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The Asia-Pacific economy was characterized by rapid growth and increased cooperation in the 1980s. Economic development in the Asia-Pacific region has become an important area of study in international economics in recent years. The role of the U.S., China and Japan in this process, as well as that of Southeast Asia, has been a major topic of discussion. The countries in the region are actively working to advance economic cooperation; nevertheless, problems remain. National interests and territorial issues are primary barriers to regional economic cooperation. The purpose of this book is to explore the difficulties in economic cooperation in the Asia-Pacific region. The articles in this volume are presented by nine experienced scholars and experts on Asia-Pacific affairs, sharing their views on the future of regional economic cooperation.

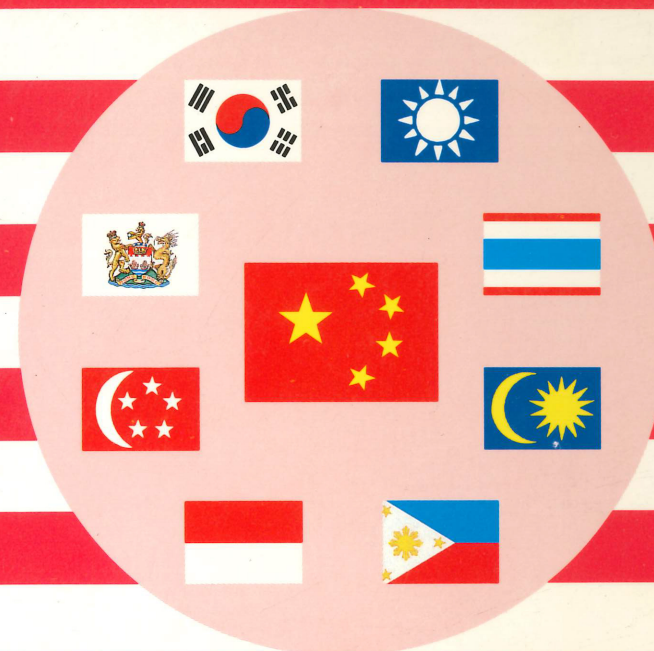
ISBN 962-441-512-9

Kuang-Sheng Liao

POLITICS OF ECONOMIC COOPERATION  
IN THE ASIA-PACIFIC REGION

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Edited by  
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**Hong Kong Institute of Asia-Pacific Studies**  
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**Hong Kong Institute of Asia-Pacific Studies  
The Chinese University of Hong Kong**

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ISBN 962-441-512-9

Hong Kong Institute of Asia-Pacific Studies  
The Chinese University of Hong Kong  
Shatin, New Territories  
Hong Kong

Printed in Hong Kong

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## *Acknowledgements*

The support of many people made this volume possible. First of all, I wish to extend my gratitude to UWS Insurance Company and the Hong Kong Taiwan Chamber of Commerce whose generous support was instrumental to the organization of the "Conference on International Relations in Asia-Pacific Region since the 1980s" in June 1991.

The Conference brought together many of the region's outstanding scholars and experts on Asia-Pacific politics and economics. Of the numerous papers presented at the Conference, eight were selected for this volume. These eight papers are carefully edited. In addition, I added Chapter One "On Economic Cooperation in the Asia-Pacific Region" and Dr. Chak-Yan Chang was invited to write Chapter 10 "Economization of Politics: The Key to ASEAN Success."

I am grateful to Professor Allen S. Whiting for his constructive comments and advice in the formation of this book. I also thank Mr. Arthur W. Hummel, former U.S. Ambassador to China, for his writing a preface to this book.

Many thanks to all the people whose time and efforts were indispensable to the production of this volume: particularly my research assistant, Mr. Edwin Chan; the publication staff of the Hong Kong Institute of Asia-Pacific Studies at The Chinese University of Hong Kong and Mr. Joe Parkman of Hong Kong Baptist College.

Last, but not the least, I thank Miss Anny Wong of the East-West Center and the University of Hawaii, who made a distinct contribution in assisting me in the final editing of this volume.

*K.S. Liao*  
*September 1992*

## *Preface*

Cooperation in many fields in the Asia-Pacific region during the last decade has achieved a number of significant successes in avoiding conflicts and in promoting mutually productive relationships. In security affairs, the region remains largely peaceful, without overt conflicts across borders. In political terms, there has been a significant lessening of tensions, and much constructive interaction in problem situations such as Korea, the Taiwan Straits, and Indochina, where hostility used to be the rule, but where frictions are now being managed constructively.

But it is no exaggeration to say that among the elements that underlie these healthy developments, economic cooperation has been at least as important as the other types of international interchange. In fact economic relations have often been the basic causal factors that produced the positive security and political climate that now prevails in East Asia.

Thus it is timely and useful to examine the problems and the prospects for even closer economic cooperation and interchange in the region. This was done at the very useful conference held in Hong Kong in June of 1991, organized under the able leadership of Prof. Kuang-Sheng Liao and others. The papers given at that conference form the basis of this useful, interesting, and provocative book.

Readers will note a number of important aspects of this volume. First is the wealth of information gathered here on virtually all aspects of the subject of the conference. It can truly be said that rarely has so much up-to-date knowledge been put together in one place.

It is also worth special note that the preponderance of the ideas presented a year ago are still highly pertinent today, and thus the chapters have not lost relevance through passage of time. This is a tribute to the writers of the various papers and underscores the pertinence and accuracy of their observations.

Readers will also appreciate that the papers generally avoid a common shortcoming: that of being too narrowly focussed on a single region. Most have commendably broad scope, as illustrated by Prof. Liao's opening overview which very helpfully places the Asian eco-

conomic scene in the broader context of the global economy, as well as forming an excellent setting for the papers that follow.

Any studies such as these must deal with, and make assumptions about, a number of variables, within and outside the region. The effect of the formation of trading zones such as in North America, and upcoming in Europe, is of course one important factor conditioning the future, and there are varying views of the likely impact on intra-Asian cooperation as well as on Asia's relations with other economies.

The reversion of Hong Kong in 1997 naturally introduces uncertainties, and there are closely allied with another variable: the question of the future conduct of the PRC in the international economic arena. The relative steadiness of China's foreign relations is unfortunately not matched by equal constancy in its internal affairs, both political and economic. The consensus seems to be that the PRC leadership will most likely continue to pursue constructive policies, but some questions arise about that assumption.

Another major area of uncertainty is the possibility of further twists and turns in the U.S.-PRC relationship. As this is written it is not known whether the U.S.-PRC Market Access negotiations will reach a successful conclusion by the deadline on October 10 or whether disagreement will trigger mandatory U.S. tariff increases under American trade legislation. If the latter occurs, then the PRC is sure to retaliate, creating a destructive trade war not beneficial to anyone and difficult to terminate. Again, the consensus seems to be that negotiations will likely be successful.

American maintenance of the Most Favorable Nation (MFN) tariff treatment for China seems assured in the short run, but a change of the party in power in Washington could trigger withdrawal of the MFN causing considerable damage to Hong Kong and Taiwan trade as well.

Of course no study of this sort can do other than make conjectures about these and other variables, and the writers have chosen their assumptions with realism and good judgement. Likewise, there is commendable diversity among the viewpoints expressed, reflecting different points of view and perspectives. This adds to the comprehensiveness and interest of the volume as a whole. I am pleased to have been

associated with this useful endeavor, and believe this volume will be greeted with the interest and commendation that it deserves.

*Arthur W. Hummel, Jr.*

*Washington, D.C.  
September 1992*

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## *List of Abbreviations*

ADB	Asian Development Bank
AEW	Airborne Early Warning (system)
APEC	Asia Pacific Economic Cooperation
ASA	Association of Southeast Asia
ASEAN	Association of Southeast Asian Nations
ASPAC	Asia-Pacific Council
DRAM	Dynamic Random Access Memory (chips)
EAEG	East Asian Economic Grouping
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
HKSAR	Hong Kong Special Administrative Region
IAEA	International Atomic Energy Agency
ICBM	Inter-continental Ballistic Missiles
IGO	Inter-governmental Organizations
IMF	International Monetary Fund
JSDF	Japan Self-Defense Forces
LDP	Liberal Democratic Party
KMT	Kuomintang
LDCs	Less Developed Countries
MFN	Most-Favored-Nation (trading status)
MITI	Ministry of International Trade and Industry
NAFTA	North American Free Trade Agreement
NGO	Non-governmental Organizations
NIEs	Newly Industrialized Economies
OTH	Over-The-Horizon (radar system)
PBEC	Pacific Basin Economic Council
PECC	Pacific Economic Cooperation Conference
PRC	People's Republic of China
ROC	Republic of China
SALT	Strategic Arms Limitation Talks
SEATO	Southeast Asia Treaty Organization
SEF	Straits Exchange Foundation
START	Strategic Arms Reduction Talks
UN	United Nations
U.S.	United States of America

## *1*

# *On Economic Cooperation in the Asia-Pacific Region: An Introduction*

*Kuang-Sheng Liao*

## INTRODUCTION

There are now numerous suggested models for Asia-Pacific economic cooperation. In contemplating the feasibility of these models, questions on the foundation for economic cooperation arise: Why are there so many different models? What are the attitudes and intentions of these countries? What will be the trends in economic cooperation among these Asia-Pacific countries? What will be the attitudes and policies of these countries?

Asia-Pacific economic cooperation is a natural evolutionary process. Asia-Pacific countries gradually realize the mutual benefits of economic cooperation, and this realization will determine the direction and pace of economic cooperation. Compared to the North American Free Trade Area and the European Community, economic integration in the Asia-Pacific region faces greater obstacles. Countries in the region must first fully acknowledge the mutual benefits of upgrading the level of economic cooperation, only then can mutual benefits be transformed from potentiality to reality.

## DEVELOPMENT TRENDS IN REGIONAL ECONOMIC COOPERATION

### THE EMERGENCE OF "MUTUAL BENEFITS"

"Mutual benefits" are gains to be derived from international economic cooperation, gains that are greater than what could be achieved



from isolated national economic development. All global economic exchanges are currently based on the national unit, that is, domestic economic activities. The development of international trade, finance, aid and particularly investment by multinational corporations has, however, made international economic cooperation more commonplace. International economic interaction generates greater economic return than national (or domestic) economic activities, and creates greater opportunities for mutual benefits.

Efficiency demands international division of labor among modern economic entities. Though it is not impossible for any single country to meet all its economic needs independently, the price is very high. Due to the dissimilarities of endowments in natural resources, history, and social structure, the costs of production differ among national economies. International trade sires mutual benefits. National economies would profit from international trade by each producing what it has a comparative advantage in, and trading these products for other commodities.

Early economic exchanges were confined mainly to trade, that is, the import and export of commodities. The increase in the volume of exports induces increase in the export of capital, and mutual investments subsequently upgrade the level of commerce. The value of U.S. trade with the Asia-Pacific region exceeded U.S. trade with Western Europe for the first time in 1983. According to U.S. Secretary of State, James A. Baker, the Asia-Pacific region is now the largest trading partner of the United States. U.S. trans-Pacific commerce is now more than US\$300 billion in annual two-way trade — nearly one-third larger than that across the Atlantic. Moreover, U.S. firms have invested more than US\$61 billion in the region, and over US\$95 billion of Asian investments is in the United States.<sup>1</sup> One of the main reasons for this phenomenon is the greater volume of American investments in Asia than in the European Community. The import of capital and commodities (especially micro and high-technology mechanical and electronic products) induces a transfer of production technology and management skills, and contributes to changes in the economic structure of the importing country and stimulate real economic growth.

The extent to which mutual benefits can be realized consequently is intimately related to the model of economic cooperation. There are different levels of regional economic cooperation:

1. Free trade zones: mutual reductions are introduced and tariffs and restrictions are suspended to enable the free flow of commodities and services;
2. Tariff agreements: a common system of tariffs in external trade is adopted to eliminate intra-regional competition and encourages joint efforts to face external challenges;
3. Common market: in addition to the free flow of commodities and services, production inputs, labor and capital is to transfer freely;
4. Economic alliance: total harmonization in social welfare, transport, monetary and other national economic policies; and
5. Complete economic integration.

History shows that economic cooperation has always begun with trade and then moves toward closer cooperation in production inputs, and finally through coordinated harmonization of economic policies to attain economic integration. Cooperation at each level demands an objective environment for trade, that is, the availability of goods and markets as a basis of exchange; and subjective efforts by national economies to broaden economic cooperation. Trade will be hampered, however, if protectionist sentiments flare up and protectionist fortresses are erected. Expanding investment cooperation can reduce the cost of production and bring about opportunities for economic rationalization. For instance, one economy may have a surplus of capital; the other, a shortage, and this forms another basis for cooperation. The size and scale of investments could be confined, however, if the direction of development differs between the capital investor and the host country, or if the investment environment in the host country is poor. Broadening economic cooperation can further hasten the development of regional economies, bringing with it the benefits of amalgamation. Nevertheless, the absence of an effective development strategy and trust can hinder the establishment of coordination agencies for economic cooperation, and cooperation will hence be impossible.

#### CONFLICTS IN "MUTUAL BENEFITS" AND "NATIONAL INTERESTS"

Economic cooperation and mutual benefits are not easy to realize. First of all, national interests shall persist. Governments represent the national

interests of a country, and regardless of their economic systems, they hold the power to harmonize the various domestic interests. Though international economic cooperation may be considered a *de facto* economic integration, there has never been international cooperation under a common political leadership. Former French Finance Minister, Jacques Delors, in his role as the Chairman of the European Community's Administrative Committee once proposed enlargement of the functions of the European Parliament, and election of a European president. This unconventional notion was drowned in the endless debates among the sovereign states.

Another case for integration is found in the former Soviet Union. The former Soviet republics, closely intertwined economically, are in dire need of a government to coordinate exchanges and to control conflicts. It is in their interests to work together in order to realize their mutual benefits.

Nonetheless, additional gains in economic cooperation can only be considered "mutually beneficial" when they benefit all parties. The international division of labor in the global economy today is largely the consequence of colonial policies of the last two centuries. Therefore, many critics declared that the hierarchical division of labor benefits only the developed countries as they produce the value-added industrial goods, while other economies are only producers of primary commodities and raw materials. What must be done today is not to continue heaping moral condemnations of the legacy of colonialism, but to consider how a new international division of labor or a new international economic order can be constructed to realize these "mutual benefits." The present division of labor does hinder to some extent the formation of a new order. Some countries are, therefore, deeply wary of the new order since they doubt whether cooperation will benefit them. In conclusion, "mutual benefits" are inherently extant in economic cooperation, but they can only be achieved when nations recognize the mutual benefits to be derived from cooperation.

#### THE FORMATION OF THE TWO MAJOR ECONOMIC REGIONS

The decline of the U.S. economy and the collapse of the Soviet Union is complemented concurrently by the rise of Germany and Japan. These events give way to the emergence of the United States, Europe

and Japan as regional economic leaders and, on this basis, outlines the contours of three regions of economic cooperation.

#### NORTH AMERICAN FREE TRADE AREA

Economic cooperation between the United States and Canada ostensibly illustrates the presence of "mutual benefits." Their economic relationship not only includes bilateral trade, direct foreign investments, technology transfer and cooperation in the service sector. Over 75 percent of their bilateral trade is conducted in this free trade area. Bilateral trade between the two countries reached US\$150 billion in 1985, the largest sum between any two countries in the world. In terms of investment, 80 percent of all Canadian foreign investments goes to the United States, constituting 21 percent of all U.S. direct foreign investments.<sup>2</sup>

The United States and Canada created the world's largest free trade area on January 1, 1989, bringing the two economies closer to economic integration. The United States is undeniably the more active partner in this process. To meet the challenges of further economic integration in Western Europe, the U.S. has been pressing Western Europe to eliminate its agricultural subsidies. Simultaneously, through the free trade agreement, the U.S. hopes to push Japan to further open its market to U.S. products. Canada, however, is worried that because of its weaker economic position vis-a-vis the U.S. The Canadian economy may become progressively dependent on the U.S. in the process of economic integration.

Nevertheless, further economic cooperation between the two North American economies is not only beneficial to the U.S. economy, as some believe that free trade will raise the productivity and competitiveness of Canada's manufacturing industries. The productivity of the Canadian workforce, in terms of labor hours, is 10 percent lower than that of the United States and the productivity of industrial labor is 25 percent lower than the latter's. Production cost and price levels will fall to the U.S. level by further promoting bilateral free trade, and the country's GNP will rise by 4 to 7 percent. In addition, rising protectionist sentiments in the United States targets the Canadian non-tariff barriers, thus posing a serious threat to Canadian exports. The NAFTA (North American Free Trade Agreement) was therefore signed in 1989, despite difficulties in

negotiations and pessimistic projections that its conclusion will take another seven to eight years.<sup>3</sup>

#### EUROPEAN COMMUNITY

Western Europe has consistently been the United States' main competitor in the international marketplace until the 1970s when it began to lag behind the U.S. and Japan. One of the reasons is that these countries pay too much attention to their own national interests. To invigorate the Western European economy, the European Community announces that by the end of 1992, the group will achieve internal market unification, ending the market divisions that currently exist among the member countries. This will mean the free flow of commodities, service, capital, and labor in a borderless economy. There are five major policies:

1. Eliminating all border controls within the European Community;
2. Removing restrictions on technology transfer and other non-tariff barriers, including accreditation of product standards among member countries;
3. Abolishing financial barriers, beginning with the standardization of value-added taxes and special consumption taxes;
4. Opening state enterprises to foreign orders; and
5. Relaxing financial controls to encourage competition and moving toward standardization in pricing financial services.

These measures will encounter some problems in the early stages of implementation. Some industries and labor will have to bear the high cost of regional economic integration. Possible effects include the decline of sunset industries, the acceleration of economic slowdown, the disappearance of regional enterprises and structural transformations. Furthermore, sovereign rights of each nation-state member will be compromised in the restructuring of fiscal, monetary, investment and trade policies. But positive economic projections give strength to argument for integration. There are estimations that after six years of adjustment, the real GNP of the European Community will be 4.5 to 7 percent higher than before unification. Employment opportunities will increase with the

creation of 180,000 to 500,000 jobs. Therefore, despite disparities in the gains from unification by each national economy (e.g. French balance of payment deficit and unemployment), members of the European Community have reached a consensus on the need of economic unification.<sup>4</sup>

The two economic regions discussed above pose a formidable challenge to the Asia-Pacific region. Several Asia-Pacific countries have proposed regional economic cooperation even early on, but intensifying international competition has made this a more urgent task. Yet, unlike the European Community with its longer history of cooperation, and the less complicated U.S.-Canadian relations, there is a higher degree of complexity in Asia-Pacific relations. Consequently, economic cooperation is much more difficult to achieve. The following models for economic cooperation support this assertion.

#### EVOLUTION OF FRAMEWORKS FOR ASIA-PACIFIC ECONOMIC COOPERATION

Numerous frameworks have been proposed for Asia-Pacific economic cooperation in the past three decades. The purpose of this section is to trace the evolution of these models over the period.

The following is an abbreviated chronology of these proposals:

1. February 1964: the East-West Center in Hawaii first proposed the idea of Asia-Pacific economic cooperation.
2. November 1965: Japanese Professor Kiyoshi Kojima advocated to construct a "Pacific Free Trade Area" with the participation of Japan, the U.S., Canada, Australia and New Zealand.
3. April 1967: prominent members of the Japanese financial circle proposed the creation of a "Pacific Basin Economic Committee" that meets annually. The Committee currently has a membership of 18 nation-states and 450 leading enterprises.
4. January 1968: economists from Japan, the U.S., Canada, Australia and New Zealand convened the first "Pacific Trade and Development Symposium."
5. August 1971: Fiji and five other island-states formed the South

- Pacific Forum and established the Commission on South Pacific Economic Cooperation in April 1973.
6. November 1978: In his campaign for the leadership of the Liberal Democratic Party, Masayoshi Ohira proposed the idea of a "Pan-Pacific Community." In the following year, Ohira's private consultation agency advanced the idea of "Pan-Pacific Cooperation" in a report, and in 1980 put forth an "Outline on Pan-Pacific Strategy for Resource Planning."
  7. February 1982 and December 1984: the Soviet Union attacked the idea of a "Pan-Pacific Community" calling it an "Oriental North Atlantic Treaty Organization."
  8. September 1980: based on an agreement between Prime Minister Ohira and Australian Prime Minister Fraser, an Australian government-funded, non-official seminar on Pacific cooperation, the first Pacific Economic Cooperation Conference, was held at the Australian National University.
  9. January 1981: a research center in Indonesia held an international seminar on models for a Pacific Community. Many participants urged ASEAN (Association of Southeast Asian Nations) member countries to adopt a more positive attitude. The Indonesian Foreign Minister at the July 1984 ASEAN Ministerial Conference asked the United States, Canada, Australia and New Zealand to discuss questions on Pacific cooperation.
  10. November 1981: Japanese scholars suggested the idea of an "Asian Economic Sphere."
  11. July 1986: Soviet General-Secretary Mikhail Gorbachev announced in Vladivostok that although his country opposed the idea of a Pacific Community, it was not prejudiced against Pacific economic cooperation, indicating a change in the Soviet attitude.
  12. October 1987 and May 1988: South Korean and Japanese scholars kept on advocating a "Pan-Yellow Sea Economic Community."
  13. December, 1987: Hong Kong scholars proposed a "China Sphere."
  14. May, 1988: at the "International Economic Department Conference," the Japanese Ministry of International Trade and Industry proposed an "East Asia Economic Sphere," symbolizing the most concrete official involvement in the design of a Japanese economic sphere.

15. September 1988: Mongolia proposed the establishment of mechanisms for dialogue among the Northeast Asian countries.
16. November 1989: the first Asia Pacific Economic Cooperation Conference (APEC) was held in Australia. Foreign and economic ministers from Australia, the U.S., Canada, Japan, New Zealand, South Korea, and ASEAN countries attended the conference. This was the first official Conference on Asia-Pacific economic cooperation.<sup>5</sup>
17. December, 1990: Malaysian Prime Minister Mahathir proposed an "East-Asian Economic Grouping." Later he proposed an "East Asian Economic Caucus" with the consensual approval of ASEAN. This caucus would include ASEAN countries, Japan, South Korea, China, Hong Kong and Taiwan, but exclude the developed countries of the Pacific rim, viz., the U.S., Canada, Australia and New Zealand. U.S. Secretary of State, James A. Baker, promptly expressed dissatisfaction toward this proposal.<sup>6</sup>

Several characteristics are obvious in the evolution of an organizational framework for Asia-Pacific economic cooperation. First of all, the initial advocates of Asia-Pacific economic cooperation were the United States, Japan and other developed countries. Later the developing countries began to assume a more assertive attitude. ASEAN, in particular, has displayed a complete turnabout since the July 1984 conference. Secondly, the various models differ in the membership composition of Asia-Pacific economic cooperation. The United States and Japan initially included developed countries that do not belong to the Asia-Pacific region (namely, the U.S., Canada, Australia and New Zealand). Japanese proposals gradually shifted to emphasizing Asian membership, while developing Asian countries and the newly industrialized economies (NIEs) limit their definition to countries in Asia, and distinguishing sub-regional geographical divisions: East Asia, Northeast Asia, the Chinese sphere. Moreover, within the Asian sub-regions, there are the south Chinese economic sphere, the "growth triangles" in Northeast and Southeast Asia and other such smaller economic cooperation possibilities. Thirdly, responses differ to these various proposals, reflecting the diversity of motivation for Asia-Pacific economic cooperation. The United States was displeased by the change from emphasis on pan-Pacific

cooperation in the Asia-Pacific rim to a narrower focus on Asia.

Japan has consistently held a positive attitude toward Asia-Pacific economic cooperation, indicative of its urgent ambitions of expanding its international economic leverage. Simultaneously, changes in the Japanese view of the perimeter of cooperation reflects its wishes to use an Asian economic grouping to counter the development of the North American Free Trade Area and the European Community as possible trading blocs.

Although Australia is not an Asian country, nor is it a major power in the Pacific, it has twice hosted major conferences on economic cooperation in the region. Instead of viewing this as a friendly gesture toward Japan, it should be considered that Australia is wary of becoming an economic orphan stuck in the middle between dynamic economies on both sides of the Pacific rim.

With regards to ASEAN, the organization enthusiastically calls for Asian economic cooperation, insisting that ASEAN countries speak with one voice, and demonstrating their distrust of the United States. China, it is important to bear in mind, has the largest population in Asia and is a major political power, but it has not made any significant proposals. Can this be an indication of its economic weakness?

Fourthly, due to the above reasons, there has still not been any substantive move toward the operational stage of economic cooperation. Various proposals may continue to emerge and fizzle, or may stagnate at the conference stage.

