity and road infrastructure to South Asia. Over a longer time horizon, that second effort has aimed to provide similar benefits to Central Asia's non-hydrocarbon producers, such as Kyrgyzstan and Tajikistan, which hold rich hydroelectric resources. Put simply, by getting economic policies and priorities right, the United States has aimed to bolster a broader strategic objective of providing options, choices, and alternative opportunities to Central Asian countries.

China, too, has important and expanding interests in Central Asia. Beijing's major initiatives appear to include the following:

- To assure security and stability in China's western provinces and along China's continental Asian border.
- To satisfy energy and related economic goals—first by diversifying China's sources of resource supplies, and second by diversifying options for transit and transportation. Access to oil from Kazakhstan, gas from Turkmenistan, and agricultural and mining resources from other countries aim to satisfy this objective.
- To assure the political stability of Central Asian countries themselves.
- To assure that no other external power—particularly the United States—advances its interests at China's expense, for example through military deployments or permanent basing arrangements.

POTENTIAL AREAS OF COOPERATION AND FRICTION

The United States and China, for all their strategic rivalry, have some unexpected common ground in Central Asia.⁷ The fact is, Beijing and Washington do not need joint approaches to pursue strategic cooperation, only mutually beneficial ones. In Central Asia, where Russia has had a near hammerlock on the region's oil and gas for decades, Beijing's new assertiveness has come principally at Moscow's expense. And in

the short term, this means that U.S. interests in Central Asia are more closely aligned with Chinese than with Russian objectives.

WHY?

As noted earlier, a principal strategic problem in Central Asia is geography. Landlocked economies can face a growth deficit as high as 1.5 percentage points because transaction and other costs are so high. Anything that reconnects Central Asia to the world economy—and reduces its dependence on a single point of transit—will benefit the region. Such moves also give the United States a strategic advantage by bolstering Central Asian sovereignty and independence.

In recent years, China has become a crucial source of trade, investment, and finance for Central Asia. But just a decade ago, the picture was dramatically different. For example, in 2000, just 3.8 percent of Central Asia's trade was with China, a stark contrast to the 26.7 percent of total trade the region conducted with Russia. By 2010, China's share of Central Asian trade had grown more than six times, to 24.4 percent, while Russia's had shrunk by about a quarter, to 19.6 percent. Dollar figures show this role reversal even more starkly: China–Central Asia trade was a paltry \$1 billion in 2000, but it grew by a staggering 30 times to \$30.4 billion in 2010.⁸

In the broadest sense, U.S. and Chinese interests are, at least for the moment, aligned in Central Asia. Over time, however, the following three baskets of issues are likely to intensify bilateral frictions.

CHINA'S LENDING PRACTICES

To address underlying economic challenges to stability in Central Asia, it is widely accepted in the United States that micro- and macroeconomic reforms will be necessary. Yet China's lending practices do not, when viewed from Washington, do much to serve this goal. China is providing billions in loans to Central Asian countries—some \$10 to \$15 billion for Kazakhstan,⁹ \$8 billion for Turkmenistan,¹⁰ more than \$603 million for Tajikistan,¹¹ and a \$10 billion loan facility to members of the Shanghai Cooperation Organization through China's Exim Bank and other development banks.¹² China's conditionality, however, diverges sharply from that associated with the Bretton Woods institutions, whose lending and activities in Central Asia the United States has long supported.

Chinese lending institutions often impose conditions that require recipient countries to buy and hire from China. This kind of conditionality has been widely criticized in the United States for its lack of focus on reducing graft, increasing transparency, improving economic incentives, or improving conditions at the firm level. Many analysts in the United States have argued that China's lending and commercial practices in Central Asia are eroding the reform message that the United States and international financial institutions have promoted globally.¹³

DIVERGING VIEWS OF POLITICAL AND INSTITUTIONAL REFORM

Chinese and U.S. policymakers frequently argue that stability is important in Central Asia. Yet while Americans have promoted political and institutional reforms as a means to achieve this goal, China, in rhetoric and practice, has been suspicious of U.S. intentions and leery of the results.

Across four administrations, from George H.W. Bush to Barack Obama, U.S. policy has generally hewed to the belief that sustained stability in Central Asia will require not just security but a broadened stake for citizens in their own governance and development. Without legitimate institutions, U.S. policymakers have argued, citizens could turn to less productive avenues and violent means of promoting change.

Market-based economic prosperity, free and open trade, and stronger labor protections are viewed in Washington as essential for Central Asia, although they are unlikely to be achieved broadly or uniformly anytime soon. No less important, the United States has urged greater political, press, social, and economic freedoms, as well as the reform of political institutions, to reinforce economic successes.

China, broadly speaking, has been deeply skeptical of these U.S. initiatives and has not prioritized them in its own policy toward the region. Indeed, many Chinese commentators have argued that Washington aims, through its advocacy of political reforms, to impose U.S. values on Central Asia.

DIVERGING VIEWS OF U.S. SECURITY ACTIVITIES

Beijing and Washington both view enhanced security capacity as necessary to assure stability in Central Asia for the longer term. But China is deeply ambivalent about U.S. security objectives and activities.

From an American perspective, such activities symbolize a long-standing U.S. commitment to address security-related risks to stability. But U.S.-China cooperation on Afghanistan and Central Asia has been weak.¹⁴ Moreover, past and present U.S. basing and transit arrangements have become a source of U.S.-China friction. China has not welcomed a U.S. military footprint across its western frontier.

