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# RSIS COMMENTARIES

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## **Reining in Asia's "Rogue Allies": What the US and China Can Do Together**

By Kai He

### **Synopsis**

*There are two hotspots in Asian security: North Korea's provocations and Japan's reemerging ultra-nationalism. Kim Jong-un and Shinzo Abe have become the respective liabilities of China and the US. How to rein in their "rogue allies" is their most important immediate responsibility.*

### **Commentary**

KIM JONG-UN came to power after his father died in December 2011. Following the brutal political shuffling in Pyongyang in which Kim executed his uncle for "corruption," Kim warned his troops to prepare for "a war without prior notice" on Christmas Eve in 2013.

Two days after Kim's warning of war, Japan's Prime Minister Shinzo Abe visited the Yasukuni War Shrine, in which 14 class-A war criminals of World War II were honoured. Since the Yasukuni Shrine has been a symbol of Japan's imperial military past, each visit by a top Japanese leader has triggered strong diplomatic and political protests from Asian capitals, especially Beijing and Seoul.

### **Asia's "moral hazard"**

Kim's warning of war and Abe's visit to the Shrine seem understandable from a domestic political perspective because what they did is for staying in power. While this analysis is valid it is only partly complete. The question is why they went to such extremes. For Kim, his endless provocations may trigger a new Korean War on the Korean Peninsula sooner or later. For Abe, his controversial visit to the Shrine not only strained Japan's relations with China and South Korea, but also disappointed the United States, which had reportedly tried to dissuade Abe from making the visit and apparently failed.

The answer to the "extreme" question lies in the "moral hazard" problem in Asia. In economics, "moral hazard" refers to a situation in which a party has a tendency to take a risky decision because the party will not bear the costs of its behaviour. A real-life example happens in the insurance industry, in which an insured party has a tendency to behave carelessly if the insurance company will bear all the costs of an accident. Applying the moral hazard example to today's North Korea and Japan, it seems that the real reason for Kim and Abe to behave in such a risky way is, at least partly, rooted in their respective "insurance companies". Apparently, China is Kim's insurance company while the US is taking care of Japan.

Like it or not, North Korea and Japan have become the liabilities of the region, especially for China and the US.

Although both China and the US have tried to convince the rest of the world that Kim and Abe should be responsible for their own behaviour, no one can deny that Beijing and Washington have more influence on Kim and Abe, respectively, compared to others.

North Korea and Japan are behaving like a “rogue ally” for China and the US. Both Kim and Abe have taken advantage of the “moral hazard” situation, in which they have played hardball, leaving China and the US to clean up their respective mess

### **How to deal with a “rogue ally”**

There are three possible solutions to address the “moral hazard” problem. First, the insurance company can increase the premium and co-payment for the insured. It means that the insured will not escape totally from the costs created by its own behaviour. In the “rogue ally” case in Asia, both China and the US should strengthen their control and influence directly upon North Korea and Japan.

In other words, China and the US should let Kim and Abe know that they will be punished if they behave badly. During the Cold War, both China and the US indeed did so toward North Korea and Japan although the punishments varied. After the Cold War, it seems that this “strengthening alliance” option becomes obsolete at least in public. China has said that it would not interfere with the domestic politics of others, while the US has respected the political freedom of democracies.

The second solution is to cut off the connection between the insurance company and the insured. The insurance company can refuse to offer any protection to the insured so that the originally insured party has to take full responsibility for its own behaviour. It means that the US and China can terminate their alliance or *de facto* alliance relationships with Japan and North Korea.

This will definitely resolve the “moral hazard” problem. However, another problem would arise. Both the US and China will lose their influence over Japan and North Korea. It may not be a desired outcome for both Washington and Beijing.

The last solution lies between the above two options. It requires close cooperation between the US and China in managing their “rogue ally”. Cooperation between China and the US will reduce the political benefits that North Korea and Japan can get from their risky and provocative actions. The US and China should let Japan and North Korea know that maintaining regional peace and prosperity in the Asia Pacific is in their common interests. Any challengers and troublemakers will be jointly punished by the US and China, both publicly and privately.

### **New incentives for US-China cooperation**

One of the reasons for both North Korea and Japan to challenge the status quo stems from the discord and competition between China and the US. From the perspective of the rogue allies, their risky behaviour may be tolerated because their alliance partners may use it as a leverage to take on the other. For example, Abe’s Yasukuni visit will definitely cause regional tensions in Northeast Asia. The fear of Japanese militarism will make the US more attractive in other Asian capitals.

The same effect may be created by Kim’s military provocation and nuclear blackmail, through which China’s political weight is highlighted. However, both China and the US should know that their unconditional tolerance of the rogue ally may set their own houses on fire later. They may be dragged into an unwanted conflict or even war. The Korean War in the 1950s is still a vivid memory of the tail wagging the dog.

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