In summary, the numerous proposals on Asia-Pacific cooperation reflect a common pursuit of mutual benefits by the various countries. On the other hand, since each party has a different view on what constitute "mutual benefits" and some are still concerned only with models that cater to their own national interests, there is still a long way to go toward upgrading the level of economic cooperation in the Asia-Pacific region.

#### CURRENT DEVELOPMENTS IN ASIA-PACIFIC ECONOMIC COOPERATION

Regardless of the expectations of scholars and government officials toward Asia-Pacific economic cooperation, there is already a consider-

able level of cooperation and specialization within the region. This economic structure is related to the political and economic characteristics in the region.

#### DIVERSITY OF POLITICAL AND ECONOMIC MODELS IN THE ASIA-PACIFIC

Looking at the models for Asia-Pacific economic cooperation, pan-Asian cooperation is no longer a feasible option. The Middle East (West Asia) and the South Asian subcontinent cannot realistically be included as part of Asia. The Asia-Pacific region shall stretch from the Western Pacific rim to the East Asian region. Compared with the NAFTA and the European Community, greater economic disparities are more obvious in the Asia-Pacific region.

##### *(1) Disparities in Economic Capabilities*

GNP (Gross National Product) is often used as an indicator to measure the economic development of national economies. Taking into consideration the differences in the size of national population, per capita GNP is now commonly used to compare national economic wealth. Comparison of the per capita GNP of the various economic regions reveals great disparities, but comparison of intra-regional per capita GNP levels in the Asia-Pacific rim reveals even greater disparities (see Table 1).

There is only a 6 percent difference in the per capita GNP between the U.S. and Canada, a difference that is minor enough to put them at the same level of economic development. Yet, the national capabilities of the U.S. far exceeds those of Canada since the former has a population that is ten times larger. Albeit marked differences in the per capita GNP levels in the European Community, the disparities are not extremely large, except for the few smaller countries. The per capita GNP of Germany, France and Italy which have 71 percent of the population of the European Community are only 37 percent higher than the bottom four.

Per capita GNP in the Asia-Pacific region ostensibly has several hierarchical strata. Japan is at the top, followed by the four NIEs, and the rest belong to the third stratum. The gap between the first and second



**Table 1. Comparison of the Per Capita GNP Levels of the Three Major Economic Regions, 1991 (in US\$)**

North American Free Trade Area	United States	22,049
	Canada	19,934
European Community	West Germany	18,625
	United Kingdom	15,387
	Italy	15,703
	France	18,291
	Spain	9,578
	The Netherlands	16,314
	Belgium	16,790
	Luxembourg	26,428
	Ireland	8,700
	Denmark	21,461
	Greece	5,404
	Portugal	4,439
Asia-Pacific Economic Region	Japan	25,469
	Hong Kong	11,640
	Singapore	11,656
	Taiwan	7,479 <sup>a</sup>
	South Korea	5,155
	North Korea	973
	Malaysia	2,226
	Thailand	1,270
	Philippines	736 <sup>a</sup>
	Indonesia	499 <sup>a</sup>
	Brunei	12,772 <sup>b</sup>
	China	417

Source: PCGLOBE 5.0 (computer database), Arizona: PCGLOBE, Inc., 1992.

<sup>a</sup>Japan 1992: An International Comparison, Tokyo: Keizai Koho Center, 1992.

<sup>b</sup> 1987 figures quoted from World Knowledge Yearbook 1989-1990.

strata is very substantial, and is six times higher than the average of the third stratum. Comparing the per capita GNP of China and Japan, one with the largest population and a major political power and the other an economic power, the latter's per capita GNP is 68 times higher than that of China!

## (2) Different Rate of Market Development

A rational market mechanism includes primarily rules and agencies overseeing investment, trade, financial and other economic activities, and support for non-interventionism by the government. Non-intervention, however, does not exclude economic planning and guidance that falls within the government's scope of sovereign authority.

Japan was the first to develop a market economy in the Asia-Pacific region. Today Tokyo is one of the super international centers of finance. Japan owned 10 of the top 50 banks in the world in 1969. By 1986, Japan owned 21 of them, and their aggregate assets reached 50.1 percent of the total assets of these 50 banks. Among the top 10 banks in the world in 1987, seven of them were Japanese-owned (No.1 to 6 and No. 8).<sup>7</sup> From the Japanese government's perspective, the roles performed by the Ministry of International Trade and Industry, Ministry of Finance, and the Economic Planning Agency have substantial impact on the formulation and execution of Japan's industrial policies. "Planned economy" is no longer an exclusive terminology of socialism. Japan is perhaps the most successful country in its "integration of the market and planned economies."

Financial development is also highly advance in the four NIEs. Both Singapore and Hong Kong are international financial centers. Taiwan now has the third largest stock market in the world. South Korea also holds an important position in international finance. In contrast, the ASEAN countries, China and North Korea, due to historical reasons, have market systems that are not as comprehensive or may just be developing. This naturally leads to varying degrees of governmental intervention and controls, measures which may hinder the development of a unified regional market economy. Although the influx of international capital is affecting change, the legislation and institutionalization of comprehensive regulations and mechanisms on finance and trade is a

lengthy process.

### (3) *Existence of Numerous Bilateral and Multilateral Economic Circles*

The most prominent multilateral economic grouping in the region is ASEAN. ASEAN did not aim at economic alliance at its inception, but soon afterward economic cooperation within the organization began to grow in importance. From 1967 to 1976, there was very little cooperation at all, then 1976 marked the advent of programs such as the joint ASEAN Industrial Projects and the introduction of Preferential Trade Agreements.<sup>8</sup>

Bilateral investment has cultivated economic ties. Japan is the largest foreign investor in Indonesia, Malaysia and Thailand, and the second largest in Singapore. Taiwan is also among the top foreign investors in these four ASEAN countries. Hong Kong capital has stimulated economic development in south China. Hong Kong-owned enterprises now employ more Chinese laborers in processing operations in south China than in Hong Kong. The talk of a China-Taiwan-Hong Kong economic cooperation sphere is gaining prominence.

The above points unambiguously demonstrate that the various countries in the Asia-Pacific region are at different stages of economic development, and each has its distinctive development strategy. On the one hand, this facilitates complementarity in economic cooperation. On the other hand, it encourages competition and makes cooperation difficult. In conclusion, the main reason for the lower level of economic cooperation in the Asia-Pacific region is the varying degrees of understanding of and consensus on the mutual benefits of economic cooperation by the region's countries.

### ASIA-PACIFIC ECONOMIC DIVISION OF LABOR AND COOPERATION

Economic interaction among the economies of the Asia-Pacific region was circumscribed by the Cold War. Following Japan's economic recovery in the 1950s, the country began to invest in other Asian countries, a move that could be interpreted as the first step toward Asia-Pacific economic division of labor and cooperation. The watershed point was the period from the end of the 1970s to the beginning of the 1980s.

For a long time after the war, Japanese investment in most economies

of the Asia-Pacific region was limited to the exploration, processing and trading of primary commodities. Japan's trade strategy was based on the needs of its island economy. Overseas investments aimed at developing foreign sources of raw materials and opening foreign markets to Japanese products. For instance, Indonesia is the third largest recipient of Japanese direct foreign investment, most of which is concentrated in the energy sector. Changes in Japanese domestic industrial structure in the 1960s made the NIEs prime recipients of Japanese investment. They also became sites for the transplant of Japanese industries that had lost their competitiveness in Japan and industries that were less technologically advanced. As time went by, labor-intensive industries in the four NIEs were also losing their comparative advantage by the 1970s; Japan then transferred these industries to ASEAN.<sup>9</sup>

Until 1986, 21 percent of aggregate Japanese direct foreign investment was in Asia, 98 percent of which was in NIEs and ASEAN. By the end of the 1970s, Japanese domestic industries were moving toward high-technology industries, and some of its technology-intensive industries moved to the NIEs. The NIEs in turn transferred some of their capital-intensive industries to ASEAN countries (except Singapore). The massive influx of Japanese and U.S. capital and technology has caused dramatic changes in the economic structure of NIEs. Japanese technology made up 56 percent of all foreign technology imports to South Korea in 1983, while 66 percent of all technology imports to Taiwan came from Japan. South Korea was heavily dependent on imports of Japanese industrial goods and spare parts for its export industries: 93.4 percent of South Korean import of these commodities in the textile industry and 64.7 percent in the steel industry came from Japan in 1982,<sup>10</sup> reflecting the internationalization of production. Japan, the NIEs and ASEAN cooperate in production and their manufactured goods are mainly absorbed by the huge U.S. consumer market.

Since the first half of the 1980s, however, there have been signs that this kind of Japanese and U.S. investment and exchange pattern could no longer continue. The two oil crises in the previous decade weakened the U.S. economy, and the United States could continue to sustain its worsening international balance of payment resulting from years of deficit trading with the Asian countries. A meeting of the finance ministers

of the industrialized Western democracies forced an appreciation of the Japanese yen to reduce imports from Japan to the United States, and bashed Japan by exploiting the "Toshiba incident" and the "semi-conductor incident." ASEAN countries were soon accused of piracy of cassette recordings and computer softwares, and Washington cancelled most-favored-nation trading status to NIEs. U.S. Secretary of State, George Schultz, said at the time, "U.S. huge trade deficit is not the consequence of the lack of competitiveness of U.S. exports, but the result of dramatic growth in imports. ASEAN cannot continue to send most of its exports to the U.S."<sup>11</sup>

This economic pattern has been undergoing changes since 1985 primarily due to U.S. protectionist measures, and secondarily greater investment within the East Asian region. Japan introduced the "Maekawa Report" in 1986 and the detailed "East Asian Economic Sphere" report in 1988. Under the guidance of the "model for international coordination," Japan began to stimulate domestic demand and open the Japanese market to foreign goods. Exports from NIEs to Japan increased by 58.1 percent in the first half of 1988, and ASEAN (excluding Brunei and Singapore) exports to Japan rose by 71.9 percent. According to the drafters of the "East Asian Economic Sphere" report, the domestic Japanese market is about two-thirds the size of the U.S. market.<sup>12</sup>

All this shows that despite some signs of weaker conditions supporting economic unification in the Asia-Pacific region, there is still a certain level of cooperation. With the economic development of the region's countries, and the rising tide of economic protectionism worldwide, the Asia-Pacific region must further advance the understanding of their mutual benefits and upgrade the level of economic cooperation.

#### POLICIES AND ATTITUDES OF THE ASIA-PACIFIC GOVERNMENTS

The first section mentioned that the objective condition for economic cooperation is "mutual benefits." Through cooperation and the efforts of respective countries, potential benefits can be transformed into working reality. This section offers a general discussion of the objective

basis for and attitudes toward economic cooperation among the Asia-Pacific countries.

#### JAPAN

Japan has mixed feelings toward Asia-Pacific economic cooperation. Japan's economic power makes it a center of the Asia-Pacific economy. Japan infrequently uses Asia-Pacific economic cooperation to build up its leverage to counter the North American Free Trade Area and the European Community. Yet, Japan cannot display excessive enthusiasm because of its economic ties with the global economy and especially its heavy dependence on raw material imports (see Table 2). There has been a change in Japan's post-war trade policy in recent years, putting heavier emphasis on the export of capital than commodities. Japanese imports constituted 7.4 percent of its GNP and exports constituted 9.7 percent of its GNP in 1989. (U.S. imports and exports were 9.4 percent and 7.0 percent respectively; West Germany's, 22.4 and 28.4 percent; South Korea's, 30.7 and 35.9 percent; and Singapore's, 176 percent and

**Table 2. Raw Material Dependence of Selected Countries in 1987**  
(in Percentages)

	Japan	U.S.	W. Germany	France	U.K.
Coal	88.9%	-102.0%	0.2%	47.0%	8.0%
Crude Oil	99.8	39.4	95.4	95.8	-64.6
Iron ore	99.9	27.9	99.9	75.6	98.9
Copper	97.4	24.4	99.7	99.9	99.9
Bauxite	100.0	94.5	100.0	33.7	100.0

Degree of import dependency = (import volume-export volume)/domestic production volume + import volume-export volume)x100.

Source: *Japan 1991: An International Comparison*, Tokyo: Keizai Koho Center, Tokyo: Japan Institute for Social and Economic Affairs, 1991.

158.5 percent). Japan, with its enormous economic capabilities, has only one choice: internationalization.<sup>13</sup>

Japanese direct foreign investments, excluding bond purchases, reached an aggregate of US\$253.9 billion in 1989, and returns to its overseas investments was US\$23.4 billion that year. In international finance, the Japanese yen is becoming progressively internationalized. The Japanese yen is now a major currency of international trade. Its role in international finance continues to expand; it has become one of the main currencies of international investment and foreign exchange reserves; and Japanese special drawing rights in the International Monetary Fund are growing.<sup>14</sup> Both Japanese commodities and investments are in search of appropriate hosts. Japan may find many other Asian countries unsuitable as its main partners in economic cooperation perhaps because they are too poor, or their political democratization process is too slow. Thus, Japan has extracted itself from Asia to make itself a member of the West.

Part of this attitude may be prompted by cultural and psychological reasons, but there are pragmatic economic gains as well. Japan's main economic partners in trade and investment are not in Asia. Japan's top ten trading partners are the United States, the European Community, South Korea, West Germany, Taiwan, China, Australia, Canada, the United Kingdom and Indonesia. Among these, the U.S. and the European Community are responsible for 47 percent of all Japanese foreign trade. Japanese investment in North America was 42.9 percent of its total foreign investment from 1951 to 1989. In the same period, 17.7 percent went to Europe; 15.9 percent to Asia; 5.5 percent to Oceania; 14.5 percent to South America; and 2.0 percent to Africa.<sup>15</sup> Japan's close economic relations with countries outside Asia, particularly with America and European countries, make Japan cautious of any moves toward an Asia-Pacific regional grouping that can induce U.S. discontent.

Nonetheless, Japanese interests lie in Asia in the long run. The world is moving toward economic regionalism. Japan is not a North American country, nor a member of the European Community, and isolation is a part of economic regionalism. Japan must unite with other Asian countries to enable effective global competition with the two other economic blocs. The other Asian countries are all at different and varied levels of economic development. This may cause problems in coopera-

**Table 3. Major Japanese Manufactures and Export Volume**  
(in thousands)

	Production (A)	Export Volume (B)	B/A
Watches	285,546	246,949	86.5%
Passenger Cars	9,052	4,392	48.5
Bicycles	7,792	200	2.6
Video Cassette			
Recorders	28,242	23,411	82.9
Color TVs	12,578	4,744	37.7
Microwave Ovens	4,790	2,512	52.4
Washing Machines	5,141	657	12.8
Electronic Calculating			
Machines <sup>a</sup>	71,687	34,385	48.0
Xeroxing Machines	2,149	1,649	76.7
Cash Registers	1,588	1,064	67.0
Electric Cleaners	7,138	1,347	18.9

<sup>a</sup>Table type only.

Source: *Japan 1991: An International Comparison*, Tokyo: Keizai Koho Center, Tokyo: Japan Institute for Social and Economic Affairs, 1991.

tion, but it may also provide opportunities for cooperation. For instance, as Japan restructures its economy, the "outdated" industries — less competitive ones — may find new homes in other Asian countries. Furthermore, the potential of the Chinese market is simply immense. Being at the same level of economic development, certain frictions that are inevitable among Japan and other developed countries may be absent in cooperation with other Asian countries.

#### THE FOUR TIGERS

The problems facing the NIEs are to a certain extent similar to those confronting Japan, particularly, their heavy dependence on international trade. Foreign trade is virtually their economic lifeline. Their depend-

ence is even greater, and they are more sensitive to changes in the international economic environment because of their smaller economies. Furthermore, they are more deeply involved in Asia. They are in a process of change from the regional to the global economy (see Table 4).

The NIEs have received a large volume of investment from the United States, Japan and the European Community; simultaneously the NIEs are investing heavily overseas. Singapore invested US\$5 billion overseas in 1989, or 8.9 percent of its GNP, US\$4 billion was direct foreign investment in the "ASEAN-4" (Malaysia, Thailand, Indonesia and the Philippines). Taiwanese investment in Thailand and Malaysia reached US\$303 million and US\$780 million respectively in 1989, second only to Japan. South Korea invested US\$490 million in Malaysia in the same year. Hong Kong had invested a total of US\$230 million in Indonesia by 1988, second only to Japan.<sup>16</sup>

Moreover, the NIEs have become international and regional financial centers. Fluctuations in their stocks, exchange rates, interest rates,

**Table 4. Foreign Trade Dependence of Selected Asia-Pacific Countries**

Total foreign trade as percentage of GNP	
Singapore	289%
Hong Kong	186%
Taiwan	92%
South Korea	72%
Malaysia	104%
Philippines	36%
Thailand	43%
Indonesia	44%
Japan	24%
United States	15%

Source: *Japan 1991: An International Comparison*, Tokyo: Keizai Koho Center, Tokyo: Japan Institute for Social and Economic Affairs, 1991.

and gold prices are reported in the leading economic newspapers. The NIEs' close ties with the international economy raises two issues of concern. The first one is that the NIEs are small economies with a large economic structure, that is, they possess the potential for the economic development of a large country in a small area. For instance, Singapore has a total land area of a mere 600 square kilometers and a population of 2.6 million. Hence, multinational corporations have little room for expansion. The NIEs have scarce endowment of resources and are heavily dependent on foreign investment. As these economies mature, surplus capital either leaves the country to find investment opportunities or is directed toward speculative activities that may cause instability. For instance, Taiwan has a large surplus of capital and a quarter of the population is engaged in the stock market. Rumors of the death of a local banker at the end of 1989 set off a plunge of 548.98 points in the stock index on that day.<sup>17</sup> The second problem is that the NIEs are in a process of economic restructuring. As a consequence of U.S. and Japanese investment in the 1960s and 1970s, the NIEs have successfully gone through the import substitution stage of their industrialization. The four tigers, however, are now losing their comparative advantage in labor-intensive industries.

U.S. statistics reported that the average hourly wage in South Korea increased by 46 percent in 1988 (based on U.S. exchange rate), while it increased by 22 percent in Taiwan, and 15 percent and 13 percent respectively in Hong Kong and Singapore.<sup>18</sup> The four tigers are moving upward in production toward the high-technology, skilled processing and high value-added industries. This change is difficult to execute in small economies. In addition to economic problems, Taiwan, Hong Kong and South Korea also face political uncertainties. What will Hong Kong be like after 1997? Will Taiwan and mainland China be able to unify, when will it occur, and under what model? What kind of federal government will unify the two Koreas? There are many factors to be considered. Regardless of the kinds of government that will rule these economies, politics will affect economic development, and these governments will employ a diversity of philosophies and measures to intervene in the economies.

In attempting to solve the above economic and political problems, the NIEs are becoming catalysts in the process of Asia-Pacific economic



cooperation. Pan Asia-Pacific economic cooperation may not, however, be the top concern of the NIEs, but rather bilateral and multilateral cooperation with neighboring areas. For instance, South Korea, North Korea, the Soviet Union, China and Japan are all involved in joint development of their border regions. Increasingly intense trade and investment activities, including the movement of labor, are occurring among Hong Kong, Taiwan and China, while Singapore is making significant investments in Southeast Asia. This kind of cooperation can more efficiently utilize labor, technology, capital, and raw materials. Furthermore, it brings about mutual benefits that ease political tensions and facilitate the settlement of many political issues.

#### THE "ASEAN-4" (INDONESIA, MALAYSIA, THE PHILIPPINES AND THAILAND)

Since 1989 many international authorities have projected that the "ASEAN-4" will join the ranks of the NIEs by the turn of this century. Suggestions that Thailand or Malaysia will become the fifth "tiger" are also common. The economic development of these four countries is gaining increasing international attention as their domestic growth rates have been among the highest in the world. ASEAN countries have a total land area that is twice that of the European Community, and a population of nearly 300 million. Furthermore, these countries have many years of experience in economic coordination. In the 1970s and 1980s, Japanese industries that were transplanted into these countries became foundations for their own industrialization. In addition, their abundance in agricultural, forestry and fishery resources certify them as important economic actors.

The economic development of ASEAN is inseparable from economic cooperation in the Asia-Pacific region. First of all, the ASEAN economies are also faced with the need of restructuring their economies. Indonesia, the most heavily populated ASEAN country, has for a long time put emphasis on labor-intensive commodities in production and trade. Agricultural products were 55 percent; crude oil and natural gas, 44 percent; and industrial products, 1 percent of its exports in 1970. The composition changed to 11 percent, 85 percent and 4 percent respectively by 1982. Further adjustments in recent years have brought the

composition to 24 percent, 45 percent and 31 percent respectively by 1988.<sup>19</sup>

Malaysia traditionally relied on primary commodity exports, but in recent years manufactured exports has expanded by some 30 percent annually. Manufactured goods for the first time in 1989 exceeded 50 percent of export composition. Electronic products have become the largest line item export in recent years, Malaysia's production and export volume ranks third in the world, behind the United States and Japan.<sup>20</sup>

Thailand's manufacturing sector as a percentage of its GNP reached 20.6 percent in 1986 and climbed to 40 percent in 1988. Political instability in the Philippines in recent years has hampered its economic development. The manufacturing sector was 19 percent of its GNP in 1978, and rose to 24.7 percent in 1987. The Philippine government passed comprehensive social and economic reform legislation in June 1990 to promote economic development by "removing the economic isolationist mentality that has plagued the country for three decades."<sup>21</sup> Yet, in both economic reform and economic restructuring, ASEAN countries all need external capital and technology.

As mentioned above, the pattern of economic cooperation in the Asia-Pacific region today is a result of historical factors. The rise of the Japanese yen has added pressure to the process, and ASEAN economies are the most severely affected. The NIEs and ASEAN economies depend on trade with the U.S. to finance their trade deficits with Japan. ASEAN economies are net exporters of cash because of their large volume of imports, and they need exports and foreign investment to finance their trade deficits. As the ASEAN-4 restructure their economies, they are in great need of financial resources. Therefore, ASEAN has adopted a positive attitude toward regional economic cooperation since 1984.

ASEAN maintains that it will preserve its independence in its participation in Asia-Pacific economic cooperation since it is obvious that Japan will play a leading role in this scheme. ASEAN, on the one hand, needs Japan, but on the other is deeply suspicious of Japanese regional political ambitions. The organization is also dissatisfied that Japan has not made greater contribution to ASEAN economic development. This ASEAN attitude will have a tremendous impact on Asia-Pacific economic cooperation in the years to come.

## MAINLAND CHINA

China objectively has the potential and recognizes the mutual benefits of taking part in Asia-Pacific economic cooperation. China, with its 1.2 billion population, will be a huge market. Chinese urban families have an average per capita income of Rmb1,261, while peasants have a per capita income of Rmb602. Annual retail sales reached Rmb810 billion in 1989.<sup>22</sup>

China is now at its initial stage of industrialization and there are development hurdles to overcome. Its industrial infrastructure in energy, transport and raw materials is weak and industrialization is not evenly distributed throughout the country and these infrastructural undertakings require huge capital investment. On the other hand, China has a large labor force. Though limited in education and training, Chinese labor is cheap and foreign investors can take advantage of this. The Chinese coastal cities have superior economic infrastructure and a higher quality of labor, thus providing a better foundation for more advance economic development and prospect of further economic cooperation.<sup>23</sup>

The main obstacles to Chinese participation in Asia-Pacific economic cooperation are political and economic factors. Although the high level leadership have repeatedly reiterated support for reform and openness and displayed an inclination to take part in global and regional economic cooperation, the Chinese government is an oligarchy of strong-minded individuals. Chinese political development is strongly affected by these men, making it difficult for outside observers to forecast future developments.<sup>24</sup> China's current foreign policy is much more pragmatic than its foreign policy in the 1960s. However, rational behavior only at the international level is inadequate to ensure Chinese participation in regional economic cooperation efforts. Foreign capital and commodity exports to China are profit-oriented activities, and the absence of comprehensive legislation and political stability will discourage foreign entrepreneurs.

On the economic front, irrationality in the production structure and regional concentrations of industrial activities as well as the poor quality of labor can be mitigated by further cooperation in the long run, but these are negative forces at the initial stage of cooperation. China is short of foreign exchange, hence, it is often excessive vigilance in balancing its

foreign reserves in foreign investments and trade. Such consideration is understandable, particularly in the 1990s, when China's debt burden should be the heaviest. However, over-concern with maintaining a balance can cause the country to miss profitable investment opportunities. The real cause of foreign exchange shortage then is not spending too much, but spending too little on the purchase of significant goods and services that can generate more foreign exchange revenue. In conclusion, the absence of the right political and economic policies will dampen the attractiveness of the huge Chinese market in spite of its promises. The current heavy injection of Japanese capital in the Pacific rim causes Chinese apprehension as the country is short of capital.