The United States has an active program to train and equip Central Asian armed forces. More often than not, these efforts been directed at enhancing capacity to address the challenges that China's threat assessments prioritize—terrorism, narcotics, and other transnational sources of security risk. The United States provides robust security assistance to four members of the Shanghai Cooperation Organization (SCO). Washington has donated patrol boats to the Kazakhstani and Uzbekistani maritime border guards; refurbished border posts in Turkmenistan, Tajikistan, and Kyrgyzstan; and helped build the Tajik and Kyrgyz national drug control agencies with financial grants, technical expertise, and other forms of support. The United States has also sought to help Kazakhstan acquire refurbished Huey helicopters for its rapid reaction forces. Washington has worked to rebuild Kyrgyz military aviation. It also runs long-standing export control and border security programs.¹⁵

While such U.S. programs serve China's declared security interests in Central Asia, Beijing and Washington continue to watch each other warily in the security sphere. This situation is partly a function of a 2005 SCO declaration, which China joined, that called for a timeline for ending the coalition military presence in Afghanistan.¹⁶ It also stems from some Americans' suspicions about China's motives.

Looking ahead, the drawdown of U.S. forces in Afghanistan will, unavoidably, prompt serious questions in Central Asia about America's commitment and "staying power" in the region. By contrast, some people in China will argue that residual U.S. efforts aim principally to assure a permanent presence and footprint.

POLICY RECOMMENDATIONS

It will take time to build bilateral trust and a strong foundation for U.S.-China cooperation to address stability risks in Central Asia. However, these broad guidelines may be useful:

- *Dialogue is not a policy.* Dialogue for its own sake has not, in the past, proved especially useful. The United States and China have held routine dialogues on Central Asia since at least 2006. An institutionalized Central Asia sub-dialogue was established in December 2005 in the wake of a meeting of the U.S.-China Senior Dialogue in Washington between Vice Foreign Minister Dai Bingguo and Deputy Secretary of State Robert B. Zoellick.¹⁷ Numerous rounds of these talks have been held with the Bush and Obama administrations, but the quality of the conversations has been mixed and few, if any, coordinated actions have emerged from it.
- *Because dialogue and coordination have been weak, the United States and China should aim at complementary, but not necessarily joint, projects and actions.* Of course, the United States and China need, in the first instance, to establish more transparency and a better mutual understanding of each other's strategic intentions. To that end, the sub-dialogue and similar meetings can assure that each government is well briefed on bilateral developments with Central Asia and kept abreast of each other's intentions. But both countries are active with capacity-building programs and projects and it is important to remember that *complementary* projects and actions need not be conducted jointly. One example is counternarcotics work: China works bilaterally and through the SCO; the United States works mostly bilaterally through security assistance and capacity building. Washington and Beijing can coordinate their areas of focus, direct their respective financial assistance packages at similar drugs-related goals, and build complementary capacity while maintaining separate efforts.
- *The most promising arena for cooperation is economics.* Given the many economic risks to stability in Central Asia, Washington and Beijing should seek to lend additional impetus to the Asian Development Bank's (ADB) Central Asian Regional Economic Cooperation (CAREC) program, which now includes ten countries (six in Central Asia, including Afghanistan, as well as Azerbaijan, China, Mongolia,

and Pakistan) and six international financial institutions. For its part, the United States should revisit a stalled 2007 effort to work with the ADB and two additional partners—Japan and the European Union. In 2007, the EU refused to join a U.S. and Japanese effort to create a forum between CAREC and the world's three major market economies to be called CAREC Plus Three. However, if Washington and Tokyo approach Brussels again, they could still form a powerful pro-market nexus, working closely with other countries and the major international financial institutions. Together, Washington, Tokyo, and Brussels could aim to give market approaches a new push in the region. As a CAREC member that aspires for recognition with market economy status, China's support of such an effort would be particularly useful.

- *Avoid security as an area for U.S.-China cooperation, at least for now.* Bilateral U.S.-China security cooperation in Central Asia, which will be difficult to achieve, is unnecessary at this time. The United States can continue to place its principal emphasis on working with Central Asian countries themselves, while Beijing will continue to primarily use the SCO for promoting security-related measures. Should the United States cooperate with, or perhaps even join, the SCO? The issue is unlikely to ever be seriously considered. Even without the many other reasons that fuel American skepticism, Iran's observership in the group makes the prospect especially improbable. The United States has not been invited to join the SCO, and SCO members would probably not agree if the United States were to seek it. But informal U.S.-SCO discussions are worth pursuing on an ad hoc basis, building on participation by a senior U.S. representative in an SCO discussion of Afghanistan in March 2009.¹⁸ That meeting was a model of timely, mutually beneficial, and topically specific discussions with the SCO, organized along functional lines. As the United States draws down militarily from Afghanistan in coming years, it will be necessary to explore how regional players intend to posture themselves politically and strategically—and to assure that their actions remain consistent with U.S. interests and objectives.
- *The United States and China should aim to improve coordination but will likely fail at joint contingency planning.* It could hardly hurt to conduct confidential discussions about specific transnational risks, in particular food security. At a minimum, that issue could provide useful touch points about how each country would respond to crisis conditions in

Central Asia. But U.S.-China coordination will continue to be difficult—first, because China does not share American threat assessments; second, because China does not support the U.S. approach to political or economic reform in Central Asia; and third, because countervailing interests, clashing security concepts, and mutual suspicions will remain an obstacle for some time.¹⁹ Coordination will remain challenging, however, as the United States must continue signaling to Central Asians that they are the main subject of U.S. policy, not an object of accommodation with a third country, including China. And the United States must remember, too, that anti-Chinese feeling in Central Asia is significant and growing; the latest protest in Kazakhstan, on May 28, 2011, drew a thousand people in Almaty. Still, contingency discussions of, for example, donor principles and modalities in a prospective food crisis could begin to at least build a platform for better U.S.-China coordination in the future.

Endnotes

OVERVIEW

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INSTABILITY IN NORTH KOREA AND ITS IMPACT ON U.S.-CHINA RELATIONS

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