## A FEW GENERAL ISSUES

## PEACE

The various Asia-Pacific countries (or regions) have fundamentally two kinds of international relations: North-South relations (between the developed and developing countries) and East-West relations (between the communist states and the liberal capitalist states). Although the region was not the breeding ground of World War Two as Europe was, there are considerable political issues that cause concern:

1. Unification and sovereignty: the two Koreas, China, Hong Kong and Taiwan, are all dealing with the legacy of their past in national reunification. In these cases, a single ethnic group is divided into several parts with a *de facto* political entity. The two Koreas are now tackling this issue, while Hong Kong and Macau's future have basically been settled. On the Taiwan question, although China and Taiwan share a common view on the more abstract issues (e.g., insisting that there is only one China), there are still no genuine major breakthroughs.<sup>25</sup>
2. Ideological differences: China and North Korea subscribe to the communist doctrine. Japan after World War Two was an important U.S. ally in the West's confrontation with the Soviet Union. The Cold War

has ended and the Soviet Union has collapsed, but the confrontation between communism and capitalism has not come to an end. The main stage of confrontation may move to the Asia-Pacific region. Furthermore, ASEAN countries still suspect of China's intention due to their experience of domestic communist subversion.

3. Territorial disputes: practically all countries in the region are parties to territorial disputes. Sovereignty over disputed territories in the South China Sea is claimed mainly by littoral states that lie within the perimeter of these areas. Settlement of these disputed territories is complicated by oil potential. In Northeast Asia, the Diaoyutai Islands are claimed by China, Taiwan and Japan.
4. Historical resentments: Japanese invasion of other Asian territories during the last two World Wars as well as more recent incidents, e.g. the textbook controversy, Yasukuni Shrine visits and the deployment of Japanese military personnel continue to sustain worries of a revival of Japanese militarism among the East Asian countries.<sup>26</sup>

Economic cooperation can further political understanding in the long term. (One shall hope that China, Taiwan, Hong Kong and Macau's future will develop along this line). On the whole, a peaceful political atmosphere is a catalyst to economic cooperation and it is dependent on the efforts of the sovereign states. The ideal of Asia-Pacific economic cooperation has been around for three decades, but it was only in 1989 that the first governmental level meeting was held. In the future, issues on coordination among government agencies will certainly multiply.

#### OPENNESS

The degree of openness among the individual domestic markets differs due to disparate economic systems, and different levels of economic development among the region's economies. Given the same amount of investment and labor inputs, varied outcomes will result due to differences in the production environment. The different outcomes will eventually reach an equilibrium as the more prosperous economies will channel their surplus to the less developed ones. This kind of equilibrium, from an economic viewpoint, is most efficient, but from a

sociological and political viewpoint certain regions, industries, enterprises and laborers will suffer (e.g. unemployment), and cause social instability. Politicians are, therefore, usually highly cautious in implementing the open market policies advocated by economists.

In the process of regional economic cooperation, there will be significant hurdles in the areas of trade, technology transfer and labor mobility. Economic cooperation does not necessarily advocate an immediate breakdown of all barriers, but it must strive for this ultimate goal and eliminate them at the right time.<sup>27</sup> The key question then is the "right time" and parties may differ on this point. Nevertheless, cooperation pushes for openness and not for the search for means to reinforce the barriers to international economic interaction.

#### INTRA-REGIONAL RELATIONS

Any kind of economic cooperation is in reality a move away from other countries (or regions). Asia-Pacific economic cooperation demands internal coordination as well as effective interaction with extra-regional actors, and one of the priority issues is U.S.-Japan relations. Japan has enormous interests in the United States, so Japan cannot simply isolate itself from the United States and seek leadership in Asia. Politically, post-war Japan relied on the United States for defend against the Soviet Union.<sup>28</sup> Though the Soviet Union has collapsed, the new Russia holds an uncertain future. Moreover, territorial disputes persist between Japan and Russia. Japan cannot single-handedly manage the post-Cold War Asian political environment.<sup>29</sup> Hence, Asia-Pacific economic cooperation will not be able to free itself from U.S. influence for a long time to come. Some of these issues in Asia-Pacific economic cooperation will have to be settled in the arduous negotiations between the United States and Japan.

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## **Part I**

### **China and Asia-Pacific Countries**



## *China's Relations with the U.S. Since 1980*

*Arthur W. Hummel*

China's complex relationship with the United States is the product of two decades of interactions and accommodations between these very dissimilar nations. To describe and analyze their relations since 1980, it is necessary to examine the recent history of their relationship.

There is no need to describe here at any length the causes of the 1971-72 rapprochement between the U.S. and China: the Sino-Soviet split and subsequent Soviet threats and pressure on China; the Nixon administration's recognition that there would be advantages for the U.S. in better relations particularly in achieving an orderly withdrawal of U.S. forces from Vietnam; and the recognition in both countries of the benefits of a strategic alignment to oppose Soviet expansion. Out of these and other factors came a relationship that was explicitly anti-Soviet at its start, and that had a strong strategic component. Each side valued the connection as much for its impact on a third party (the Soviet Union) as for its benefits in purely bilateral terms.

It was soon evident to China that the United States was the principal beneficiary of this triangular array. The U.S. felt quite free to pursue detente with the Soviets while China did not. Bilateral benefits soon began to become increasingly important to both countries and trade expanded between the two former enemies. But the imbalance in the strategic equation soon became uncomfortable to Beijing. By 1975 China was complaining that the detente that the United States was successfully pursuing with the Soviets was being achieved because the U.S. had been standing on China's shoulders.

China's perception was that the U.S. moves were contrary to the original understandings, but the U.S. did not see things that way and was more than a little put off by the Chinese complaints. This is an early

illustration of the different perceptions in Washington and Beijing of the purposes and substance of the relationship. Indeed, such cycles of euphoria and misunderstandings have become familiar in the relationship.

The Carter administration immediately signed a broad range of mutual cooperation agreements following full normalization in 1979, giving rise to considerable Chinese and U.S. optimism about the new relationship. Unfortunately, elements of disillusionment and disagreement soon marred the over-optimistic atmosphere. The U.S. showed itself unwilling and unable to furnish the massive economic aid and capital investment that China had hoped for. The Carter administration did not succeed in overcoming foot-dragging in the Department of Defense that effectively obstructed implementation of the more liberal export controls promised to China in the field of high technology.

Likewise, China was seriously concerned about the Taiwan Relations Act (TRA) of 1979 that followed hard on the heels of the much-welcomed diplomatic recognition. The severing of historic ties with the Kuomintang government in Taiwan because of U.S. recognition of the Beijing regime caused a backlash in Congress that resulted in the passage of TRA over President Jimmy Carter's objections. This legislation in a number of respects ran counter at least to the spirit, and in some respects the content of the assurances surrounding mutual diplomatic recognition. Consequently, it seriously distressed Beijing, and there is good evidence that it caused spirited high-level debate among the leadership over the benefits of Deng Xiaoping's policies of opening to the outside, particularly where the United States is concerned.

Further Chinese doubts about the utility of such close reliance on the U.S. was fostered by subsequent events and similar query was prevalent. U.S. traders and investors had discovered that their former hopes for access to China's vast market were illusory. A combination of developing-country nationalism with communist-bureaucratic obstructionism (neither one unique to China) made joint-venture investments and some forms of business relations difficult to implement satisfactorily.

Chinese thinking reached a turning point in 1981 during the first six months of the Reagan administration, with far-reaching results. Ronald Reagan's election campaign rhetoric in 1980 in which he advocated upgrading U.S. ties with Taiwan alarmed China. Despite an explanatory

visit by vice-presidential candidate, George Bush, and further clarifying statements by Reagan after taking office, Chinese leaders were not reassured. Further unsettling news came via Washington press reports during the summer of 1981 that White House officials were planning a massive upgrading of arms sales to Taiwan, to be balanced and supposedly made acceptable to Beijing by approval of substantial arms sales to China as well.

Chinese leaders had initially decided that only a direct confrontation with the United States on the Taiwan issue would stop these alarming trends by bringing home to the Reagan Administration the dangers of these White House tendencies.

China gave Washington an ultimatum in September 1981: the U.S. must set a date for terminating all arms sales to Taiwan, failing which diplomatic relations would be downgraded. Discussions and negotiations ensued, but not until August 1982 was an agreement reached. The agreement did not set a date for stopping U.S. arms sales but promised their gradual diminution, with the provision that there must be peace in the Taiwan Straits for the reductions to continue. In the course of these negotiations, conducted in Beijing, there emerged new awareness on both sides of the limitations inherent in the relationship.

With hindsight, it is now evident that while China agreed to retreat from the terms of its ultimatum (neither was a deadline set for stoppage of arms sales to Taiwan nor was there a downgrading in diplomatic relations), the chief Chinese objective had been achieved — to alert the Reagan administration the importance of maintaining good U.S.-China relations, and conversely to focus President Reagan's attention on the damage that would be done to his administration's interests by a sharp setback in such an important foreign policy issue as relations with China.

The Taiwan arms sales agreement, however, did not end the tension in U.S.-China relations. China's leaders began a series of probes designed essentially to discover the depth and extent of U.S. constancy and regard for China. For this purpose, the highest levels of the Chinese government chose to involve themselves directly in bilateral issues that in a more mature relationship would have been handled at lower echelons as routine and normal frictions between sovereign states.

First came the case of Hu Na, a Chinese tennis player, who defected

to the U.S. China insisted that Hu should be forcibly handed back to China despite her expressed desire to stay in the West. Next, a bilateral textile accord lapsed without renewal in early 1983. U.S. implementation of unilateral controls as a stopgap induced severe Chinese complaints. Then a legal suit in U.S. courts over 1911 Chinese railway bonds caused near catastrophe in trading relations because of Chinese stubbornness. The case came close to adjudication in a way disastrous to both Chinese and U.S. interests.

In each of these events, and in others, China discovered that the U.S. government was not going to lay aside long-standing U.S. policies about defectors, practices in textile quotas, and constitutional legalities to conform to China's desires or demands. China decided to relax the tensions by May 1983, having by that time obtained substantial liberalization of U.S. controls on exports of high technology to China — an actual implementation of Carter's assurances.

Nevertheless, the previously close parallelism in the international policy and security aspects of the relationship with the U.S. were soon substantially weakened. Chinese leaders announced the beginning of an independent foreign policy that was explicitly designed to distance China from its convergence with the United States. The Chinese began to vote in the United Nations increasingly against the U.S. and with the Third World, even on issues of importance to the U.S. Moreover, China embarked on a cautious exploration of Soviet overtures toward detente; for the first time since their split in 1960 Beijing began to engage in serious, structured talks with the Soviet Union. These talks, under Gorbachev, finally brought normality to a long-strained relationship.

The reasons for China's movement away from its previously close links with the U.S. are complex, and include the following:

1. There was increasing evidence, in Chinese eyes, that the U.S. was not necessarily a reliable or pliable partner. It would, moreover, on occasion take actions contrary to China's interests;
2. There was also realization that the U.S. would not be able or willing to fulfill China's earlier hopes for steady and massive aid, capital and technology inflows;
3. And there was recognition that the Reagan administration's strong

anti-Soviet stance meant that China no longer needed close relations with the U.S. to ensure that the U.S. would continue to be a strong deterrent against Soviet expansionism.

China realized that there was, and would continue to be, an imbalance in their relationship. China was far more focussed on the U.S. than the U.S. was on China, and U.S. concerns elsewhere would always be distractions that would make Washington a less than reliable partner. Moreover, there was great sensitivity in Beijing over charges from the Soviet-bloc that China had become an ally or puppet of capitalism — accusations that had troubled Beijing's leaders for some time.

Similarly, on the U.S. side, there was increasing disillusionment with certain aspects of China's policies:

1. There was irritation over China's repeated demands for special treatment and concessions;
2. China's increasingly public criticisms of U.S. policies and actions especially in the Middle East and Central America, in line with China's independent foreign policy, were disturbing;
3. Disappointment in the U.S. business community with the terms and rewards for doing business with China, where the unreliability of administrative and legal assurances and the difficulties of dealing with an unproductive labor force made joint venture investments a bigger gamble; and
4. U.S. concern with human rights worldwide reached ever-higher intensity. China's case caused mounting public censure: China's one-party rule, imprisoning of political dissidents, the Tibetan issue and reported forced abortions in its family-planning program.

Nevertheless, many observers viewed these frictions in the relationship with something approaching satisfaction, not for their abrasive effects but for the increasing realism that they represented. The relationship seemed to have matured from 1985 to 1989, being largely free of the wild swings between euphoria and disillusionment that had characterized their past. Though mundane frictions that are normal in any complex relation were present and demanded the attention of officials on

both sides, no serious obstacles loomed in sight and the steady progression of bilateral high-level visits had their intended effect on the bureaucrats in each country. Chinese President Yang Shangkun and U.S. Vice President, George Bush, as well as many other officials at all levels of the two governments, travelled across the Pacific to underscore the seeming stability and the importance of their bilateral relationship.

The events at Tiananmen obviously had explosive consequences in the United States and in the West in general. We are all still evaluating the effects, and their long term repercussions are neither clear nor complete. It is an understatement to say that there have been fundamental changes in the U.S.-China relationship that had seemed to be growing so well, despite obvious difference and frictions.

At this point, the very strong and perhaps even hardening attitudes in the United States seem to be the main obstacle to resumption of normal relations. China gives every sign of wanting to return to earlier patterns, while at the same time avoiding the appearance of being subservient to U.S. demands. It accuses the U.S., with some justification, of continuously changing and escalating its conditions.

The Bush administration has chosen a three-pronged approach toward China: (1) to express sharp criticism and dismay at the events of Tiananmen; (2) to impose sanctions, at U.S. public demand, but to limit the sanctions so that they do not fundamentally damage relations with the Chinese people or the government; and (3) to keep in touch with the top levels of Chinese leadership.

Unfortunately this basic policy, which this writer supports, has been implemented without adequate regard for obtaining and building public support. The Bush administration's efforts to explain and justify its actions have been insufficient; some would even say inept. For instance, the hasty secret trip to Beijing by Brent Scowcroft only a few weeks after the Tiananmen Incident, a publicized toast by Scowcroft to Chinese leaders in December of 1989, and a series of procedural errors in carrying out Bush's promises to change the visa status of Chinese students. The result, very unfortunately, is that influential segments of U.S. society have expressed sharp antagonism toward the policies, and there are serious challenges in the Congress as well as in the press, culminating, as this is written, in a still-precious battle over whether to continue the

MFN tariff status for China.

Why this condition has come to pass will be debated for many years. Primary responsibility lies of course with the Beijing leadership; they are culpable not only because of their final decision to crush the demonstrations in Tiananmen Square, but also for the manner in which the whole problem was mishandled over the preceding six weeks in April, May, and June of 1989. Moreover, events since that time, both within and outside China, have presented the Beijing leadership with difficult problems that they have not managed skilfully.

Perceptions in China and in the U.S. have become solidified, with little apparent flexibility. Among Chinese officials, there is a fundamental fear that the U.S. wants to force political changes upon China in a new hegemony driven by moralistic goals. The United States, in China's view, is seeking to bring China to its knees through the application of economic and political pressures, and to force the present leadership to step down. The absence of the Soviet Union as a counter-balance seems to be enabling the U.S. hegemonist the opportunity to impose its will on other nations in an unbridled fashion. Beijing complains of the withholding of high-level exchanges and the arms-length quality of their relationship. More recently, China protested against the White House meeting with the Dalai Lama. Beijing believes that the U.S. is trying to prevent other nations, particularly the Western European countries, from returning their relations with China to pre-Tiananmen status and are continuing to block important international loans.

On the U.S. side, particularly in the Congress and the media, Beijing's leadership is held in scorn and contempt, initially centering on the human rights aspects. The television images of events at Tiananmen are still vivid and, some say, continuing to advocate punishment of that leadership. China's rulers have not expressed any regret for their repressive actions. Prison sentences for many involved in the demonstrations seem harsh to Americans. Many dissidents are reported to still be in detention without charges after more than two years. Additional ideological controls have been imposed on China's people apparently with hopes of achieving the kind of conformity, especially among intellectuals, that is reminiscent of Mao's time. Indeed, campaigns in the style of the 1960s have been resurrected, such as the "Emulate Lei Feng Cam-

paign," in a futile effort to turn back the political clock and to revive an aura of legitimacy that the leadership knows it has lost. U.S. attitudes on human rights have been hardening for the last decade and a half. Whether U.S. diplomats like it or not (most do not), many Americans now accord a very high priority to human rights in the rank ordering of international interests that should be pursued in foreign countries.

Some Americans seem to believe that withholding MFN tariff preferences and continuing to apply economic and other sanctions can force desired changes. Others, including this writer, doubt that such measures can be effective, and deplore the damages to U.S. own interests if such pressures are applied. Unfortunately, the picture has become even more complicated by the surfacing, in the last year or so, of new information about China's policies and practices, unrelated to human rights, that have greatly complicated the U.S. debate over the MFN. For instance, it appears that China's trade surplus with the U.S. will increase to the point of exceeding that with Taiwan in 1991. The U.S. trade deficit with China may be only second to Japan. Chinese restrictions of U.S. imports further the MFN debate.

Other American grievances involve apparent contradictions between Beijing's assurances and actual actions. Chinese internal documents have validated speculations that prison labor has been used to produce manufactured goods for export, despite repeated Chinese assurances that none are ever exported. Another issue is nuclear and arms proliferation. China recently admitted that it has sold to Algeria planes and materials for a nuclear reactor, that until its exposure had never been reported or declared to the International Atomic Energy Agency (IAEA).

China had only recently agreed to join the multinational grouping designed to limit world sales of missiles; there are reports that China may be selling to Pakistan a missile that is very close to — some say beyond — agreed limits. There has also been repeated and massive pirating of U.S. intellectual property, including computer softwares, despite repeated promises by Beijing that they are taking steps to end such abuses.

The domestic situation in China has significant effect on future policy developments. Popular confidence in the leadership, the government and the communist party are at its lowest point since the Cultural

Revolution. The lack of commitment to agreements by the leadership is perhaps the reason for their unpopularity and consequent isolation from their own society.

Hesitations and contradictions in policy pronouncements from the top leadership betray considerable disarray and disagreement at high levels. Some Beijing officials are remarkably candid in their descriptions of disputes among senior leaders over serious economic and political issues that demand urgent action. The delays over outlining, and then refining, the latest Five-Year Plan illustrates that all is far from smooth in Beijing's decision processes. Hope is slim indeed that there will be a smooth and institutionalized succession when the aging leadership, which has been a stabilizer and final arbiter of political events, passes from the scene.

Deng Xiaoping's past plans for succession arrangements have been vitiated by the abrupt dismissal of two communist party secretaries in 1987 and 1989. The insecurity of the leadership is perhaps best reflected by the fact that they have done little or nothing to begin to bridge the wide gap that now separates them from their own people. Dissatisfaction with the party and the leaders certainly existed before the Tiananmen Incident, centering on their inability to control inflation and corruption. Popular discontent has heightened since, therefore, one wonders why the leadership still has not begun to heal the wounds of Tiananmen, but instead pretending that they do not exist.

Despite these ominous and negative factors, this writer does not predict chaos in China or a return to unacceptable political practices. Beijing has brought inflation under control, has made much needed adjustments in the exchange rate, and has taken steps to reduce subsidies in transportation and energy, all actions that have positive effects. The economy, while sluggish, is not declining. Popular dissatisfaction is being contained, and no one expects any more popular anti-government demonstrations. China remembers the economic accomplishments of the early 1980s and wants to continue the reforms that have been so successful. No other communist country, certainly none in Eastern Europe, has achieved such effective transition from a centrally planned economy to more rational market forces. Massive problems remain to be dealt with, of course, and the uncertain leadership does not seem able to attack even

the most urgent: the environment, inefficient state industries, water supplies in northern China, etc. But the overall picture is not as gloomy as many Americans seem to think.

It appears to this observer that the extraordinary reforms in China's economy and society may have caused them to outgrow the nation's antiquated political system. It may be some time before the political system changes very much, despite the desires of many Chinese people, and Americans should be patient.

To present a comprehensive picture, it is instructive to examine the elements that show continuity and steadiness in China's foreign affairs, as opposed to the internal disarray. China has pursued relatively coherent foreign policy goals for the past dozen years, and has shown considerable consistency in a number of ways:

1. There is an evident Chinese desire for stability in the region, including an unspoken but obvious appreciation for the security role played by the U.S., particularly through bases and security arrangements in Japan and the Philippines;
2. China understands its heavy dependence on foreign markets for the health and development of the economy and seeks an orderly and legally based international environment;
3. China has mounted strong and persistent opposition to Vietnamese occupation of Cambodia and in the process shown some sensitivity to the views of other countries;
4. China has maintained good relations with Japan, while remaining wary of Japan's long-term intentions;
5. Beijing firmly pushes forth expansion of economic and cultural ties with South Korea despite strong objections from North Korea;
6. China has managed detente with the Soviet Union while exerting firm (and successful) pressures on the Soviets to remove the three obstacles to normal relations: withdrawal from Afghanistan, cessation of Soviet support for Vietnam in Cambodia, and reduction of Soviet forces threatening China's borders; in doing so Beijing has practically reduced the only actual security threat to its borders;
7. Despite some hesitation, China has played a positive role in the United Nations Security Council during the Kuwaiti crisis; and

8. China has maintained its so-called principled policy on the Taiwan issue, while not pushing so far as to instigate any open conflicts.

Finally, in looking at the future of U.S.-China relations, my conclusion is that there are sufficient long-term factors making for better relations than there are factors tending toward deterioration. On the U.S. side, the strongest positive factor is, of course, the determination by President Bush to halt further deterioration of the relationship, and to start to reduce the frictions. The firmness of this resolution is demonstrated by his willingness to endure considerable pressure and to expend much political capital and leverage every year over the MFN issue. There are other favorable signs, too. Despite some feeling that China is not as important because of the diminished Soviet threat, there is actually broad understanding that smooth relations with China are still important to U.S. interests.

For one thing, China's behavior in the East Asian region has great importance for U.S. goals and policies. A disruptive or belligerent China, attacking or pressuring its neighbors, could be highly disruptive to the stability that we and our friends seek. China's cooperation is essential in the United Nations and in regional disputes such as Cambodia. China's cooperation was probably a key factor in North Korea's agreement to join the United Nations and to allow IAEA inspection of its nuclear installations. In addition, environmental issues require China's cooperation, as well as other problems of global importance such as nuclear proliferation, and missile and chemical warfare controls.

The East Asian region is undergoing rapid change, and U.S. policies must change, too. U.S. global leverage is diminishing and the country is no longer the omnipotent force that it once was. Vietnam, Korea, Thailand, Taiwan and South Korea are all evolving in new directions, and a healthy and responsible China is important to all of them.

Finally, conditions in China are going to be more important both to the U.S. and to the region. A disorganized or chaotic China would have profound effects on all of its neighbors. A humanely governed, stable and developing China is essential if it is to play the constructive role that we all desire. Smooth and friendly relations between the U.S. and China can help to realize this. Continued good management of the Taiwan

question depends in large part on the stability and good judgement of the Chinese government. Taiwan has ceased to be an important point of friction with the U.S., and it is clearly in the U.S. interests that this remains so.

China's long term interests are also strongly tilted toward better relations with the United States. There is greater consensus in China on the direction of Sino-U.S. relations than there is in Washington. Chinese leaders in the various echelons of government, and the population at large all seem to want, and to appreciate the importance of, restored relations with the United States for reason in part parallel those of the United States.

Firstly, China has shown over the years that it values the stabilizing role that the U.S. has been playing in the region. China wants to concentrate on modernization and developing its economy, and does not want to be distracted by conflicts or disruptions. The United States plays an important role to help prevent regional conflicts that could be detrimental to China's interests.

Secondly, China needs the U.S. market to earn foreign exchange to finance its modernization. Likewise, China values U.S. capital, management, and technology inputs. There are other sources available, of course, but Beijing needs all it can get and does not want to be too closely dependent on Japan, Western Europe, or any single source.

Finally, continuing hostility toward the U.S. backfires against China's leaders; it undermines their claim to legitimacy, a legitimacy that has been badly damaged in recent years and that which the leadership seeks to restore. On balance, I believe there are good reasons to be optimistic in the future course of U.S.-China relations because both countries want to improve relations. President Bush will continue to have difficulty with forces in the Congress and the media who want to coerce China to change in ways many Americans think necessary. Moreover, the China issue has taken on elements of partisan politics, with Democrats eager to use it to diminish Bush's prestige. Still, public opinion polls show that China policy is not a national issue, despite efforts by some to popularize it. Thus, it seems that the imperatives of the national interests in the U.S. and China are likely to prevail over zealous emotionalism, or unmeditated retaliation.

## 3

## *China and the New International Political Order: Perceptions and Policy Orientations*

Wai Ting

### INTRODUCTION

The year 1989 was important for both the internal development of China and the world situation. Chinese foreign relations suffered setbacks including foreign economic sanctions imposed on China after the tragic Tiananmen Incident. However, two years later, China struggles to re-enter the international stage and finds that the world has undergone radical changes. Just what kind of world does China see today? What position does China occupy and what role will China play in the new international political order? How will China situate herself in the world on the basis of the Chinese leadership's perception of this new order?

The end of the Cold War has given rise to numerous problems of major political and security concerns. What will the world be like in the post-Cold War era? The bipolar and confrontational atmosphere that governed the post-World War Two period had restrained many countries' liberty to manoeuvre in their foreign policies. Does the end of confrontation between the two blocs mean a return to an open contest for power, the surge of nationalism and international conflicts that were prevalent in the pre-Cold War period? Ideology is no longer the primary determinant of international relations. But does this signal the revival of big power politics? How will the future world reorganize itself and construct new alliances? What role will each of the major powers (including the United States, the Soviet Union, China, the United Kingdom and France) assume? What directions should Chinese foreign policy take to assure Chinese interests? What kind of world should China help to construct so that the country can further enhance the welfare of the world community and the Chinese people

through its reforms and Open Door Policy? We are interested in both the Chinese view of the world and the role and status of China in the world. Unfortunately, since space limitation does not allow an exhaustive deliberation on this topic, this chapter shall focus on the discussion of three specific issues addressed in the questions below:

1. What changes will there be in the global order in the view of the Chinese leadership and analysis of international politics?
2. How can China's desired international political order be realized and consolidated to facilitate the continuance of the country's Open Door Policy?
3. How does China reshape and reorient its foreign policies to respond to the dramatic world changes?

#### CHINESE PERCEPTIONS OF THE CHANGING INTERNATIONAL POLITICAL ORDER

Since Deng Xiaoping advanced the concept of "international climate" in 1989, Chinese security analysts have been closely monitoring the rapid and dramatic changes in the international environment following the disintegration of the Soviet Union and East European bloc.<sup>1</sup> Their strategic estimation and underlying rationale are summarized in the following:

1. The old Yalta order has ended, that is, the old bipolar order dominated by the struggle for hegemony of the two superpowers and the competition between the U.S. and Soviet Union that determined world events, but a new international order has not yet taken shape;
2. We are now at a critical point of transition from a bipolar world to a multipolar world. Various forces transform, merge, divide, and reorganize old relationships. Changes are difficult to foresee because there are intense tension and competition. The entire adjustment period could be a decade-long process;<sup>2</sup>
3. Detente and dialogue between the United States and the Soviet Union, the two superpowers, will continue and cooperation and coordination will evolve. However, this does not mean an end to

superpower confrontation. "Detente" is just a continuation of the political competition or another form of political struggle in the new era;<sup>3</sup>

4. Bush's "Beyond Containment" strategy and Gorbachev's "Perestroika and New Thinking" basically contradict each other because the former aims to ultimately destroy socialism by using various means, while the latter aims to repair and perfect socialism. Therefore, competition is still the greatest imperative and rapprochement and compromise are secondary. The U.S. hopes to gain the upper hand and change the fundamental nature of Soviet society. Moscow, on the other hand, hopes to, at least, maintain the balance of power.<sup>4</sup> Hence, the arms race between the two will continue, although their arms race will shift from quantitative to qualitative competition that relies on new high-technology to produce more powerful, more precise, and superior weaponry. In addition, their competition will also be marked by a contest of integrated "national strength";<sup>5</sup>
5. Both superpowers are declining in strength. Though they are competing, they are simultaneously trying to sustain the decaying bipolar structure to block the trend toward multipolarity. Big power politics and hegemonism are still the dominating trends and thus the world is still unstable.<sup>6</sup> East-West tensions have eased, but North-South tensions will aggravate. Besides economic conflicts, there are also political conflicts. Big powers continue to interfere with the sovereignty of small powers;<sup>7</sup>
6. The international strategic order will move toward multipolarity in this transitional period to create a complex, interdependent multipolar world. Conflicts due to racial and ethnic, religious, territorial, and resource problems will increase. Furthermore, the end of U.S. and Soviet confrontation permits the emergence of numerous areas of "power vacuum" and gives rise to regional hegemonism, thus possibilities for regional conflicts are much greater. Conflicts due to religious differences and contests for resources and territory will occur continuously; the Gulf War is a good example. Superpower hegemonism and regional power hegemonism will exist concurrently. The U.S. victory over Iraq was only a battle in which a "large hegemonist beat a hegemonist" and neither should be endorsed;<sup>8</sup> and



7. It is fundamentally erroneous to say that “de-ideologization” has become a guiding principle in international relations. It is an objective reality that ideological disparity and conflicts between nations originate from the divergence in their social and political systems. Therefore, it is impossible to halt the ideological debate even if nationalism and economic interest will resurface as causes of international conflicts.<sup>9</sup>

The Chinese view of the world is summarized in the above seven points, and it is a world seen through its “ideological lenses.” Although the view is able to reflect objective reality, it also indicates that the Chinese leadership cannot reject their old mental framework, that is, the “Cold War mentality” that was cultivated in the 1950s but still dominates their minds in the 1990s.

Retaining this “Cold War mentality” in the post-Cold War era will certainly allow biases and errors in identifying and understanding the changing international political order. The Chinese leadership, adhering to this mental framework, is most troubled by two issues. Firstly, the United States’ present national strength and level of economic and technological development in comparison with the other Western capitalist countries, may have declined from its predominance in the 1950s, but the United States is left as the only true superpower. Whether the world will become a unipolarity (with sole U.S. domination); a “multipolarity” (each major power having some capabilities: the U.S. as the military and economic major power; the Soviet Union, still a military power; Germany and Japan, economic powers; and China possessing a large pool of human resources and potentials); or a “uni-multipolar” world,<sup>10</sup> Washington’s strength provides sufficient conditions for her hegemonic interests. U.S. intentions and actions will be the primary consideration of all countries in formulating their foreign policies. In this world in which the U.S. enjoys immense advantages, Washington’s policies may become even more ambitious and challenging.

Chinese analysts have closely watched the Bush administration’s foreign policy in the past two years. Chinese publications concentrate on the discussion regarding the U.S. attempt to sabotage socialist regimes, and this is labelled as the “Peaceful Evolution” strategy. In the 1950s, the

first generation of Chinese Communist Party leaders always stressed that the U.S. imperialist was using all means under its “Containment Policy” to sabotage the young Chinese socialist regime. Through military and political means, the Containment Policy aimed to contain expansionist actions of both China and the Soviet Union. An arc that stretched from Northeast Asia to Southeast Asia, then from South Asia to the Middle East and Western Europe was built to stop the expansion of China and the Soviet Union. The undying belief that “the intention of domestic and reactionary forces to subvert us never dies” still lives in the minds of the older generation of Chinese leaders.

After the Tiananmen Incident, China reiterated time and again Bush’s May 12, 1989, speech that outlined the U.S. “Beyond Containment” strategy.<sup>11</sup> The strategy essentially commits the U.S. to influence and transform socialist countries not with military means but through economic, cultural, academic and political exchanges. This “soft knife” approach has made the Chinese leadership more vigilant of “class enemies” from within and without. China has strictly and cruelly suppressed voices for democracy in the past two years, while continuing its Open Door Policy for promoting external economic exchanges. However, the Cold War mentality of the Chinese leaders has conditioned their thinking and caused the government to hold severe biases and err in formulating its domestic and foreign policies. Such misconceptions have brought about the crackdown in Tiananmen, as well as substantively affecting its open policy. Economic exchange has continued, but cultural, academic and intellectual exchanges have all suffered.

Moreover, the Chinese government feels that the Soviet Union and Eastern Europe have acceded to the U.S. ambitions to defeat socialism, and that Gorbachev cannot deny his responsibility in allowing this to happen.<sup>12</sup> Chinese criticisms of the Soviet Union, however, are not evident in publications aimed at foreign readership. The common rhetoric in these publications is: “Socialism has suffered due to rapid changes in Eastern Europe. Nonetheless, the crises and problems that arise in the old and new forms of socialism do not denote the failure of socialism.”<sup>13</sup>

This rhetoric is further echoed in the Chinese Communist Party organ *Qiu Shi*. In an article on the future of international socialism, the author asserts that “the enterprise of socialism is only going through a temporary

'difficult' period."<sup>14</sup> Unprecedented capitalist exploitation at the end of the nineteenth century has eased tensions among industrialized nations, but it had aggravated tensions in the exploited colonial and semi-colonial societies such as Russia and China and hastened their changes. They were the first to embrace socialism because of severe capitalist exploitation, while revolution in advanced capitalist countries was retarded.

The establishment of socialism in China and Russia had a "take-over effect" on the industrialized countries and delayed their transition to socialism. China and Russia were originally weak in infrastructure and with low productivity, and their class structure, political tradition and cultural spirit were very different from the conditions Marx had outlined for a country to transform itself from an industrialized capitalist state to a socialist state. Therefore, the development of socialism in these countries had certainly to suffer from various kinds of setbacks.

The article asserts that China has already gone through this adjustment period by adopting the mechanisms prescribed by Marx. China is now in the second stage that emphasizes "the intrinsic value and essence of socialism as reflected in classical thoughts, and integrating the general principles of socialism and governing national conditions to create socialism with its own ethnic distinction."<sup>15</sup> The first stage of socialist development is "non-competitive" as external pressure forces closure of the society. In the second stage, the closed development model of socialism is abandoned and the society opens up to compete. The article basically implied an affirmation that both China and the Soviet Union are moving in the "right" direction. On the contrary, "some countries in their transition toward socialism do not accumulate sufficient inner strength to sustain perseverance, showing great fragility and weakness."<sup>16</sup> China unquestionably feels that the changes in Eastern Europe is an opposing current in socialist development but the "inherent value and superiority" of socialism will eventually prevail in China because the Chinese revolution was a "self-reliant" revolution, achieved step-by-step by the leadership of the Chinese Communist Party. Moreover, the party and the army are well experienced and can staunchly and courageously withstand any "opposing current."

On the other hand, publications for internal circulation within the party criticize Gorbachev and his reforms for permitting the U.S. "Peaceful

Evolution" strategy to take effect, and that the wholesale transformation of Eastern Europe toward Western-style democracy and market economies is a move toward capitalism.

However, global changes appear to contradict all that the Chinese Communists are propagating about the trends of socialism. China is becoming increasingly isolated in the world and less able to relate to the world community. How can China re-enter this world which is entirely different from the one China used to know?

### THE CHINESE VIEW OF THE NEW INTERNATIONAL ORDER

What is the "post-Cold War" international order? The whole world including China is pondering this question. Of foremost importance is that the U.S. leadership is also contemplating this question. Regardless of whether the United States dominates in the world, its view of the new international order will surely be a factor that other countries cannot ignore in formulating their foreign policies, because the United States can sustain its superpower position. Thus, Chinese proposals for the new international order are also a response to the U.S. view on the subject.

Numerous speeches by U.S. President George Bush indicated that the U.S. idea of the new international order consists basically of "four principles": peaceful resolution of conflicts; unified opposition to aggression; disarmament and control of the arms race and exports of armaments, and equal treatment of all ethnic groups.<sup>17</sup> However, Chinese analysts consider the U.S. global strategy only as another form of hegemonism in the new era. The ultimate goal is to defend the U.S. strategic interests and manifests itself in four ways:

1. consolidating the U.S. global leadership and bringing all forces into the U.S. power framework under its direction;
2. using the U.S. military capabilities as the backbone to construct a new international security order. Washington shall strengthen its global military intervention capabilities. The main focus is on regional conflicts and the prevention of the proliferation of nuclear, chemical and biological weapons and missile technology in the Third World;

3. using the U.S. "value system," that is, the Western democratic system and market economy as the political and economic foundation in the construction of a new "international order"; and
4. reinforcing the strategy of coalition, utilizing the capabilities of its allies to jointly defend regional security and to ease the burden on the United States; but simultaneously restraining its allies and defending U.S. leadership and core position. The United States attempts to establish "new alliance relationships." It proposes to Europe the so-called "New Atlanticism" and to Japan the "Global partnership." Nonetheless, these alliances are still unequal partnerships.<sup>18</sup>

Chinese analysts favor the term "contradictions" in describing international relations, illustrating that in the relations between nation-states there is harmony as well as conflict. The United States, they stress, wants to be the dominant global power, but it is also restrained by its allies. Europe's integration is a long and arduous process, but the European nations are committed to turn Europe into a single "pole." The Chairman of the Commission of European Common Market, Jacques Delors, thereby advocates common foreign and defense policies for the European Community, exercising common defense through the Western European Union.<sup>19</sup> Japan, another U.S. ally, is seeking to become a major political power, and economically it is trying to catch up with the United States. The main weakness of the United States is that it has the ambition but not the capabilities to dominate.<sup>20</sup>

A new triangular configuration with the U.S., Europe and Japan is taking shape. Tensions may appear because both Europe and Japan — unlike in the old days — will not quietly acquiesce to U.S. leadership. They want to have a greater voice in international affairs. At present they cannot yet challenge the United States' superpower status because the latter can still use its alliances, e.g. the North Atlantic Treaty Organization to restrain Germany, and the U.S.-Japan security arrangement to check Japanese power and maintain U.S. leadership in Asia and the Pacific.

China is certain that the new international political order that the United States advocates is just like old wine in new bottles. In reality it is a continuation of an antiquated order in which a few major powers dominate. In other words, it is nothing but a continuance of big power

politics and hegemonism. In opposition to U.S. hegemonism, Beijing regards Western economic sanctions that followed the Tiananmen Incident and the use of human rights as weapon to pressure China as intrusions in Chinese domestic affairs. The guiding ideologies in China and the United States differ and thus give rise to different perspectives. However, China does not feel that their ideological disparities necessitate a return to a closed-door policy. China must keep its doors open, but it has to protect itself from the "soft-knife" strategy (which assumes that socialism will eventually be overthrown by transforming the mentality of populations in socialist societies).

Based on these premises, the Chinese Communist Party leaders adumbrated their views on the future world order in early 1991: China will seek to occupy a position favorable to its national interests, encourage equitable settlement of issues that relate to Chinese interests, and construct a framework for Chinese relations with other countries. They believe that the "real" international political order should be built upon the Five Principles of Peaceful Coexistence. Nations, regardless of their size, should be treated equally, and major powers cannot dictate the international agenda. Their view in summary is "let national affairs be the jurisdiction of the nation and let international affairs be resolved through international coordination and consultation."<sup>21</sup>

The international political order, which sets the framework for international relations, should generally include these rules:

1. Each nation-state has the authority to independently choose its own social, political and economic systems, and its development model based on its unique national requirements. No country, specifically the big powers, can interfere in the internal affairs of another country. They should not impose their own value systems, ideologies and development models on other countries;
2. Mutual respect of national and territorial sovereignty, that is, not interfering in another country's domestic affairs and not encroaching on another country's territory;
3. International conflicts should be resolved through peaceful negotiations, opposing military aggression and military threats and opposing the use of force to resolve international conflicts;

4. All nation-states, large and small, have the right to equal participation in settling international issues. A single or a few major powers cannot be allowed to dictate the global agenda, and no nation should seek hegemonism or play power politics; and
5. An international economic order must be established that promotes equitable, equal, and mutually beneficial international economic exchanges.<sup>22</sup>

The Gulf War has renewed U.S. ambitions to dominate in international affairs, encouraging it to create a world that is favorable to U.S. interests and to maintain order and stability in every region. Beijing's perspective on the "new international order," in contrast, is the product of many years of diplomatic experience, the views of the first generation of Chinese leaders toward the United States and the lessons learned from the Gulf War. China only concurs with the United States on rejecting military means to solve conflicts, while all other Chinese proposals for the new international order are considered as response to Western actions to harass China following the Tiananmen Incident.

The central issue is that China must keep her doors open, but not permit others to take advantage of China's open policy to influence China's domestic development. Yet in a world in which countries become increasingly interdependent and international relations become increasingly complex, superior values and development models must be able to effectively replace the antiquated ones. Unless a country conscientiously rejects it, the old, inefficient order will eventually be replaced by a more competitive one. Openness invites competition, and an open policy that does not accept equal competition is only a limited open policy. Economic openness alone is inadequate. Economic development may be hampered without sincere commitment to comprehensive openness in cultural and spiritual spheres. This is precisely what is happening in China at present.

Opposing hegemonism is the common wish of many countries, but if anti-hegemonism is used as an excuse to resist foreign influence and suppress voices of dissent within the country, then it is only a means to use new norms and rules in international relations to prevent the collaboration of "domestic and foreign class enemies" and foreign intrusion.

This is only a continuation of the Cold War mentality. However, China has expressed respect for the domestic changes in the Soviet Union and for the right of Eastern European countries to decide on their own courses of development. Beijing's assertion that every country should have the choice to decide on the appropriate social system, ideology and values for its national needs, is a significant positive departure from its old, hardline rhetoric that centers on charges of "revisionism."

#### CHINESE FOREIGN POLICY IN RESPONSE TO CHANGES IN THE GLOBAL ENVIRONMENT

An international relations expert in China speculated that "the [two] main concerns in global competition in the new year [1991] will be firstly combating crises and secondly seeking stability; and coordinating international relations to consolidate the new global framework and establish a new international order. While the former is most urgent, the latter is fundamental, and the two are closely intertwined."<sup>23</sup> He emphasized that the United States, Europe and Japan had already come to an agreement on the general principles in the establishment of a new order. They will "promote global democratization" by exploiting their economic, technological and military capabilities in producing a new order dictated by Western values as principle, led by Western powers and monopolised by capitalism. This has induced much wariness and objection among many socialist and Third World countries and China is the first to recognize this phenomenon and to staunchly oppose it.<sup>24</sup> Then is China's foreign policy an appropriate response to the struggle against hegemonism and is it able to establish a new international political order in the interests of China?

Strategic changes are made to respond to shifts in the global framework. However, these changes will not necessarily be helpful to combat hegemonism or the establishment of the new international order in China's design. China did respond to the new trends, but other than empty rhetoric it has not taken any tangible actions to create the new international order to which it aspires. The preface in *Liaowang Weekly*, the mouthpiece of the Chinese Communist Party, has run articles like "The Demolition of Western Sanctions"<sup>25</sup> and "With Spring coming is A

New Atmosphere for Diplomacy."<sup>26</sup> China wants to prove that it has succeeded in overcoming Western isolation and has returned to the international arena. This is to justify the position that Western sanctions imposed on China after the Tiananmen Incident were unreasonable and China's presence simply cannot be ignored by foreign countries. Although China is gradually returning to the international arena, the new international stage is very different from the one it knew before 1989.

Beijing propagates the prompt establishment of a global political order but foreign support for Chinese proposals depends on Chinese capabilities and its international status. We fear that the end of U.S.-Soviet confrontation has reduced China's strategic importance to the two superpowers. In the past, U.S.-Soviet confrontation had caused the two superpowers to woo China. The strategic rationale for this behavior no longer exists. China vigorously tried to maintain equidistance between the United States and the Soviet Union in the 1980s by adopting an independent foreign policy that made China a target for courtship by both Washington and Moscow. But with the U.S. and the Soviet Union ending their ideological feud and moving toward tension reduction and cooperation, China's strategic importance has conspicuously declined. China finds itself becoming increasingly isolated as it continues to stress dogmatism in an era that downplays ideology. Its isolation is not externally imposed but is a self-isolation from the current of global democratization. In addition, due to potential instabilities in its domestic political development, China's international status has declined substantially.

The new international order that China advocates is a kind of moral or normative order. It basically holds the view that only development according to this moral order is correct, and anything that deviates from it is wrong, and that the Chinese leadership is the vanguard of this moral order.<sup>27</sup> But this is only political rhetoric, China gives no clear prescription on the concrete policies needed for this moral order to materialize. Furthermore, although China consistently claims that its foreign policy is based on principles, it has shown great flexibility in its actual execution. The following section will confirm that despite explicit verbal condemnations of U.S. hegemonism, Chinese foreign diplomacy gives great weight to the importance of the United States in world affairs.

#### SINO-U.S. RELATIONS

If Chinese foreign policy during the Mao era was guided fundamentally by ideology, as the country entered the 1980s Chinese foreign policy in the Deng era, in contrast, was based mainly on economic interests. China attempted to establish a peaceful and stable international environment to provide favorable conditions to absorb Western capital and technology for its modernization. As we are entering the 1990s, we notice that shadows of the two previous periods persist in the current Chinese foreign policy, emphasizing both ideology and economic benefits.

Chinese leadership, bound by its Cold War mentality of the 1950s, still proclaims that it objects to U.S. hegemonism but in its foreign policies China cannot ignore the importance of the United States. Washington's military actions in the Gulf have evoked both sentiments of gratitude and anxiety among countries in the Asia-Pacific. These countries are grateful because the United States has displayed unwavering determination to use military actions to oppose brutal invasion, which as a deterrence against potential aggressors is beneficial to peace in the Asia-Pacific region. However, if the United States plays a more dominating role, many countries would object to U.S. intervention in their internal affairs and fear that they would have to submit to the U.S. dictatorship. These two sentiments have co-existed for a long time corresponding to debates over isolationism and interventionism within the U.S. Whether it is the former with the United States turning inward to mind only its domestic affairs, or the latter extending itself to intervene in affairs overseas, many countries simply do not want either one of these scenarios to become reality.

Beijing faces the same kind of dilemma. China certainly objects to U.S. interventionism, but a decline in the U.S. strength does not promote stability in the Asia-Pacific region. For Beijing, as a matter of geopolitical importance, the United States can check a stirring and ambitious Japan and prevent chaos in Asia brought on by instability in the Soviet Union. In the past, China had to oppose an aggressively expanding Soviet Union; thus, rapprochement with the United States was imperative. A Soviet Union that is too strong is naturally harmful to the interests of China, but an unstable Soviet Union is equally detrimental. The

United States is powerful enough to maintain a certain degree of stability through check and balance.

An examination of the issue of the annual MFN status conferred on China by the United States demonstrates very clearly the economic benefits that China can derive from its relationship with the U.S. China had a bilateral trade surplus of US\$4.2 billion with the United States in 1989. The sum reached US\$10.4 billion in 1990.<sup>28</sup> On the other hand, cumulative U.S. capital investments in China was US\$4.1 billion by the end of 1989, but actual input of capital was only US\$1.8 billion.<sup>29</sup> Although China openly declares that friendship should not be built solely on what and how much interests one can obtain from the other, it is well aware that the United States is far more important to China than vice versa in political, security and economic terms. Beijing may present a tough image in the discussion on its MFN status and reject U.S. demands on improving human rights condition in China. Nonetheless, it has made numerous substantial concessions in a more subtle manner, e.g., freeing members of the democracy movement, signalling that China deems its pragmatic interests more important than the ideological debate.

China opposed Iraq's invasion of Kuwait in the Gulf War. China's opposition to both "big hegemonists" and "small hegemonists" kept China from endorsing U.S. military intervention to end the crisis, China consistently withheld the use of its veto power and abstained from voting on the related resolutions presented in the United Nations Security Council. President George Bush must have been aware that this Chinese behavior enabled Washington to pursue its goals in the crisis and objectively permitted the U.S. to construct its desired new international political order.

#### SINO-SOVIET RELATIONS

Although China ideologically objects to "wholesale political and economic westernization" in the Soviet Union and Eastern Europe, in reality China also holds a very pragmatic political attitude toward the upheavals of the Soviet bloc. From the perspective of international politics, China is very much troubled by instability within the Soviet Union for it may spill over to border regions between the two countries

and may stimulate the expansion of U.S. power in Asia. Since Beijing knows the U.S. has its own anxieties toward reforms in the Soviet Union, China hopes to help the Soviet Union through these hard times and unite the two to counter U.S. expansionism.

Looking at domestic politics in the Soviet Union, China does not want to see the radical reformists take power because this will widen the differences between the two countries. Nor does it wish to see the hardliners take over and return to the old expansionist line. Therefore, China would rather help to stabilize the rule of Gorbachev.

Firstly, there was "ideological" support. Chinese Premier Li Peng declared that the Soviet Union is still engaged in the course of "socialism."<sup>30</sup> Secretary General Jiang Zemin added that socialism in the Soviet Union is encountering temporary difficulties.<sup>31</sup> Since the Soviet Union is still a "socialist" state, there remains the possibility and necessity for cooperation: helping the Soviet Union through these rough times and to oppose the conspiratory U.S. "Peaceful Evolution" strategy.

Hence, although the Soviet Union is obviously a catalyst in the dissolution of the Eastern European bloc, China still feels that playing the "Soviet card" is in its interest. The Soviet Union needs an enormous dose of economic aid from the West. China cannot offer significant help and affect economic changes in the Soviet Union, but Beijing is still willing to render assistance, supplying the Soviet Union with US\$730 million of commercial credit, to enable the Soviet Union to purchase Chinese light industrial products and food. Furthermore, China has indicated its willingness to purchase some of the advanced aircraft fighters the Soviet Union withdrew from Eastern Europe or made idle by Soviet disarmament. The first order of 24 SU-27 fighters is reputed to have been concluded.<sup>32</sup>

#### CONCLUSION: CHINA'S ROLE IN THE WORLD TODAY

A review of the past forty years of Chinese foreign policy shows that every decade was a distinctive stage in Chinese diplomacy. The 1950s was marked by an alliance with the Soviet Union to oppose the United States. The 1960s saw Chinese opposition to both the United States and

the Soviet Union. The 1970s found Beijing leaning toward the U.S. to oppose the Soviet Union. The 1980s was the period of "independent" foreign policy in which China formed no alliances with either superpower and maintained friendly relations with all countries. What can be expected of Chinese foreign policy in the 1990s?

Objectively, Chinese foreign policy in the 1980s did have certain inclinations. Since its foreign policy had to serve the modernizations of acquiring foreign capital investments, technology and experts, China highlighted relations with the Western countries and largely neglected the Third World. But after the 1989 democracy movement and the great changes in Eastern Europe, Chinese foreign policy is now confronting another great challenge.

China charged that foreign economic sanctions against China after June 4th were "isolationist" actions imposed by the West. Surely the West had no intention to isolate China, the sanctions were just a response to Chinese suppression of the democracy movement. The source of isolation was thus China itself. However, it is obvious that China can no longer close her doors or turn back after ten years of Open Door Policy and reforms, and Beijing does not want to be isolated or ostracized by the international community. Therefore, with the West halting high-level exchanges with Beijing, the Chinese leadership took new initiative in its diplomatic actions and visited many Third World countries, especially its neighboring Asian countries.<sup>33</sup> This was to signal that China had no intention to isolate itself and that it would continue to move toward becoming a part of the international system. Then, if the West decides not to conduct exchanges with China, it is their choice and fault.

Chinese foreign policy will truly be an "all-dimensional foreign policy" or "diplomacy *tous-azimuths*" in the 1990s. As China renews friendly relations with Western nations and reinforces their economic relationship, China will simultaneously strengthen ties with the Soviet Union and the Third World (particularly the Asian countries), and not lean toward any one "pole" as it did toward the U.S. and Japan in the 1980s.

Moreover, China recognizes that as tensions ease between the East and the West, it no longer enjoys the unique position it has held in the past. China has often emphasized that it belongs to the Third World, but

neither the superpowers nor the Third World countries have ever believed this to be true. China possesses inter-continental ballistic missiles, nuclear weapons, satellite technology and a four-million strong military force (it has now been reduced to only three million), enabling China to affect the global equilibrium maintained between the two superpowers. However, U.S.-Soviet rapprochement has weakened China's global leverage. It is further burdened by its large population and inadequate military capabilities. Thus, China today is only a major power of the Third World or only a regional power.

Obviously, since China possesses nuclear weapons and a permanent seat in the United Nations Security Council, it can have a greater voice in international affairs than other regional powers. But China worries it will be left out of the "big power club" with the rise of Germany and Japan, two major powers having a special alliance relationship with the United States.

Therefore, China has recently displayed a cooperative attitude toward the Western countries. For instance, we have pointed out that China, by abstaining from voting on resolutions concerning the Gulf Crisis in the United Nations, did in effect help the United States. Beijing agreed in June 1991 to join an U.S.-sponsored conference held in Paris in July that year to limit arms sales to the Middle East. China even declared that it would consider signing the "Nuclear Non-Proliferation Treaty"<sup>34</sup> after France. That is, it is willing to join the United States, the Soviet Union and the United Kingdom to forbid the transfer of nuclear technology to other countries. This pragmatism in Chinese foreign policy is most welcomed by the West, but what does it indicate? Is it a tactical manoeuvre to maintain China's major power status or is it a rejection of ideological struggle and a commitment to the new international political order framework being shaped by the United States?

China is likely to continue its Open Door Policy, so it cannot ignore the U.S. prominence in the new international order. China's response to the U.S. comprehensive strategic considerations may be the main determinant in the formulation of its foreign policies.

## NOTES

1. See my "China's Post-June Fourth World View in the Context of Changing East-West Relations," a paper presented at the conference on "China and Hong Kong at a Crossroads," organized by the Faculty of Social Science, Hong Kong Baptist College, 3-5 September 1990. This paper will be published by the Westview Press.
2. See Lin Wang, "Perspectives on the Radical Changes in the Global Order," in *Liaowang*, overseas edition, 10 December 1991, pp.26-27.
3. After the Tiananmen Incident, Lin Wang wrote a series of articles for the *Journal of International Studies Quarterly*. These reflected some of the official views of the Chinese government and could be used as fundamental texts in macro-political analysis. The articles are "The Effect of Detente on the Third World Countries," No. 3, July 1989, pp.1-3; "A Review on the 1980s," No. 4, October 1989, pp.1-5; "1990's in Prospect," No. 1, January 1990, pp.1-4; and "Current World Situation in Profound Changes," No.2, April 1990, pp.1-3.
4. See Kuang Wan, "Special Characteristics of Developments in the International Order," *Liaowang*, overseas edition, 8 January 1990, pp.25-26.
5. Pei-He Xin, "The Yalta Conference and American-Soviet Relations," *World Affairs*, No.1, 1 January 1990, pp.11-12.
6. See Kuang Wan, "Special Characteristics of Developments in the International Order," *Liaowang*, overseas edition, 8 January 1990, pp.25-26.
7. This was drawn from a press conference of Zhao-Xing Li in *Liaowang*, overseas edition, 17 December 1990, pp.3-4.
8. See "Qian Qishen on Global Order in the 1990s," in *Ta Kung Pao* (Hong Kong), 15 December 1990.
9. Zhen-Hwa Wang, "On Effects of Ideology in International Relations: An Analysis of De-ideologization in International Relations," *Western European Studies*, Vol.8, No.1, February 1990, pp.1-7.
10. See Samuel P. Huntington, "America's Changing Strategic Interests," *Survival*, January/February 1991, pp.3-17.
11. See Tong-Wen Pan, "An Initial Analysis on U.S. Strategy of Beyond Containment," *Journal of International Studies*, No. 1, January 1990, pp.30-35; Qu-Bing Zhuang, "Analyzing Bush's Beyond Containment Strategy," *World Affairs*, No.18, 16 September 1989, pp.7-8. Also refer to Zhen Li, *The Illusion of Peaceful Change*, Qing Dao: Qing Dao Publishing Co., 1990; Quan-Sheng Qu, et al, eds., *Peaceful Evolution Strategy and Policy Response*, Beijing: Knowledge Publishing, 1990; Qi Fang, ed., *The Creation and Development of the Peaceful Evolution Strategy*, Beijing: Oriental Publishing, 1990; and Jian Wu, ed., *American Government and the Peaceful Evolution Strategy*, Fujian Educational Publishing, 1990.
12. See *Changes and Future of Eastern Europe*, edited by the Social Research and Arts Education Unit of the State Education Committee, Beijing: Higher Education Publishing, 1990 (for internal distribution). The book is a collection of articles with detailed discussion on how the political regimes in Eastern Europe collapsed. Gorbachev is identified as the culprit by adopting "classless democracy," freedom and human rights as the guiding precepts for his "New Thinking" which coincides with the "Peaceful Evolution" strategy of the imperialists.
13. Qi-Mao Chen, "The Transition from Bipolarity to Multipolarity in World Politics," in *Journal of International Studies*, No.4, October 1990, p.7.
14. Yi-Huai Lang, "A Global View of the History Destiny of Socialism," *Qiu Shi*, No.3, 1991, p.7.
15. *Ibid.*, p.5.
16. *Ibid.*, p.4.
17. George Bush, "Address before a Joint Session of the Congress on the Persian Gulf Crisis and the Federal Budget Deficit," 11 September 1990, *Weekly Compilation of Presidential Documents*, 17 September 1990, pp.1358-1363; "State of the Union Address," *USIS News Release*, 31 January 1991; "Remarks at Maxwell AirForce Base War College in Montgomery, Alabama," 13 April 1991, *Weekly Compilation of Presidential Documents*, 19 April 1991, pp.431-435. Also see *Asiaweek* (Chinese Edition), 5 May 1991, p.15.
18. See Qing-Gong Li, "Bush's State of the Union Address and America's Global Strategy," *World Affairs*, 1 March 1991, pp.2-4; Lu-Jie Si, "An Analysis of America's 'New World Order'," *Liaowang*, overseas edition, 8 April 1991, p.26; and Ji-Rong Zhou, "Trends in the Changing International Order," *Liaowang*, overseas edition, 13 May 1991, pp.9-10.
19. J. Delors, "European Integration and Security," *Survival*, March/April 1991, p.107.
20. Ji-Rong Zhou, "Trends in the Changing International Order," *Liaowang*, overseas edition, 13 May 1991, p.10.
21. See Zheng-De Ren, "What Kind of New International Order to Build?" *Liaowang*, overseas edition, 7 January 1991, p.12.
22. See *Ibid.* and "China's View on the 'New International Order': An Interview with Qi-Shen Qian," *Asiaweek* (Chinese edition), 5 May 1991, p.18. Also see "Defending World Peace and Promoting Joint Development: Summaries of Speeches at the Conference on the New International Order," *World Affairs*, No.12, 16 June 1991, pp.2-9.
23. Qu-Rong Chen, "Seeking Stability in a Changing World," *Liaowang*, overseas edition, 7 January 1991, pp.30-31.
24. *Ibid.*, p.31.
25. See *Liaowang*, overseas edition, 19 January 1990, p.1.



26. *Liaowang*, overseas edition, 21 April 1991, p.1.
27. Lucian Pye gave an excellent discussion on how Chinese often stress principles but in practice display great flexibility in "China: Erratic State, Frustrated Society," *Foreign Affairs*, Vol.69, No.4, Fall 1990, pp.66 and 70.
28. John Schaffer, "Bush Favors Renewal of China's MFN status," *USIS News Release*, 16 May 1991. Also see "United States Hurting Itself and Others in Cancelling MFN Status to China," an article prepared by the Economic Research Office of the Hong Kong and Macau Management Division of the Bank of China, in *Bauhinia Monthly*, June 1991, pp.16-20. The article "self-righteously" states that there is no legal basis for U.S. Congressmen to tie the human rights issue with the MFN question. The article also quotes statistical figures to explain that MFN status for China brings benefits to both China and the United States so it is irrational for the U.S. not to grant MFN status to China. The tone of the article is tough, but China's hope for a continuance of the MFN status is very clear. The 1990 Sino-U.S. trade figures quoted in the article are worth mentioning. China declared a trade deficit of US\$1.41 billion with the United States, as opposed to U.S. claim of China having US\$10.4 billion surplus. Two reasons were given for this disparity: (1) their respective statistics on imports include imports through third countries or regions, while their export figures may not include commodities transferred through third countries or regions; and (2) Hong Kong businessmen invest in China and "so many commodities that should be considered as originated from Hong Kong become originated from China and are transit through Hong Kong." China only earns a very small "processing fee." The paper implies that China is a victim of U.S. and Hong Kong businessmen so Chinese trade deficits are falsely declared as huge surpluses. Nonetheless, Chinese leaders are conscious that the poor style and quality of Chinese products cannot — even with MFN status — find markets overseas without the capital and technology provided by Hong Kong entrepreneurs. Hong Kong businesses have raised the standard of living for millions of people in the Pearl River Delta. Furthermore, Taiwanese business investments in China reached US\$2 billion by the end of 1990. U.S. investments in China compared to Hong Kong and Japanese investments is really insignificant. See the special feature by New China News Agency in *Hong Kong Daily News* (Hong Kong), 25 June 1991.
29. See *Yearbook on Chinese Foreign Economic Trade*, 1991, p.284.
30. *Ming Pao* (Hong Kong), 26 April 1990.
31. See "Jiang Zemin Answers Questions from Soviet Reporters," *Wen Wei Pao* (Hong Kong), 13 May 1991.
32. See *Far Eastern Economic Review*, 28 March 1991, p.11; and 11 April 1991, p.18, *Wen Wei Pao*, 3 February, 1992.
33. To end China's isolation and to prove that it is still determined to enter the international community after June 4th, the Chinese leadership has con-

- ducted active diplomacy towards the Third World countries. Premier Li Peng visited Pakistan, Bangladesh and Nepal in November 1989; Indonesia, Thailand and Singapore in August 1990; and Malaysia, the Philippines, Laos and Sri Lanka in December 1990. Li also visited six countries in the Middle East in July 1991 in an attempt to balance the overwhelming U.S. influence in the region. The six countries included: Egypt, Jordan, Iran, Saudi Arabia, Syria and Kuwait, all pro-Western countries or countries with great leverage in the Middle East. Li Peng altogether visited 17 countries in South Asia, Southeast Asia and the Middle East since June 4th. Yang Shangkun, the Chinese President, well into his eighties, visited Egypt, Kuwait, Oman and the United Arab Emirates in December 1989; and he visited Mexico, Brazil, Argentina, Uruguay and Chile in May 1990; Indonesia and Singapore in June 1991; and Malaysia and Singapore in January 1992. Wan Li, Chairman of the National People's Congress, visited Pakistan, Iran and Iraq in May 1990.
34. The bill proposing ratification of this treaty was not passed at the National People's Congress in October 1991, but Beijing agreed to pass a bill to enable signing of the treaty in 1992 during U.S. Secretary of State, James Baker's, mid-November visit to China. See *South China Morning Post* (Hong Kong), 19 June 1991.

## **Part II**

### **Japan and Asia-Pacific Countries**

## ***Sino-Japanese Economic Relations and Asia-Pacific Economic Cooperation***

*Xiao-Rong Wei*

### SINO-JAPANESE ECONOMIC AND TRADE RELATIONS

Since Sino-Japanese rapprochement in 1972, both countries have engaged in close economic cooperation. Japan is China's largest trading partner and the forms, variety and scale of their economic cooperation are expanding. Practically speaking, Sino-Japanese cooperation in economic relations and trade is mutually beneficial and conducive to the economic development of both countries. China's fundamental objective is to foster long-term and stable economic cooperation with Japan on mutually beneficial and equitable terms. China sincerely looks forward to seeing the continuing development of such cooperation and hopes for more fruitful results in the 1990s.

### SINO-JAPANESE TRADE

China and Japan have witnessed a rapid development of bilateral trade since the normalization of diplomatic relations. The value of trade rocketed from US\$1 billion in 1972 to US\$10 billion in 1981. Except for the few years of domestic economic readjustment, the value of trade has been growing, reaching US\$19.3 billion in 1988. Sino-Japanese trade suffered because of Japanese government trade sanctions imposed after the Tiananmen Incident in June 1989. With persistent efforts, the value of trade rose instead to a record high of US\$19.6 billion.

The Chinese General Administration of Customs reported that the value of bilateral trade was US\$16.587 billion in 1990. The development can be regarded as steady. Compared with the year 1989, the value of

trade decreased by 12.22 percent. The export value to Japan was US\$8.999 billion and increased by 7.62 percent from 1989. The value of import from Japan was US\$7.588 billion and decreased by 27.97 percent from 1989. China hence enjoyed a bilateral trade surplus of US\$1.411 billion. According to the statistics of the Japanese Customs House of the Ministry of Finance, the value of bilateral trade was US\$18.145 billion and decreased by 7.68 percent from 1989. The value of Japanese export to China fell by 28.07 percent and Japan had a bilateral trade deficit of US\$5.89 billion.

Chinese exports to Japan rose in 1990. The export items included crude oil, coal, optical instruments, electronics components, meat, fish, metallic products and clothes. There was also a large decrease of Japanese export to China. The main items included steel, construction hardware, mining equipment, heating and freezing devices, heavy electrical machinery, electronics components and all sorts of transport vehicles (except shipping vessels).

Sino-Japanese trade volume decreased in 1990, with a remarkable decrease in import from Japan. This was due to a variety of factors.

On the part of China, the reasons were:

1. the readjustment of domestic economy tightened and suppressed demand;
2. devaluation of Renminbi; and
3. restructuring of export and import components.

On the part of Japan:

1. sanction imposed on China in line with the West;
2. restriction of technology exports to China;
3. weakened competitiveness of Japanese goods as a result of the appreciation of the Japanese yen; and
4. increase in export insurance to China.

In forecasting the Sino-Japanese trade in 1991, we hope for the restoration of sound relations and further development. It is hoped that the value and volume of trade can be restored to the 1989 level. In order

to further develop Sino-Japanese trade, China will continue to expand its imports from and exports to Japan.

Further development of Sino-Japanese trade rests on expanding exports to Japan. Subsequently, China can obtain more foreign exchange to import the essential resources for its modernization. The measures to expand export to Japan can be summarized as below:

1. Specific focus on the quality and efficiency of exports in 1991;
2. Raising standards of exports and attempts will be made to deliver orders on time and honor contracts;
3. Actively promoting export of industrial products to Japan;
4. Stimulating production and developing certain brand-name products in Japan;
5. Minimizing the costs of production through better management and planning in production;
6. Improving trade by expanding market and providing better after-sale services;
7. Paying more attention to market research in the Japanese market and developing new products;
8. Applying stricter quality control by setting higher standards in production;
9. Improving management by better guidance and coordination and abiding by conventions of international trade; and
10. Expanding the forms of trade and closely cooperating with trading partners to nurture trade relations.

China's economic performance has been improving. The rate of economic growth is accelerating and the level of production increasing steadily. In striking a "balance between export and import," there should be a steady increase in imports to upgrade production technology and strengthen the ability to earn foreign exchange through export. In light of the above, it is necessary to pour foreign exchange earnings into importing advanced technologies, improving infrastructure and importing the essential resources for important development projects. The year 1991 sees some new favorable factors in Sino-Japanese economic relations:

1. The year 1991 marks the beginning of the Eighth Five-Year Plan. In the course of economic readjustment, China's plans to systematically import more for the development of the domestic economy;
2. China's foreign exchange reserve increased in 1990. Loans from Western governments and financial institutions are being unfrozen, and the third batch of yen loans was smoothly transferred. Effects of the loan provision agreement signed in 1990 will be evident in the second half of 1991;
3. Renewal of the long-term Sino-Japanese trade agreement through the efforts of the Subcommittee On Technology facilitates the import of technology from Japan;
4. China will import turn-key plants, relevant technologies and machinery essential for development projects under its Eighth Five-Year Plan. Japanese enterprises are welcomed to participate in the development of the Tarim Basin Oil Field and the Pudong Development Zone in Shanghai; and
5. Since the latter half of 1990, investment from Japanese firms has been rising in terms of the number of projects and the amount invested and is expected to reach new heights. Investment will inevitably promote further economic relations and trade thus cultivating a favorable environment for expanding Sino-Japanese trade.

#### JAPAN'S DIRECT INVESTMENT IN CHINA

From 1979 to 1990, the total number of approved Japanese direct investment projects was 1,292. The amount of capital agreed to in principle was US\$3.137 billion. (The actual sum transferred was US\$2.494 billion.) A total of 341 projects were approved in 1990, an increase of 16 percent over the previous year. The capital agreed on in principle was US\$457 million, with an increase of 3.86 percent compared with 1989. (The actual amount of capital transferred was US\$634 million, an increased of 41.4 percent over 1989.) Japan was the second largest foreign investor in China after the U.S., concentrating mainly in the processing of semi-finished products and a few high-technology industries.

Substantial efforts have been made to further economic cooperation. Different channels have been opened to facilitate investment. For in-

stance, a number of talks and conferences were organized in July, August and December of 1990 to offer more information to Japanese investors.

#### SINO-JAPANESE TECHNOLOGY TRANSFER

There has been a substantial decline in Sino-Japanese technology transfer. Statistics of the Ministry of Economic Relations and Trade indicated that there was a total of 43 items of technology transfer in 1990, valued at US\$92.1 million. Compared with 1989, there was a 17.3 percent drop in the number of technology transfers and a 54.7 percent decline in value. Japan ranks first in the number of items transferred, but only fourth in terms of value. China, in turn, exported a total of 28 items to Japan, valued at US\$23.25 million. This was an increase from 1989 in both quantity and value.

Views and suggestions were exchanged between the two governments at the Consultation Meeting on Technology Transfer in Beijing in early October 1990. A second meeting was planned for 1991.

#### JAPANESE YEN LOANS

The Ministry of Economic Relations and Trade formally notified the Japanese government on January 19, 1990 that the third batch of Japanese yen loans was ¥102.2 billion for 17 development projects. The loan agreement for the first seven projects (for a total of ¥36.511 billion) was signed on November 2, 1990, after several rounds of negotiation. The loan agreement for the next five projects (for a total sum of ¥42.633 billion) was signed on December 21, 1990, and January 22, 1991. The loan agreement for the last three projects was signed in late March 1991 for a sum of ¥43 billion.

#### GRANTS

Starting from 1981, China has received grants of ¥55.569 billion, or approximately US\$0.412 billion (US\$1 = ¥135), for 28 development projects. At the March 1990 annual meeting on grants between the

Chinese and Japanese governments, an agreement was concluded for the year 1990 and beyond. Although Japan had cut total grant payments to other countries, grants to China were not affected in 1990, maintaining their 1989 level. (Nonetheless, ¥1.5 billion was cut in 1989 because of the Guizhou dam project was not executed. As a result, the amount of grant money in 1990 was comparatively smaller than average). The Sino-Japanese Youth Interchange Center, constructed with a Japanese government grant, was completed.

#### FINANCIAL COOPERATION

The Bank of China currently has banking relations with 90 Japanese banks, providing services in the balance of payment, syndicated loans, buying and selling of foreign currencies, remittance, etc.

The Bank of China has since 1979 signed agreements with Japanese banks for loans worth US\$8 billion or ¥1,040 billion. China has issued bonds in Japan eight times and raised a total sum of ¥190 billion or US\$1.5 billion. The Japan Export-Import Bank supplied the first two batches of loans for energy resource development (¥420 billion and ¥580 billion respectively) and the "Export Industries Promotion Program" (¥30 billion) and ¥70 billion was extended to the China Trust and Investment Corporation for Economic Relations and Trade. The Bank of China has acted as the guarantor of the Petroleum Department to borrow ¥150 billion. The amount of inter-bank borrowing from Japanese banks was US\$1 billion. A total of US\$20 billion (US\$1 = ¥140) was borrowed from Japanese banks. These funds played an important role in China's economic development.

#### HUMAN RESOURCE COOPERATION

Japan's economy is now suffering from severe labor shortage. Moreover, the working population is reluctant to engage in certain types of dangerous and unpleasant jobs. For instance, the construction industry suffers acute labor shortage. The Japanese Ministry of Labor estimates that Japan will have a manpower shortage of two million by the year 2000. Current Japanese laws forbid the import of foreign labor to prevent

influx of foreign workers, endangering the country's social and economic stability.

China's Ministry of Economic Relations and Trade has been in contact with Japan on human resource cooperation. China could provide workers with a guarantee on their quality and a promise of their return to China. Establishment of formal and systematic channels is the next step for organized human resources cooperation.

#### SINO-JAPANESE ECONOMIC RELATIONS

Japan's domestic consumption will expand in the 1990s, demanding greater variety and higher quality in both goods and services. As the import of manufactured goods, overseas investment and other forms of economic cooperation grow, there will be more opportunities for further Sino-Japanese economic cooperation.

Nevertheless, some problems in Sino-Japanese economic relations and trade still exist. For instance, Japan has tightened the transfer of technologies to China, resulting in a continuous decline in technology transfer in the last four years. The growth of technology transfer is quite slow. In addition, China represents only a relatively small fraction of Japan's total overseas investment. China's economic readjustment in the last two years has resulted in a slowing of infrastructural development, a tightening of credit and a decline in imports. To raise the volume of Chinese exports to Japan, there must be improvements in quality, style and after-sales services. Though difficulties exist, they can be overcome by mutual efforts. I believe that Sino-Japanese economic relations will grow and bring prosperity to both countries.

#### THE MULTILATERAL TRADE SYSTEM AND ASIA-PACIFIC ECONOMIC COOPERATION

##### GENERAL AGREEMENT ON TARIFFS AND TRADE

The General Agreement on Tariffs and Trade (GATT) was created over 40 years ago to promote free multilateral international trade. GATT

has been battling with a new tide of protectionism in recent years. For instance, the Multi-Fiber and Textiles Agreement violates the original spirit of GATT. The grey zone in trade agreements is widening. The emergence of regional trading blocs manifests respective exclusivity and politicized nature, resulting in their own protectionist measures. Such protectionist measures are threats to the current multilateral trading system.

GATT held a ministerial meeting in 1982 in an attempt to reverse the trend of protectionism and to strengthen the multilateral trade system through structural adjustment. No concrete results have yet been made. The Uruguay Round commenced in 1986 under the dominance of the major industrialized countries. The talks have thus far been difficult. The main concern of most developing countries is their exports to the industrialized countries. The textile industry is of special significance as it is one of their main export items to the industrialized countries.

Simultaneously, the developing countries are under tremendous pressure to open up their markets and expose their infant industries to foreign competition. It is surely beyond their capability of effectively responding to these trends and competition. Should such imbalance remain unchecked, economic development in the developing countries will be retarded and the very survival of the current multilateral trading system will be threatened. It is commonly agreed that the continuing economic developing of these countries is conducive to global prosperity and stability.

Unfortunately, the underlying principle at the GATT negotiation table these days is "equality," that is, the benefits obtained should be commensurate with the economic capability of respective nations. Weaker national economies have limited bargaining power and thus can obtain fewer benefits. Such imbalance can only be alleviated by providing favorable trading terms to the developing countries. These measures should be given due consideration in the Uruguay Round of talks. China sincerely looks forward to fruitful results in the Uruguay Round of talks for the sake of international trade in the 1990s. In the meantime, the developed countries have to make compromises to expand international trade, especially in the trading of agricultural products.

China has been on the road of modernization since 1979. Substantial progress has been achieved through the steady but progressive imple-

mentation of economic reforms and foreign trade. The Eighth Five-Year Plan explicitly states that the scope of modernization will expand. China will be more open to foreign investment and will further develop economic relations and trade with countries all over the world. Concrete steps and measures have already been initiated to actualize these objectives. In the meantime, China is actively engaged in restoring its position in GATT and taking part in the Uruguay Round of talks to pave the way for a more active presence in the international trading system.

#### ASIA-PACIFIC ECONOMIC COOPERATION

The Asia-Pacific region is the most vibrant economic zone today. Closer economic cooperation can surely promote global economic development. The economic development of the region relies on an open multilateral trading system. My view is that closer regional economic cooperation should encourage a more open multilateral trading system instead of the formation of confrontational trading blocs. Regional economic cooperation should be open rather than exclusive and should also uphold the fundamental principle of free and open multilateral trade. The scope of cooperation might well include trade, investment, finance, flow of capital, technology transfer and labor service cooperation, etc. Creating new frontiers of cooperation will not only stimulate intra-regional economic development but also foster economic relations and trade beyond the region.

There are several proposals of economic cooperation in the Asia-Pacific region. The Pacific Economic Cooperation Conference (PECC) and the Asia Pacific Economic Cooperation (APEC) are handy examples. China has taken part in PECC conferences and holds a positive attitude toward APEC and the East Asian Economic Grouping (EAEG). China is a major country in the region. Any form of regional economic cooperation cannot be successful without its participation. The following are some reasons for China's endorsement of these proposals:

1. China, as a regional actor, has long established contact with its neighbors;
2. Cooperation is complementary. China's technologies and facilities

are appropriate for the needs of most developing countries while China hopes to import greater varieties of products from countries in the region;

3. It is in China's strategic interest to cultivate harmonious relations with its neighbors; and
4. Regional economic blocs and integration elsewhere, e.g. the European Common Market and the North American Free Trade Area, also contributed to the emergence of various forms of Asia-Pacific economic cooperation.

It will take time for countries in the Asia-Pacific region to narrow the gap in their economic development to enable economic cooperation. In the meantime, they can coordinate their positions at the negotiation table in the Uruguay Round of talks, endeavor to honor the Punta del Este Declaration and finally establish a more open multilateral trade system. With the experience gained, these countries can take a step forward to widen and deepen the scope of cooperation.

China is at the critical stage of actualizing the strategic goal of "doubling its GNP" in the 1990s. In light of this, China will deepen its domestic economic reforms and widen the extent of openness. The Chinese government will focus on agricultural development, boost efficiency in industrial production, improve its industrial structure and further foster infrastructural development. To ensure continuing, steady and healthy economic development, China will implement price reforms, stabilize the market and prices and actualize the state macro-economic plan. The country will expand its economic relations, trade and technology transfer with the world to bolster the pace of modernization. China is eager to have closer economic cooperation with all countries in the Asia-Pacific region for the region's stability and prosperity.

## 5

### *The Expansion of Japan's Armed Forces and Sino-Japanese Relations*

*Kuang-Sheng Liao*

#### INTRODUCTION

Since normalization of Sino-Japanese diplomatic relations in 1972, there has been a tremendous progress in bilateral political, economic and trade relations. Despite the achievements, there are still twists and turns. The expansion of the Japanese Self-Defense Forces (JSDF) and the subsequent increase in military expenditure worry China.

First of all, Japan's military capability has been growing in recent years. Secondly, Japan is assuming more responsibilities in the global strategy of its ally, the United States. These developments have generated different responses. While simultaneously, Japan is still criticized as a "free-rider" under the protection of the United States.

This chapter aims to discuss the changes in Japan's defense policy in recent years. Efforts will be made to discern how these changes have affected Sino-Japanese relations. The chapter first investigates the basic framework of Japan's Basic Policy for National Defense adopted in 1957. Then, efforts will be devoted to tracing the development of the National Defense Program Outline in 1976 and the Mid-Term Defense Program in the 1980s. The above changes mark a new Japanese attitude toward changes in domestic and international environments. It will then be followed by a discussion of China's anxieties and response to Japan's military fortification. A forecast of future Sino-Japanese relations concludes this chapter.

Japan is now more confident of its global economic leverage and aims at elevating its international status to a level that is commensurate with its economic strength. Better mutual understanding is a prerequisite for har-



monious bilateral relations. Japan should honor its promise not to become a military giant for the smooth development of Sino-Japanese relations.

### THE BASIC FRAMEWORK OF JAPAN'S DEFENSE POLICY

Japan's post-war defense policy has been guided by two main defense commitments. One is the U.S.-Japan Mutual Security Treaty. The other is an incremental increase to a minimum necessary level of defense capability.

The Basic Policy for National Defense, adopted in 1957, commanded Japan "to deal with external aggression on the basis of the U.S.-Japan security arrangement" and urged Japan "to develop progressively the effective defense capabilities necessary for self-defense, with due regard to the nation's resources and the prevailing domestic situation."<sup>1</sup> Based on the Basic Policy for National Defense, a total of four defense build-up plans were implemented from 1958 to 1976<sup>2</sup> strengthening Japan's land, air and marine defense capabilities.<sup>3</sup>

The alliance with the United States has been vital to Japan. Japan relies heavily on the credibility of the U.S.-Japan Mutual Security Treaty in guaranteeing U.S. provision of a protective umbrella. Thus, a careful examination of their alliance relationship is indispensable to understanding Japan's defense policy.

The functional role of military alliance usually sets forth several levels of individual and joint military actions for common defense: (1) mobilization for self-defense; (2) the commitment of one's military power for the defense of an ally, or for the purpose of an ally's overseas operation; and (3) supportive activities for an ally's military commitments. These points shall aid us in analyzing Japan's role under the U.S.-Japan Mutual Security Treaty.

Situations for commitment prescribed by Article 5 of the Mutual Security Treaty fall into three categories:

1. Article 5 states that if Japan is under military attack, Japan should mobilize its defense forces to reduce its dependence on the United States. In fact, Japan has been steadily building up its military strength;

2. The Treaty technically commits the JSDF to assist the U.S. army in overseas operations; and
3. Article 6 of the Mutual Security Treaty states that Japan should provide various supportive assistance to the U.S. army. It means allowing U.S. military installations in Japanese territory and utilization of Japanese defense facilities "in preserving the peace and security of the Far East."<sup>4</sup>

The post-war constitution is the single greatest obstacle toward strengthening Japan's defense capabilities. Article 9 of the post-war pacifist constitution explicitly renounces war as a sovereign right of the nation and the threat or use of force as a means of settling international disputes. In light of this, "...land, sea and air forces as well as other means of war potentials will never be maintained." Though the Japanese government denies that the maintenance of a "minimum necessary" level of military potentials is forbidden by Article 9, ambiguity in defining a "minimum necessary" level has significantly affected Japan's role in sharing defense responsibilities in the U.S.-Japan Mutual Security Treaty, particularly in exercising the right to collective defense.<sup>5</sup>

The right to collective defense permits a third country the right to retaliate when an ally is under direct attack, though the aggressor may not have inflicted a direct attack on the former. International law also provides Japan with the right to individual and collective defense. However, domestic and foreign opinions consider the Japanese government to be beyond the level of "minimum necessary" defense potentials prescribed by the post-war constitution.<sup>6</sup> Thus, Japan cannot deploy troops abroad unless Japan itself is under attack. Consequently, the U.S.-Japan Mutual Security Treaty has been criticized as a "unilateral security treaty."

Overseas deployment and possession of offensive weapons are interpreted as exceeding the limits of a "minimum necessary" level of defense capabilities. Aircraft carriers, inter-continental ballistic missiles (ICBMs) and long-range strategic bombers fall into this category of offensive weapons. In addition, Article 18 of the constitution considers conscription as "involuntary servitude" and is hence forbidden.

Other official policies also restrict expansion of Japan's defense capabilities. For instance, former Prime Minister Eisaku Sato (1964—

1972) introduced the Three Non-Nuclear Principles of “non-possession, non-manufacturing and non-introduction” of nuclear weapons in Japan.<sup>7</sup> Succeeding administrations have adopted this non-nuclear policy.<sup>8</sup>

#### THE NATIONAL DEFENSE OUTLINE OF 1976

The global relaxation of tensions in the mid-1970s prompted the Japanese government to review its defense policy. This period witnessed the detente in East-West relations, Sino-U.S. diplomatic normalization and the end of the Vietnamese War. The Japanese government re-defined the objectives of its military build-up and the National Defense Council and the Cabinet approved the National Defense Outline in October 1976.<sup>9</sup>

The concept of “standard defense capability” was the core of the National Defense Program Outline (hereafter “Program Outline”). It stated that “the most appropriate defense goal would seem to be the maintenance of a full surveillance posture in peacetime and the ability to cope effectively with situations up to the point of “limited and small-scale aggression” while simultaneously this force “will be standardized so that, when serious changes in situation so demand, the defense structure can easily be adapted to meet such changes.”<sup>10</sup>

The Program Outline classified aggression into six levels according to the intensity and scale of attack: (1) indirect aggression; (2) undeclared attack; (3) small-scale and limited aggression; (4) full-scale limited aggression; (5) full-scale conventional aggression; and (6) full-scale nuclear aggression. The Program Outline aimed at developing adequate defense capability to respond to attacks from level (1) to (3). Regardless of the scale of the attack, effective and comprehensive combat capability was to be achieved.<sup>11</sup> In addition, since the quantitative scale of defense acquisition had already been attained, defense build-up plans after 1976 concentrated on the qualitative aspects such as upgrading equipment, modernization of the defense forces and the improvement of logistics.

Until the mid-1970s, there was no written agreement on any defense cooperation between the United States and Japan. Based on the foregoing concept of defense, if there was a situation above the level of “full-scale conventional aggression,” Japan could rely upon the deterrence

power of the United States. However, U.S. military obligations were ambiguous when the situation reached “full-scale limited aggression” (that is, below a full-scale conventional attack). Eventually, an agreement — the Guidelines for U.S.-Japan Defense Cooperation (hereinafter “Guidelines”) was reached in 1978.

The “Guidelines” contain three sections specifying the scope and contents of U.S.-Japan defense cooperation: (1) measures for deterring aggression; (2) actions when Japan is in a crisis situation; and (3) Japan-U.S. cooperation when the Far East is in a crisis situation. The Guidelines explicitly affirmed the U.S. nuclear umbrella to protect Japan. The Guidelines also assert that, “Japan by itself will repel limited, small-scale aggression,” but “when it is difficult to repel aggression alone... Japan will repel it with the assistance of the United States.”<sup>12</sup> When limited aggression exceeds the scope of small-scale aggression, Japan can rely on the military power of the United States.

#### CHANGES IN JAPAN'S DEFENSE POLICY IN THE 1980s

Japan has been expanding its role in the U.S.-Japan Mutual Security Treaty since the 1970s. There are two distinct background factors for this development. The first relates to the international environment. Deterioration of East-West relations saw a strengthened Soviet military presence, particularly in the Far East.<sup>13</sup> Almost simultaneously, U.S. President, Jimmy Carter, announced a step-by-step withdrawal of all overseas U.S. troops. This tied in with the second factor: domestic developments. Primarily, the increased popular acceptance of the JSDF and the weakened opposition parties facilitated changes.

Changes in Japan's defense posture are fundamentally threefold, including changes in the U.S.-Japan defense cooperation, the concept of defense and the budget. The threefold changes will be discussed in the forthcoming paragraphs.

#### JAPAN AS A “MEMBER” OF THE WESTERN CAMP

The security alliance with the United States is one of the major

components of Japan's defense policy. Yet, the Japanese government avoided using the term "alliance" until the 1980s.<sup>14</sup> Japan now openly acknowledges its "alliance" relationship with the U.S. and has become more confident of its global status. Zenko Suzuki was the first Japanese Prime Minister to describe the U.S.-Japan relationship as an alliance. In his visit to Washington in January 1983, Prime Minister Yasuhiro Nakasone went further and described their bilateral relationship as a "significant alliance."<sup>15</sup>

The Japanese government simultaneously sought a more visible presence as a member of the Western camp. The evolutionary changes can best be observed in the section titled "Recent Conditions of Japan's Foreign Relations" of the Japanese government's *Diplomatic Bluebook*. The phrase "solidarity and coordination" with the West was given added emphasis from the 1981 edition onwards. Parallel to this, the section titled "Defense of Japan" in the *Defense White Paper* discussed Japan's role as a "member of the Western camp" in the 1981 edition. All these clearly indicate that Japan considers itself fully-fledged member of the Western camp and hopes to work closely with them in world politics.<sup>16</sup>

#### CHANGES IN THE CONCEPT OF DEFENSE

Changes in government sentiment can easily be traced in the *Defense White Papers*. Both the 1977 and 1978 editions of the *Defense White Papers* considered the construction of the "standard defense capability" concept feasible "given no major changes in either the domestic situation or the international status quo." Though the 1979 edition continued the assertion that "there were no major changes in the basic tone of the situation which formed the premise of the Outline," it was followed by a statement that "such international factors will be carefully observed, and in accordance with the Outline attempts shall be made to seek an early build-up of the defense structure stipulated therein."

Apparently, the "standard defense capability" as prescribed by the Program Outline did not suffice defense by the beginning of the 1980s. The *Defense White Paper* of 1980 no longer used the international environment to justify targets set by the Program Outline. It was finally acknowledged in the 1981 edition that "the circumstances have changed

in various ways since 1976 when the Outline was drafted." The Defense Agency recommended review of the Program Outline with regard to changes in the international environment. However, it also announced that "when the Program Outline is re-examined, consideration should be given to various trends in Japan and the progress of implementation of the Program Outline besides international environment." No emphasis was put on the Program Outline after 1982.<sup>17</sup> The Program Outline was finally replaced by the Mid-Term Defense Program in 1986.

#### CHANGES IN DEFENSE BUDGET

Changes in defense budget can also reveal changes in Japan's defense policy. The cabinet decision in November 1976 restricted defense expenditure to 1 percent of the GNP. Accordingly, defense-related expenditure was kept around 0.9 percent of GNP from 1976 to 1980. However, the defense budget kept growing from 1981 reaching 0.99 percent in 1984 and 1.004 percent in 1987 (See Table 1). It exceeded the 1 percent ceiling in fiscal years 1988 and 1989, at 1.013 percent and 1.006 percent respectively (Figure 1). It is also remarkable to note that the actual size of the defense budget grew at an average of nearly 6.5 percent annually throughout the 1980s.

Changes in defense expenditure are particularly prominent when viewed in relation with the general account budget outlays. There was a consistent trend of reduction in defense expenditure in the general account outlays from the mid-1970s. However, this downward trend was reversed in 1981 after reaching its lowest point of 5.13 percent and has continued to grow steadily until 1988 and dropping slightly thereafter (See Table 1 and Figure 2). The ratio of defense budget to general account outlays in fiscal year 1990 was 6.28 percent and the defense budget grew to an impressive 6.1 percent over the previous year. Though the defense budget of 1990 was 0.997 percent, the actual amount was ¥4,159.3 billion, or equivalent to US\$30 billion (US\$1 = ¥136). It ranked third in the world.

When the defense budget broke the 1-percent-of-GNP ceiling in 1987, the defense budget was ¥3,517.4 billion in the general account outlays, with an increase of 5.2 percent over the previous year. This

**Table 1. Changes on Defense Expenditures (Original Budget)**

(Unit: x 100 million, %)

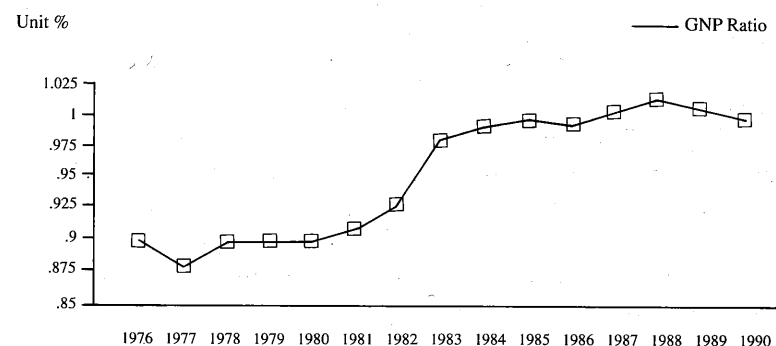
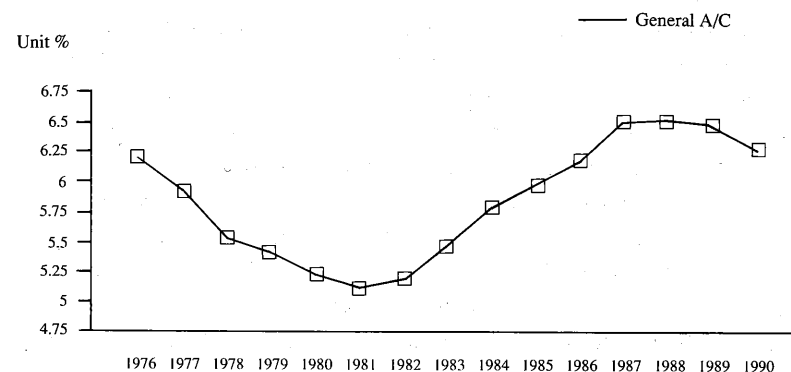
Item FY	GNP (Initial Forecast) (A)	General Account (Original) (B)	Growth from Previous Year	Defense Budget (Original) (C)	Growth from Previous Year	Ratio of Defense Budget to GNP (C/A)	Ratio of Defense Budget to General Account C/B
1955	75,590	9,915	-0.8	1,349	-3.3	1.78	13.61
1965	281,600	36,581	12.4	3,014	9.6	1.07	8.24
1975	1,585,000	212,888	24.5	13,273	21.4	0.84	6.23
1976	1,681,000	242,960	14.1	15,124	13.9	0.90	6.22
1977	1,928,500	285,143	17.4	16,906	11.8	0.88	5.93
1978	2,106,000	342,960	20.3	19,010	12.4	0.90	5.54
1979	2,320,000	386,001	12.6	20,945	10.2	0.90	5.43
1980	2,478,000	425,888	10.3	22,302	8.5	0.90	5.24
1981	2,648,000	467,881	9.9	24,000	7.6	0.91	5.13
1982	3,772,000	496,808	6.2	25,861	7.8	0.93	5.21
1983	2,817,000	503,796	1.4	27,542	8.5	0.98	5.47
1984	2,960,000	506,272	0.5	29,346	6.55	0.99	5.80
1985	3,146,000	524,996	3.7	31,371	6.9	0.997	5.98
1986	3,367,000	540,886	3.0	33,485	6.58	0.993	6.18
1987	3,504,000	541,010	0.0	35,174	5.2	1.004	6.50
1988	3,852,000	566,997	4.8	37,003	5.2	1.013	6.53
1989	3,897,000	604,142	6.6	39,198	5.9	1.006	6.49
1990	4,172,000	662,368	9.6	41,593	6.1	0.997	6.28

Source: The Defense Agency, *Defense of Japan 1990*, Japan, p.291.

growth in percentage terms was greatest among the various government expenditure items. The second largest item of growth was aid for LDCs (Less Developed Countries) at ¥649.2 billion, with a 4.2 percent increase and third was social welfare expenses at ¥10,089 billion with a 2.6 percent rise over the previous year.<sup>18</sup> The widening disparity in the growth rates between defense and other items is a cause of widespread popular debates about the defense budget.<sup>19</sup>

#### CHANGES IN U.S.-JAPAN DEFENSE COOPERATION

The 1978 "Guidelines" provided a framework for the U.S.-Japan

**Figure 1. Ratio of Defense Spending to GNP, 1976-1990****Figure 2. Proportions of Defense Expense in Government Budget, 1976-1990**

defense cooperation. Studies on military cooperation and joint military training were carried out. Joint training programs for the Air Defense Force began in 1978 and the Ground Self-Defense Force in 1981. Studies were also conducted on legal problems regarding emergency situations as well as measures against surprise attacks.

Clarification and enlargement of financial and various supportive

assistance to the U.S. forces stationed in Japan reflect this new trend.<sup>20</sup> Japan's contributions grew rapidly from ¥6.1 billion in 1978 to ¥69.3 billion in 1984. Since April 1991, the Japanese government has decided to assume all costs for Japanese employees on the U.S. military bases in Japan.<sup>21</sup>

Another issue is the defense of vital sea-lanes of communication.<sup>22</sup> An essential step in sea-lane defense is to strengthen the JSDF's anti-submarine and air defense capabilities to repel and prevent interdiction by the Soviet nuclear submarines or its Backfire long-distance bombers in the West Pacific Ocean thereby protecting the free movement of U.S. aircraft carriers. Japan's command of these maritime areas will facilitate U.S. military operation in case of emergency in the Asia-Pacific and the Middle East. This also ensures safe and free passage of Japanese vessels.

Japan's new attitude toward its role in regional defense was announced on two separate occasions. During his tour of the United States in 1981, Prime Minister Suzuki declared that "it is natural that Japan defends its 1,000 nautical mile sea-lane."<sup>23</sup> This statement was considered as Japan's official pledge to attain the 1,000 nautical mile sea-lane defense capability. Then, Prime Minister Nakasone visited the United States in January 1983. He expounded the idea of the "Japanese archipelago as an unsinkable aircraft carrier" and "the blockade of the four straits."<sup>24</sup> This unveiled an active JSDF posture in sea-lane defense.

Two months later, a section in the study on joint military operation in a situation of "Japan in crisis" determined the conduct of sea-lane defense. The protection of the U.S. fleet by the JSDF was considered to be within the scope of "the right of individual national defense." The Maritime Self-Defense Force's participation in RIMPAC since 1980 and U.S.-Japan joint military training has helped to consolidate role-division and thus effectively making the JSDF more important in the regional and global security strategy of the United States.

The Japanese government approved transfer of high technology to the United States in 1983.<sup>25</sup> Active exchange of defense technology has followed since, including Japanese participation in research and development of the Strategic Defense Initiative and cooperation in the design and production of the FSX aircraft fighter. Japan's Defense Agency and the United States entered into co-production of sophisticated U.S. de-

signed P-3C fixed-wing, anti-submarine aircraft in 1984 as well as U.S. designed F-15 interceptors, Airborne Early Warning System (AEW) and cargo aircraft which can be used in mine-laying.

In summary, Japan's defense policy has undergone important changes since the late 1970s. Changes in budgetary allocations are most easily noticeable, while changes in the concept of defense have largely strengthened the functional role of Japan's defense structure, that is, mobilization of the JSDF for self-defense and commitment to the defense of its ally, the United States. Finally, changes in the U.S.-Japan defense cooperation has put new emphasis on Japan's financial and functional support to maintain the U.S.-Japan security alliance.

#### MID-TERM DEFENSE PROGRAM (1986-1990)

Proposed amendments to the National Defense Program Outline that appeared in the early 1980s were finally adopted in 1984. The Mid-Term Defense Program was approved in a Cabinet Meeting on Defense in September 1985 and implementation commenced in October 1986. It was the main guideline of Japan's defense plan covering the period from 1986 to 1990. The main objective was to attain the level of defense capability as laid down in the National Defense Program Outline in 1976. It was also to realize the defense fortification policy as stipulated in the National Defense Program Outline.

The Mid-Term Defense Program was the most ambitious plan for the expansion of Japanese military capability and its total budget was estimated to reach ¥18.4 trillion.<sup>26</sup> The following are the main points of the program:

#### IMPROVING MARINE DEFENSE CAPABILITY

In addition to building nine escort ships and two anti-missile frigates armed with modern equipment, such as anti-submarine helicopters and integrated intelligence systems, the Marine Self-Defense Force would procure 50 fixed-wing anti-submarine patrol aircraft (P-3C). Their surveillance power is high over a large perimeter, with capabilities to deter

high-power submarines. The number of anti-submarine helicopters would be raised to 102.

#### INCREASING OVERALL AIR DEFENSE CAPABILITY

Sixty-five F-15 fighter-interceptor aircraft would be added. Japan would also introduce U.S. in-flight refueling aircraft to enlarge the maritime defense parameter to 1,000 nautical miles. In the early warning and control systems, 3 early warning aircraft units with E-2C early warning aircraft would be formed. An OTH (Over the Horizon) radar system, capable of detecting objects 3,000 kilometers away, would be constructed. Simultaneously, the Self-Defense Forces would formally install Patriot surface-to-air guided missile systems with special integration abilities.<sup>27</sup>

#### RAISING JAPAN'S GROUND DEFENSE CAPABILITY

Three units of the most advance SSM-1 surface-to-ship guided missiles would be installed in Hokkaido. They would not only be able to evade enemy radar detection but would also detect and strike targets with their own radar systems. In tank armament, the newly developed Type-89 anti-tank helicopters would be designated as the main tank vehicle of the Ground Self-Defense Force, and adding 43 AH-1S anti-tank helicopters to strengthen its defense capability.<sup>28</sup>

#### CURRENT SITUATION

Former U.S. Deputy Defense Secretary, Richard L. Armitage, testified before the Committee on Asia-Pacific Affairs in the House of Representatives on July 25, 1987. He stated that by 1990 "Japan's defense capability would surpass the strength of the total number of U.S. aircrafts in Japan, South Korea and the Philippines combined, and the number should about equal the total number of strategic fighter aircraft used to defend the American mainland; the 60 anti-submarine surface ships and 100 P-3C fixed-wing anti-submarine patrol aircraft maintained by the Japan's Maritime Self-Defense Force is almost three times and

five times the number of U.S. anti-submarine vessels and anti-submarine aircraft possessed by the U.S. Seventh Fleet (Pacific Fleet) respectively." This indicates that by the end of 1990 or upon completion of the Mid-Term Defense Program, Japan's military capability would in reality exceed the objective of collective defense.<sup>29</sup>

Among modern technologies, micro-electronics and computers are most intimately related to weapon systems. Japan today is the world's leader in micro-electronics and computers. The country successfully produced the VP-400 supercomputer in 1985 and uses its competitive edge in micro-electronics and computers to produce large circuit boards for navigation guidance systems. The most advanced memory chip in 1989 was the one-megabyte DRAM (Dynamic Random Access Memory) chip that allows instant access to one million pieces of information. Japan produced 86.6 percent of these chips; the U.S., 8.1 percent; West Germany, 3 percent and South Korea, 2.3 percent in 1988. Japan is already working on five megabyte DRAM chips. Moreover, Japan with its cutting-edge technology in micro-electronics and computers can produce new models of smaller but more powerful guided missiles.

Japan has surpassed the United States in some areas of advanced technology.<sup>30</sup> Japan no longer duplicates U.S. technologies. This is why the United States is now seeking co-development of military technology and weapons systems with Japan in order to gain access to advance Japanese technology. The Japanese government decided to supply the United States with the latest technology for military applications in January 1983 and formally agreed to supply "missile guidance technology," "technology for construction of supply ships" and "technology to transform U.S. naval military carriers" and to participate in the U.S. Strategic Defense Initiative program in 1986. The U.S. agreed to grant Japan rights of access to U.S. secret military technology for joint weapon development. Japan's military capability in the 1990s shall expand with Japan's technological and economic development.<sup>31</sup>

Worthy of our attention also is the fact that restrictions on defense policy have undergone some dramatic changes in the 1988 *Defense White Paper*. In the past, it was stipulated that Japan shall never possess any weapons like strategic bomber aircraft, aircraft carriers and ICBMs but the latest *White Paper* changed the wordings to "cannot possess ICBM,

long-range strategic bombers and offensive aircraft carriers."<sup>32</sup> This implies that other than these weapons, strategic weapons including "non-offensive" light aircraft carriers can be produced and maintained.

## ANALYSIS OF CHINA'S RESPONSE TO JSDF EXPANSION

### ON U.S.-JAPAN MILITARY ALLIANCE

In the early 1980s, China openly accepted the existence of the JSDF and the U.S.-Japan Mutual Security Treaty in contrast to its past policy of condemning them. This acceptance was largely the consequence of Soviet expansionism and U.S. decline in the international environment.

The utilization of Cam Ranh Bay in Vietnam and the invasion of Afghanistan in 1979 caused China much discomfort. All these posed a very clear and ominous sign to China that the Soviet Union was ready with ambition to establish its presence in Asia, gravely threatening China's national security. Being unable to fully defend itself against a far more superior Soviet military force, China needed the U.S. and Japanese armed forces to check the Soviets. Furthermore, objection to the JSDF and the U.S.-Japan Mutual Security Treaty would not aid China's modernization. China needed to seek assistance in terms of capital and technology to facilitate its modernization.

However, China has never lost its deep-seated anxieties of the revival of Japanese militarism. China grasps every opportunity available to warn of the danger of Japanese remilitarization. It involves formal and informal meetings with Japanese government officials, political leaders as well as leading businessmen. China's official standpoint is also periodically well articulated in the Chinese press. The Chinese government aims at reminding the Japanese people of the tragedy of military aggression in the past as well as the casualties of both China and Japan.

### ON MILITARY EXPENSES

Japan's military expenditure currently grows at more than 6 percent annually, higher than the growth rate of many European countries.

Judging from this trend, it raises the question of whether Japan can become a global power like the United States or the Soviet Union. It is doubtful whether Japan will limit itself only to self-defense with its massive military potentials. It is also doubtful whether Japan's contribution to the world order is a demonstration of genuine concern.

China has kept a watchful eye on Japan's movement. China is very captious of the increase in military expenses. The Chinese government views the increasing military expenses in excess of the 1-percent-of-GNP ceiling as reaching a "dangerous level" that deserves prudent vigilance. China is alert to further increases in Japan's defense budget. A mainland Chinese publication, *World Culture*, stated that "Japan has come to a critical moment again. Japan is utilizing its giant economic power to boost its military strength. It is a dangerous trend necessitating alarm. The breach of the 1-percent-of-GNP ceiling gives a green light to further increases in the national defense budget."<sup>33</sup>

One point deserving immediate attention is the fallacy that increases in defense expenses is due to the U.S. pressure. A Japanese specialist in China held that "the increases in Japan's military strength is an outcome of its own strategic military needs. Pressure from the United States is a catalyst and is used as an excuse to increase its military expenses.... It is an enormous historical fault of the United States to exert pressure on Japan to expand its military strength."<sup>34</sup>

Japan's 1-percent-of-GNP ceiling is misleading. Though it only accounts for no more than 1 percent of the GNP, the absolute sum is truly enormous. Japan's national defense budget reached ¥3,517.4 billion (US\$25 billion) in 1987. Taking into account of the pensions for veteran soldiers shouldered by the Department of General Affairs, its military expenses soared to US\$36 billion. This figure actually exceeded the military expenses of Britain and France and was smaller only to the United States, and the Soviet Union.<sup>35</sup>

## CHINA'S CONCERN OVER JAPAN'S MILITARY POWER

China is troubled by Japan's transformation from an economic giant to a world power. Japan is endeavoring to exert greater influence in

international politics. As it is difficult for a nation to gain advantage in the international political arena without substantial military capabilities, Japan is likely to proceed with its plans to strengthen its military power. The new emphasis in its defence policy is to acquire adequate defense potentials to thwart the Soviet military threat and to maintain stability in the Asia-Pacific region.

#### JAPAN'S POTENTIALS AS A MILITARY POWER

Looking at Japan's defense policy since the 1980s from China's perspectives does give reasons for anxiety. Japan's "Comprehensive National Security Strategy" is a policy to promote its security. It is obviously a transitional plan for the period in which Japan does not possess the necessary military strength to protect itself and thus relies on cooperation with the United States for its national security interests.

Japanese ambitions to become a major military power are reflected in its actions beginning in the 1980s: (1) a considerable increase in Japan's military expenses; (2) advancements in its military technology; (3) expansion of Japan's parameter of defense; (4) improvement in its military intelligence unit and military command system. Japan's advance surveillance system is important for detecting hostilities in advance and taking the necessary precautionary measures. It also gives Japan unmatched military advantage in Northeast Asia. More advance JSDF aircraft and in-flight refueling will further bolster the strength of the JSDF and exacerbate China's anxiety.<sup>36</sup>

The recent demonstration of Japanese nationalism has further alarmed China. Right-wing fanatics provide possible impetus for expanding Japan's armed forces. Neo-nationalists like Diet member Shintaro Ishihara, author of the controversial book *The Japan that Can Say No*, advocated a stronger Japanese military. Though the neo-nationalists are still in the minority, a considerable number of Japanese people share their sentiments.

The deployment of JSDF minesweepers to the Persian Gulf in April 1991 marked the first-ever overseas deployment. Clearly this event foreshadows continuing reinforcement of the Japanese military and future JSDF overseas deployment under the guise of a contribution to "international peacekeeping activities." Prime Minister Kaifu even de-

clared that the dispatch of aircraft and military personnel to the Middle East in a non-military role is "entirely consistent with the pacifist constitution."

Following the dispatch of the JSDF to the Persian Gulf, the Defense Agency's draft of the 1991 *Defense White Paper* began discussion in July 1991 on whether Japan should play an active role abroad in peacekeeping operations. It was argued that Japan's contribution to international peace could elevate Japan's international prestige and expand the JSDF's regional and global role. However, consensus was not yet obvious among top members of the ruling Liberal Democratic Party. Both former Finance Minister, Kiichi Miyazawa, and former LDP Policy Affairs Research Council Chairman, Michio Watanabe, pronounced that JSDF participation in United Nations peacekeeping was impossible under the present constitution. Furthermore, former State Minister, Toshio Komoto, stressed that the JSDF should take part in emergency relief efforts to aid countries in case of natural disasters. This suggestion provided another cause for overseas dispatch of the JSDF.<sup>37</sup>

Coinciding with Japan's proposal for JSDF deployment to the Middle East in October 1990 was a blatant challenge to Chinese sovereignty. Japan reopened the question of sovereignty over Diaoyutai or the Senkaku Islands by sending JSDF patrol boats to "defend these Japanese territories." China was unable to repel these JSDF vessels though it has always been a staunch defender of its territories.<sup>38</sup> China's hands are tied because it badly needs Japanese loans and investment as well as technological transfer and markets to aid its economic development. Japan is vital to China especially after the imposition of international economic sanctions following the Tiananmen Incident. China is also dependent on Japan's lobbying to persuade industrialized nations to ease economic restrictions against China and to normalize diplomatic relations with China.<sup>39</sup>

The eagerness of various Japanese ministries to strengthen defense capabilities demonstrates a resurgence of Japanese militarism. For instance, a research unit in the Ministry of International Trade and Industry (MITI) openly demanded the Japanese industrial sector to develop military industries. This would fully maximize the utilization of Japan's advanced technology and raise the global competitiveness of Japanese



technology. Another example is the Ministry of Education's attempt to conceal Japan's brutal atrocities in World War Two by revising its history textbooks in 1983. Japan's financial sector has also set up a research committee to study national security, ignoring the traditional taboo on discussion of defense policy. The Defense Agency, the Ministry of Education and the financial sector have become high-profile advocates of defense fortification.<sup>40</sup>

Japan has abundant potential to support its JSDF expansion and even revive militarism. In the first place, Japan has a strong industrial base to produce a large volume of war materials and weapons within a short period of time. Japan has been producing 90 percent of all its JSDF equipment from domestic sources.<sup>41</sup> During World War Two, Japanese industries rapidly shifted to the production of warships, tanks and aircraft for Japan's Imperial Army. Japan is currently armed with advanced scientific and technological know-how to enhance its military power, including the potential to manufacture nuclear weapons.<sup>42</sup>

Secondly, Japan possesses enormous economic power. Japan is an economic powerhouse which has the second largest GNP in the world after the United States. Its economic power is sufficient to support a military build-up. As mentioned earlier, Japan's defense expenses are only around 1 percent of its GNP or around 6 percent of its general account outlays. This is in contrast to U.S. defense expenditure of close to 10 percent of its GNP or nearly three times the Japanese percentage of its national defense budget. Nonetheless, Japan already has the third largest defense budget in the world after the United States and the Soviet Union.

Thirdly, Japan has a large and educated population. Though the JSDF has always been plagued by difficulties in recruiting adequate personnel, the Defense Agency has been creative in thinking of new ways to improve recruitment. Reserve corps of all three JSDF forces were formed in 1970 and were made up of volunteers who had resigned from active duty.<sup>43</sup> The Defense Agency has also recently raised salaries of all JSDF staff, and its recruitment posters project a youthful and dynamic image of the JSDF. The Defense Agency proposed a new scheme to enlarge the reserve force in June 1991 suggesting that Japanese companies permit their staff to train with the JSDF for a few weeks each year. Upon completion of their training, they will become part of the

reserve force but can come back every year for refresher courses. An official response has not been made by the companies or the Diet.<sup>44</sup>

#### CHINA'S DIPLOMATIC RESPONSE

China is in a dire situation and is clearly aware of its over-dependence on Japan. Yet, China is unable to do much more than have its General-Secretary, Premier and other high-level officials voice weak protests to Tokyo's proposal to send the JSDF to the Persian Gulf and to plead for Japanese vessels to leave Diaoyutai at their own initiative and let the issue be settled by "future generations when the time is ripe." This sense of helplessness should exacerbate China's anxiety over strengthening the JSDF capabilities — in size and its technological capabilities — as it sees itself having limited bargaining power to check the JSDF expansion by words or action. Japan is obviously taking full advantage of China's predicament to benefit itself.

China is strengthening its diplomatic ties with other countries, many of which share China's anxieties toward Japanese militarization, in the hope that they can more effectively communicate to Tokyo their objection to the JSDF fortification and Japan's ambitions to project the JSDF presence outside Japanese territories. Chinese Premier Li Peng toured Southeast Asia in the spring of 1991, and other visits were also made by other high ranking Chinese officials in addition to numerous governmental tours to Southeast Asian countries to strengthen bilateral trade and diplomatic ties. In addition, China feels more secure with the U.S. military presence in Asia. China has not openly opposed U.S. military presence in Asia because of the practical benefits to its own security in checking the Soviet threat and now to check further expansion of the JSDF.

#### CONCLUSION

Sino-Japanese relations have entered a new era since 1985. In the course of rapid development of bilateral economic and trade relations, conflicts and contradictions still exist between China and Japan. China's response and attitude toward Japan's military expansion is just one such

example. In view to such instability, what will Sino-Japanese relations be like in the 1990s? Will such conflicts and contradictions worsen their bilateral relations? What measures can be adopted to alleviate such friction?

The maintenance of cordial Sino-Japanese relations is vital to both countries. The Japanese government recognizes the stability and continuous development of China is conducive to safety and stability after the Tiananmen Incident. The Japanese government will continue to pursue a stable Sino-Japanese relationship as one of the fundamentals of Japan's foreign policy.<sup>45</sup> On the other hand, China also needs cordial relations with Japan to get substantial capital and technological aid and hence to actualize its modernization program. In light of the above, it appears that China and Japan will maintain cordial relations. Despite the uncertainties under the emerging multipolar system, China and Japan will still be bound together by their mutual interests.

The conflicts and contradictions that evolve from the interaction between China and Japan are inevitable. This is due to the mishaps in the past, and their differences in social setting and level of development. Japan is anxious to remove the shame and guilt of being a defeated nation in World War Two. Extreme nationalist sentiments are generated in the transition from being an economic giant to a world power. On the other hand, Japan as an ally of the United States, has to act in accordance with the U.S. global strategy. Adjustment in its defense policy is a natural development as Japan is to shoulder more responsibilities for the United States.

China has been very captious of the above development. It can be accounted for by a number of factors. Firstly, China was a victim of Japan in World War Two. Bad memories of the mishaps of the past are still in the minds of China's leadership. Secondly, Japan has scant natural resources. The rise of militarism in Japan may result in aggression against its neighbors. Thirdly, the level of destruction could be much more severe with regard to Japan's current economic and military capabilities. Thus, China has been keeping a watchful eye on the rightists and revival of militarism in Japan. Opposition to the revival of militarism in Japan is well-articulated by China. All these contribute to turbulence in Sino-Japanese relations.

Despite the underlying contradictions, possibilities of resolution still exist. They rely on the prudence of both countries to exercise self-restraint for the sake of long-term harmonious relations. China's criticism is not always back up by action. China has been opposing deployment of the JSDF abroad. However, China adopted an "understanding" view after Japan's dispatch of minesweepers to the Persian Gulf in April 1991.<sup>46</sup> Another example is that China maintained self-restraint in the dispute over the Diaoyutai Islands in October 1990 to prevent a worsening of Sino-Japanese relations.

In light of the above, one comes to the view that Sino-Japanese relations will progress despite minor turbulence. The basic trend is friendship with disputes; cooperation with conflicts. Friendship and cooperation will still overshadow disputes and conflicts.<sup>47</sup>

Nevertheless, there are underlying negative forces in Sino-Japanese relations. They require the prudence of both nations. Japan is transforming itself into a world power, and the rise of new rightism raises the concern of China. China feels that Japan should honor the promise of not becoming a military giant.<sup>48</sup> Being at the crossroads, Japan should be cautious of its action and avoid creating unnecessary worries for China. Japan should overcome its extreme nationalism and limit military expansion. China should not over-estimate the influence of rightists and the revival of militarism. This may induce a sense of obsession and paranoia of a Japanese threat. A harmonious Sino-Japanese relationship in the 1990s rests on the premise of better mutual understanding and positive efforts to overcome obstacles.

## NOTES

1. J. W. M. Chapman, R. Drifte and I. T. M. Gow, *Japan's Quest for Comprehensive Security*, London: Frances Printer, 1983, p.58.
2. The first lasted from 1958 to 1962; the second lasted from 1962 to 1966; the third lasted from 1967 to 1971 and the fourth lasted from 1972 to 1976.
3. J. W. M. Champan, R. Drifte and I. T. M. Gow, *Japan's Quest for Comprehensive Security*, pp.59-62.
4. Japan's Defense Agency, *Defense Of Japan*, 1988, 1989, p.266.
5. The government lends legality to the JSDF on the theory that a national

- right of self-defense transcends the constitution. Conservatives corroborate with the argument that Article 51 of the United Nations Charter recognizes the "... inherent right for individual or collective defense" of all its members. The constitutionality of the JSDF was also discussed in special courts in the 1970s. However, the higher courts, either reluctant or unable to render a decision on the matter, ruled that it was beyond the competence of the courts to determine its constitutionality. Today, all Japanese political parties accept the presence of the JSDF and fundamentally approve reinforcement of JSDF capabilities. See John M. Maki, "National Right of Self-Defense," *Kodansha Encyclopedia of Japan*, Tokyo: Kodansha Publishers Limited, 1983, Vol.7, p.60 and Edwin O. Rischauer, *Japan: The Story of a Nation*, 3rd ed., Tokyo: Charles E. Tuttle, 1981, pp.358 and 359.
6. Ueda Koichiro, *Hachijyu-nendai Anpo ronsou*, Tokyo: Otsuki-shoten, 1980, pp.151-153.
  7. The other essential components of this four-point non-nuclear policy are (1) the utilization of atomic energy exclusively for peaceful purposes; (2) promoting nuclear disarmament; and (3) a reliance on the U.S. nuclear umbrella in times of nuclear attack. See Daniel I. Okimoto, "Chrysanthemum Without the Sword: Japan's Non-nuclear Policy," in *Northeast Asian Security After Vietnam*, ed. Martin E. Weinstein, Chicago: University of Illinois, 1982, p.129 and Tsuneo Akaha, "Japan's Non-nuclear Policy," *Asian Survey*, August 1984, p.853.
  8. Japan's Defense Agency, *Defense of Japan*, 1988, 1989, p.76.
  9. Nihon Bouei-cho, *Bouei Hakusho*, 1987, pp.88-95.
  10. *Ibid.*, p.90.
  11. *Ibid.*, p.91.
  12. *Ibid.*, pp.267-270.
  13. The Soviet naval and air bases at Vladivostok and Petropavlosk have the mission of demonstrating Soviet power to Japan. Other permanent Soviet bases are built around the shores of the Sea of Okhotsk and on the Western shore of the Sea of Japan, at Soveitskaya Gava, Possiet, Novgordsky, Shkotovo, and Tynkin and a massive airbase at Ussuri. Smaller airfields, naval shipyards, submarine pens, early warning stations and storage complexes are on the Sakhalin Island and the Kamchatka Peninsula. On the Pacific Coast of Kamchatka Peninsula also stands one of the largest ballistic nuclear missile submarine bases in the world. All these forces are supplemented by nuclear weapons. In March 1983, Soviet Army Chief of Staff and First Deputy Defense Minister Nikolai Orgakov revealed that 180 SS-20 intermediate range ballistic missiles are deployed in the Far East and targeted at the major cities of Asia. See Ralph N. Clough, "The Balance of Power in East Asia and the Western Pacific During the 1980s: An American Perspective," *The Common Security Interests of Japan, The U.S. and the NATO*, Cambridge, Mass.: Ballinger Publishing Company, 1981, p.29; James A. Gregor and Maria Hsia

- Chang, *The Iron Triangle: A U.S. Security Policy for Northeast Asia*, Stanford: Stanford University Press, 1984, pp.10, 11 and 13; and Roy Kim, "Warming Up Soviet-Japanese Relations?" *Washington Quarterly*, Spring 1986, p.90.
14. The word "alliance" conveys the meaning of a strong military relationship to the Japanese public which they take with considerable anxiety.
  15. Frank Langdon, "Japan and North America," in *Japan's Foreign Relations: A Global Search for Economics*, ed. Robert S. Ozaki, Boulder and London: Westview Press, 1985, p.85.
  16. Nihon Gaimu-sho, *Gaikou Seisho*, 1987, pp.3-4.
  17. Otake Hideo, *Nihon no bouei to kokunai seiji*, Tokyo: San-ichi Shobo, 1983, pp.147-157.
  18. *Japan 1988: An International Comparison*, Tokyo: Keizai Koho Centre, 1987, p.79.
  19. Japan's Defense Agency, *Defense Of Japan*: 1990, 1991, p.164.
  20. The "position agreement" stipulates Japan's obligation to shoulder the expenses of the U.S. military bases and other military installations in Japan. However, flexible interpretation of this agreement since 1978 only demanded Japan's financial support for 40 percent of the salaries of Japanese employees in the bases and expenses for the reconstruction of barracks were added in the following year.
  21. "New Pact for U.S. Forces in Japan," *South China Morning Post*, 16 January 1991, p.13.
  22. The Japanese government defines sea-lane defense as a set of measures, including wide-area patrol, vessel protection and defense of harbors and straits to guarantee the safety of marine transportation when Japan is under attack. Washington views this within the framework of the U.S.-Japan military cooperation.
  23. *Far Eastern Economic Review*, 15 May 1981, pp.11.
  24. "Japanese Prime Minister 'Yasu' Nakasone scores a hit with his friend Ron in the United States, but some at home wonder if he promise too much, too soon," *Far Eastern Economic Review*, 3 February 1983, pp.10-11.
  25. Finally, the export of military technology was *de facto* forbidden in accordance with the "Three Principles of Controlling Arms Exports" and the official policy on arms exports adopted in 1976.
  26. Nihon Bouei-cho, *Bouei Hakusho*, 1988, p.171.
  27. *Ibid.*, pp.173-174.
  28. *Ibid.*, p.179.
  29. Gerald Chan, "The Limitation of Japanese Armaments Expansion and the Asia-Pacific Countries' Responses," *China's Relations with Japan and the Cooperation in Asia-Pacific Region*, edited by Kuang-Sheng Liao, Hong Kong: Hong Kong Institute of Asia-Pacific Studies, The Chinese University of Hong Kong, 1990, p.49.
  30. For instance, Japanese manufactured memory chips are used in guiding

systems of the U.S. Patriot missiles that were crucial in defending Israel and Saudi Arabia against in-coming Iraqi missiles during the Gulf War. Japan's highly advanced ceramics and carbon filter resins are essential in developing weapons, particularly in constructing bodies of missiles, aircrafts, and satellites. They have facilitated integration and electronics in the development of military equipment.

31. Lin Wei, "Japan Moving towards Military Super Power," *World Economics and Politics*, December 1989, p.39.
32. Nihon Bouei-cho, *Bouei Hakusho*, 1988, p.85.
33. Jiang-Youg Liu, "The Direction of Japan in the Future", *World Affairs*, No.10, 1987, pp.10-18.
34. Jin-Zhang Zhao, "The Super Power of Japanese Economy and its Choice of Future Strategy," *World Affairs*, No.15, 1987, p.314.
35. *Ibid.*, p.314.
36. Meng-Yi Zhang, "Discussion on the Direction of Japan's Foreign Policy Chinese and Overseas Scholars," *Liaowang (overseas edition)*, 12 November 1990, p.29.
37. *Mainichi Daily News*, (in English), 3 June 1991, p.1.
38. Jun-Yu Shi, "Diaoyutai Islands are a part of China's Territory," *Ta Kung Pao*, 19 October 1990, p.2.
39. Sakutaro Tanino, "The Recent Situation in China and Sino-Japanese Relations," *Japan Review Of International Affairs*, Spring/Summer 1990, pp.20-41.
40. Wen-Dou Liu, "Japanese Developing Strategy: From Economy to Military," *Shi Jie Jing Ji Dao Bao* (Shanghai), 24 August 1987, p.5.
41. Mutsu Goro, "Self-Defense Force," *Kodansha Encyclopedia Of Japan*, Vol.7, 1987, p.60.
42. Jun-Feng Pan, "Will Japan Become a Military Superpower?" *Japanese Studies* 2, 1987, pp.13-17.
43. Mutsu Goro, "Self-Defense Force," *Kodansha Encyclopedia Of Japan*, Vol.7, 1987, p.57.
44. *Mainichi Daily News* (in English), 4 June 1991, p.1.
45. Sakutaro Tanino, "The Recent Situation in China and Sino-Japanese Relations," *Japan Review of International Affairs*, Spring/Summer 1990, pp.20-41.
46. *Ming Pao Daily News (Hong Kong)*, 4 May 1991, p.6.
47. Bei Zhang, "Thinking over the Japanese Development in the 90s," *Japanese studies*, No.2, 1990, pp.18-28.
48. Xiang-Shan Zhang, "The Questions of the Relations between China and Japan," *Japanese Studies*, No.1, 1991, pp.5-16.

## Part III

### Taiwan and Asia-Pacific Countries

## *The Role of Taiwan in the Asia-Pacific Community*

*Jiann-Jong Guo*

### INTRODUCTION

Social and economic relations among the countries in the Asia-Pacific region have rapidly intensified since the end of the 1970s. Indicators of the intensification of relations are greater flows of capital, technology, goods, services and labor between members in the community.<sup>1</sup> Capital movements include loans, aid, portfolio and direct investments. The movement of intra-regional exports as a share of total Asia-Pacific exports increased from 54 to 66 percent among the fourteen member countries of the Pacific Economic Cooperation Conference (PECC).<sup>2</sup> This intensification of social and economic relations in the Asia-Pacific region continues to increase, especially since the establishment of the Asia Pacific Economic Cooperation (APEC) in 1989. Given these trends, what role should or could Taiwan play in the process of promoting regional cooperation in the future?

Forecast by the Nomura Research Institute speculated that the Asia-Pacific basin will be one of the three most dynamic economic regions (namely, the European Community, Northern America, Asia-Pacific Basin) in the world.<sup>3</sup> It is strategically important for Taiwan to play an appropriate international political and economic role. Taiwan's strong economic leverage qualifies it to play an important political and economic role in Asia. Nonetheless, to enable this, it has to try to solve its political conflicts with China. This chapter will briefly examine first the new world political and economic patterns, then current political and economic developments in the Asia-Pacific region. The following section looks at Taiwan's current roles in the Asia-Pacific Basin. Finally, I

will try to outline some future roles that Taiwan ideally could or should play in this region.

#### NEW GLOBAL POLITICAL ECONOMIC PATTERN — THE RISE OF REGIONALISM

Several significant events in the 1980s have transformed the international political and economic order, changing the global security system from a loose bipolar to a multipolar system. These events were the end of the Cold War, reforms in socialist countries, the unification of Germany, the enhanced economic role of Japan, the reduced role of the Soviet Union, the economic integration of Europe and North America, and the end of the U.S. as the “engine” of the world economy.<sup>4</sup> Among these changes, the end of the Cold War, according to C. F. Bergsten, raises major implications for new military arrangements, alliance structure, and the very nature of a nation’s defense establishment.<sup>5</sup> Other changes have also shaped global political and economic trends.

The most salient characteristic of the emerging multipolar system is that the world is no longer divided into two parts between the West and the East, or between a capitalist and a socialist bloc. This change was due to the successful shift of U.S.-Soviet relations from confrontation to cooperation. Since the early 1980s, these two countries have recognized that they are no longer superpowers in politics and economics, though they are still military superpowers.

Secondly, economic transaction among countries is determined mainly by profits instead of political considerations. Ideological barriers have become insignificant in international economic exchange. Foreign relations increasingly address to issues of trade, cultural exchange and tourism rather than issues of ideology and political systems.

Thirdly, a tripartite world economic structure is emerging, with the sharing of burdens and responsibilities among a unified Europe, Japan and the United States.<sup>6</sup> Bergsten added that “The U.S. will no longer dominate. A united Europe will become the world’s largest market and biggest international trader. Japan is already the world’s largest creditor nation and leader in many key technologies,”<sup>7</sup> and the “Big Three of

economics will displace the Big Two of nuclear power.”<sup>8</sup> Professor Lester Thurow also expressed the same view in asserting that the U.S. will no longer play the role of the principal economic superpower. First of all, the U.S. cannot serve as engine of economic growth in times of worldwide economic recession because the U.S. is troubled by its own huge trade and budget deficits. Secondly, the U.S. cannot function as the primary world market for other exporting countries. The United States today has only 22 to 23 percent of the world GNP, it cannot purchase two-thirds of the combined manufactured exports from the Third World countries. Thirdly, the U.S. can no longer function as a manager in the global economic systems such as the General Agreement on Tariffs and Trade (GATT).<sup>9</sup>

With respect to economic cooperation, economic regionalization is gaining acceptance in world economic development. The emerging regional economic blocs are the European Community (EC) in 1992; the North American Economic Free Trade Zone in 1990; and the on-going evolution of APEC since 1989 (see Table 1). The Nomura Research Institute predicted that by the year 2000, as incomes rise and regional integration gathers pace, a West Pacific Economic Region will have a combined GNP of US\$6.34 trillion (at 1987 prices and exchange rates). It will become comparable to the European Community which has a projected GNP of US\$6.04 trillion and North America with a projected GNP of US\$7.17 trillion.<sup>10</sup> This evolving world economic pattern will intensify Asia-Pacific economic integration and regionalization which will affect Taiwan’s future role.

#### ASIA-PACIFIC ECONOMIC PERFORMANCE AND INTEGRATION

The Asia-Pacific region is characterized by heterogeneous political and economic entities.<sup>11</sup> The nature of this heterogeneity was described by Professor Yuan-Li Wu (1989) as follows:

Economically, their differences in size and in natural resource endowment — including especially their degree of dependence on imported energy and their capacity to export primary products — have led

**Table 1. Economic Comparison among the Big Three Economic Regions in 1988**

Big three economic regions and economic indicators	EEC (EC)	North American Economic Free Trade Zone	PECC (APEC)
Number of member countries	12	3	12
Leading economy	Germany	U.S.	Japan
Population (in mil.)	324.5	355.5	1,615.9
GNP (in bil. US\$)	4,840.8	5,530.0	2,107.6
Per capita GNP (in US\$)	13,601.0	12,575.0	6,640.0
Growth rate	3.5%	3.2%	7.4%
Total Import (in billion US\$)	1,078.9	584.6	578.7
Import ratio	33.1%	18.3%	19.6%
Total Export (in billion US\$)	1,055.9	457.6	695.8
Export ratio	32.2%	14.8%	22.5%
Mechanism of Cooperation	EEC	Free trade	Ministerial Negotiations

Notes

1. PECC membership includes Japan, South Korea, Taiwan, Hong Kong, Singapore, the Philippines, Indonesia, Thailand, Malaysia, China, New Zealand and Australia. The new Asian economic cooperation, the Asia-Pacific Economic Cooperation (APEC) formed in 1989, will replace the function of PECC.
2. North American Free Trade Area includes the U.S., Canada, and Mexico. The new economic cooperation — the Hemisphere-wide Free Trade Zone, announced by President Bush (1990) includes North, Central and South Latin American countries.
3. When EEC becomes EC after 1999, then it will be a community of 25 countries with a population of 850 million.

Sources: Fred C. Bergsten, "A New Big Three to Manage the World Economy," in *Challenge*, November–December 1990; Lester Thurow, "World Economy in the 21st Century and What Is the Taiwan Role?" *Journal of Commonwealth*, January 1991; Wen-Zu Li, *National Policy Quarterly*, Vol. 7, p.66; IMF 1989 Year Book; OECD, *Monthly Statistics of Foreign Trade*, June 1990.

to their divergent development paths and performances. "Political heterogeneity" centers on the different perceptions of the source, nature, and intensity of threats to national security, and varying degrees of national cohesiveness which affect the individual countries' available options in economic policy, budgetary and resource allocations, and the time horizons they can afford to assume in policy planning."<sup>12</sup>

Here, we focus on the region's economic performance, integration and economic cooperation.

#### ECONOMIC PERFORMANCE OF ASIA-PACIFIC COUNTRIES

Using the real GNP growth rate as a measurement of the economic performance of economies the Asia-Pacific region in the 1965–85 period, Japan registered an average of 4.7 percent; the average rate of the four "dragons" (Hong Kong, Singapore, Taiwan and South Korea) was 6.8 percent; and ASEAN-4 (Malaysia, Indonesia, Thailand and the Philippines) was 4.0 percent (see Table 2). These figures were better than the world average. For instance, in the same period, the average rate of market-oriented developed countries was 2.3 percent; the rate of developing countries, excluding oil exporting countries, was 2.9 percent. The average for the U.S., Canada, Australia and New Zealand was 1.7 percent.<sup>13</sup>

#### INCREASING INTEGRATION OF THE ASIA-PACIFIC ECONOMY

Asia-Pacific economic integration is expanding, particularly in intra-regional trade, direct investment flows and tourism.<sup>14</sup> For instance, by 1988, 80 percent of the total direct foreign investments in PECC countries came from PECC investors; 90 percent of tourists visiting PECC destinations originated from PECC countries; and 66 per cent of PECC exports went to PECC customers.<sup>15</sup> It was claimed that the share of exports by the nine Asian countries' (NIEs + ASEAN-4 + China) to the U.S. had declined but the share of their exports to Japan and to each other had grown. The same source also indicated that the growth rate of the nine Asian countries' exports to each other had been an average of 14.6 percent annually, compared to a growth rate of 11.4 percent annually of their total exports.<sup>16</sup> In absolute terms, the increase of intra-Asia/Oceania

**Table 2: Economic Growth Rates and Per Capita GNP of Asia-Pacific Countries (Unit: % : in US\$)**

Countries	1965-85	1985	1986	1987	1988	1989	1990
<i>Industrialised countries</i>							
1. Japan GR		4.7%	4.9%	2.5%	4.6%	5.7%	4.9%
GNP Per Capita		11,014	16,184	19,530	23,358	23,011	23,586
2. Australia GR		5.1%	2.2%	3.9%	4.0%	3.5%	
GDP Per Capita		10,499	10,502	10,694	11,868	16,374	
<i>Upper middle income</i>							
1. New Zealand GR			6.3%	-2.0%	0.7%	0.4%	3.0%
GNP Per Capita					6,760	6,697	
2. Taiwan GR	6.8%	5.6%	12.6%	11.9%	7.8%	7.3%	5.2%
GNP Per Capita		3,297	3,993	5,275	6,333	7,512	7,997
3. South Korea GR	6.6%	7.0%	12.9%	12.8%	12.4%	6.7%	
GNP Per Capita		2,194	2,505	3,110	4,127	4,968	5,552
4. Hong Kong GR	6.1%	-0.1%	11.9%	13.8%	7.4%	5.0%	
GNP Per Capita		6,144	6,958	8,292	9,605	10,929	12,213
5. Singapore GR	7.6%	-1.6%	1.8%	9.4%	11.1%	9.2%	
GNP Per Capita		6,911	6,766	7,940	9,443	10,780	12,433
6. Malaysia GR	4.4%	-1.0%	1.2%	5.2%	7.8%	8.0%	
GNP Per Capita		2,000	1,830	1,810	1,870	2,393*	
<i>Lower middle income</i>							
1. Thailand GR	4.0%	3.5%	4.5%	8.4%	11.0%	9.7%	
GNP Per Capita		810	800	850	1,000	1,246*	
2. Philippines GR	2.3%	-4.3%	1.4%	4.7%	6.6%	6.0%	
GNP Per Capita		580	560	590	630	738*	
3. Indonesia GR	4.8%	2.5%	4.0%	3.6%	4.7%	3.7%	
GNP Per Capita		530	500	450	430	533*	
<i>Low income countries</i>							
1. China GR	4.8%	13.1%	8.3%	10.6%	11.2%	4.1%	
GNP Per Capita		310	300	290	330	375*	
2. Vietnam GR		5.6%	3.4%	2.1%	5.8%	5.6%	
GDP Per Capita							
3. Myanmar GR		3.2%	1.0%	2.2%	-1.7%	3.2%	
GDP Per Capita							

\*Data of per capita GDP of Taiwan, Korea and Singapore are not seasonally adjusted.

Sources: *Asian Development Outlook*, 1988, 1989; The WEFA Group, *Asia Economic Outlook*, July 1989; *Pacific Economic Outlook*, 1989-90; and DCBAS, Republic of China.

exports (including Japan, Australia, etc) between 1985 and 1989 was very substantial.<sup>17</sup> This trend is expected to continue in the coming decade. A RAND Corporation study projected that the growth rates of the Asian economies (excluding Japan) for the 1990s will continue to be twice as high as those of their European counterparts (see Table 3).<sup>18</sup>

With the increasing integration of the Asia-Pacific economy as measured by the trends in intra-regional trade, direct investment flows, tourism and the enormous economic development potentials of this region in the future (as Table 4 predicted), Taiwan should play an important role. In fact, Taiwan has already been playing an important economic role, particularly since 1980.

#### TAIWAN'S REGIONAL ECONOMIC POSITION

Taiwan's economic development between 1950 and 1990 was rather successful compared with that of some other Asian countries.<sup>19</sup> A World Bank report, using income per capita as a measure, divides Asian countries into four economic categories: (a) low income countries; (b) lower middle-income countries; (c) upper middle-income countries; and (d) industrial market economies (see Table 2).<sup>20</sup> Taiwan is in the category of upper middle-income countries. Taiwan's per capita GNP is higher than that of low income and lower middle-income countries, but compared with other countries in the same category, it is lower than that of Hong Kong and Singapore, and far lower than that of Japan, the only industrialized market economy in Asia (see Table 2). Another comprehensive indicator of economic development — the long-term output growth as measured by the average annual rate of growth — separates Asian economies into two groups: (a) the low income and lower middle-income countries are in the lower growth group, with an average growth rate of 4 percent in 1965-1985; and (b) the upper middle-income countries (excluding Malaysia) are in the higher growth group, with an average growth rate of more than 6 percent in the same period.<sup>21</sup> Taiwan records a 6.8 percent annual growth in the same period (see Table 2).

Another comprehensive indicator that measures the economic power of Taiwan is export expansion. Taiwan has been performing very well in export trade, especially since the mid-1960s. Taiwan's export growth



**Table 3: Projection of GNP Growth Rates, 1970–2000**  
(Unit: Percent/Year)

Regions or country	1970–80	1980–90*	1990–2000
United States	2.8	2.8	2.6
Japan	4.7	3.9	3.0
Asian NIEs and ASEAN-4	7.9	6.2	5.3
China	5.5	9.1	4.6
West Germany	2.7	1.8	2.1
France	3.6	1.7	2.8

Note: The growth rates of the period between 1980 and 1990 were based on historical data; the rates for 1989 and 1990 were based on projections.

Source: K. C. Yeh, Man-Bing Sze, Norman Levin, "The Changing Asian Economic Environment and U.S.-Japan Trade Relations," Santa Monica: RAND Corporation, R-3986-CUSJR, Sep., 1990, p.7. Reproduced from R. Drobnick's paper (1991).

rate in 1985 was 0.9 percent against the previous year, but the total value of exports for that year was US\$30.7 billion which ranked second in the region after Japan. Taiwan's total export value increased by 29.7 percent in 1986, 34.5 percent in 1987 and 13 percent in 1988. Export growth slowed down in 1989, but some local economists anticipated a resurgence either this or next year.

Taiwan is the twelfth largest trading nation (with two-way trade valued at US\$110.2 billion in 1988) and currently holds the largest foreign currency reserve in the world (amounting to US\$76 billion in 1987). Its GNP in 1988 ranked fourteenth (US\$125.3 billion) and its per capita GNP ranked twentieth in the world. However, beginning in the mid-1980s, Taiwan has faced a host of economic problems including rapidly increasing labor costs, declining domestic investment, appreciation of Taiwanese currency and the rise of protectionism in international trade.

To tackle these new economic problems, the Taiwan government has formulated a "Six-Year National Development Plan" as a guide for future economic development. This six-year plan aims to improve economic and social order and to promote balanced growth. It includes four

**Table 4: Exports and Imports by Regions and Countries (Percent)**

	1955	60	70	80	81	83	84	85	86	89
Exports										
Bil. US\$	0.1	0.2	1.5	19.8	22.6	25.1	30.5	30.7	39.8	66.2
Asia	89	79	39	35	35	32	30	31	30	38
America	5	12	43	41	43	50	54	54	53	40
Africa	1	2	3	5	5	3	3	2	2	2
Europe	5	6	10	16	13	11	10	10	12	17
Oceania		1	2	3	4	3	3	3	3	3
%	100	100	97	100	100	99	100	100	100	100
Imports										
Bil. US\$	0.2	0.3	1.5	19.7	21.2	20.3	22.0	20.1	24.2	52
Asia	42	47	58	59	59	55	55	52	53	50
America	49	39	28	26	26	27	28	28	27	28
Africa	1	1	1	3	3	3	2	3	3	2
Europe	7	11	10	9	9	11	11	12	13	16
Oceania	1	1	3	3	3	4	4	5	4	4
%	100	99	100	100	100	100	100	100	100	100

Sources: *Statistical Yearbook of the Republic of China*, 1986; *Taiwan Statistical Data Book*, 1986; *Industry of Free China*, 1987; *The Trade of China: Taiwan District*, 1980, 1982, 1984; *Monthly Statistics of Exports and Imports*, 1987; OECD, *Monthly Statistics of Foreign Trade*, 1990.

specific policy objectives: (1) raising national income; (2) strengthening the infrastructure; (3) narrowing the gap between urban and rural areas; and (4) improving the quality of life.<sup>22</sup> This six-year plan sets a target of 7 percent annual real growth rate for the next six years. This growth rate, if achieved, will significantly increase per capita income from US\$8,000 in 1990 to US\$14,000 in 1996.<sup>23</sup> There are certainly some difficulties in implementing and realizing the six-year plan. Some Taiwanese economists have argued that government bond issues of the magnitude required by the six-year plan will weaken the private sector's ability to raise funds needed to upgrade industry. Moreover, the government has been operat-

ing on a deficit budget for many years. The Ministry of Finance plans to raise at least NT\$250 billion in the fiscal year of 1992 to cover the shortage in the government's operating expenses.<sup>24</sup> Even so, some Taiwanese economists still believe that Taiwan can maintain an average growth rate of 5 to 7 percent in the 1990s and a stable price level.

Nevertheless, concentrating on improving the domestic economic environment is not good enough to ensure a second "economic miracle" or to keep a growth rate of 5 to 7 percent. An improvement of its international political and economic relations with other countries, and an integration into the regional community are necessary as the trend of regionalization becomes stronger. Taiwan can actually play an important economic role in the short term by using its economic power of trade and foreign investment in this region. Taiwan's foreign investment can transfer its technology and management practices to other Asian countries. To enhance its international role, Taiwan should try to reduce its political conflict with China while becoming more involved in regional governmental affairs by participating in different types of institutions, e.g. APEC, and offering economic aid and technical assistance to other developing countries. By doing these things, Taiwan might in the long term be able to rejoin international organizations such as the U.N., the World Bank, the International Monetary Fund (IMF) and GATT, etc. How can Taiwan achieve this? Some suggestions will be provided after examining the current regional roles of Taiwan.

## TAIWAN'S CURRENT ROLE THE ASIA-PACIFIC REGION

### TAIWAN'S ECONOMIC ROLE IN THE ASIAN ECONOMY

#### 1. Greater Import Dependency on Asian Countries

In the past few years, foreign trade, more than any other economic activities, has become a symbol of success for Taiwan. Yet, foreign trade figures, particularly on the export side, show very clearly that Taiwan is a force to be reckoned with. It has ranked eighteenth since 1985 in the list of the major trading nations; and ranked twelfth in the list of major

exporters in 1990. Taiwan is more heavily reliant on foreign trade in its development than many other countries.<sup>25</sup>

Taiwan's trade pattern has changed between 1955 and 1989 (see Table 4). Taiwan exported goods mainly to Asian markets in the 1960s. For example, 89 percent of Taiwan's total exports went to Asian countries in 1955, and only 5 percent went to the U.S. This trend was, however, soon reversed. Taiwan's exports to the U.S. rose to 40 percent of its total in 1989, and exports to Asia countries fell from 89 percent in 1955 to 38 percent in 1989. The Asian region has become less important as Taiwan's export markets. On the other hand, Asian suppliers have dominated Taiwan's import markets since 1970. Taiwan's average imports from the Asian region were more than 55 percent of the total (see Table 4) between 1970 and 1989, and its trade deficit with Asian countries has grown since 1970. Economic ties between Taiwan and the Asian region have been reinforced, especially since 1985, as Taiwanese foreign investment increased rapidly in the region.

#### 2. Increasing Investment In Asian Countries

Taiwan has emerged as a key investor in this region, competing with Japan in direct foreign investment in the Western Pacific region since 1987 (see Tables 6, 7 and 8). Capital exports from Taiwan and the other three NIEs have become another powerful catalyst and have given incentive to further economic integration of the Pacific rim economies.<sup>26</sup>

**Table 5. Total Taiwanese Investment Abroad (Unit: Million US\$)**

	1957-70	71-80	81	82	83	84	85	86	87	88	89	90
Cases	39	114	10	4	7	22	23	32	45	109	153	
Value	8.1	93	10	11	10	39	41	57	103	219	931	730

Note: The figure of US\$730 million is only for the first six months, between January and June of 1990.

Source: Interviews with a Deputy Director of Economic Research Department at the Council for Economic Planning & Development, June 1990.

**Table 6. Taiwan's Approved Outward Investment by Area**  
(Unit: Million US\$)

	1984	85	86	87	88	89	90 (6 months)
Total	39	41	57	103	219	931	730
Thailand	0.2	2.6	5.8	5.4	11.9	51.6	20.8
Malaysia	1.2	n.a.	n.a.	5.8	2.7	158.6	111.9
Indonesia	4.9	1.0	1.8	1.0	1.9	0.3	29.7
Philippines	n.a.	n.a.	0.7	2.6	36.2	66.3	106.8
Singapore	0.2	0.3	0.4	1.3	6.4	5.2	0.6
U.S.	30.5	35.7	46	70	123	509	237.2
Others	2.2	1.8	2.8	16.6	36.2	140	223.3

Sources: (1). *Current Situation and Future Prospect of Investment in East Asian Countries*, by Investment Bureau of MOEA, No.100, 1990. (2). *Domestic Economic Indicators*, July 1990, published by MOEA.

Direct investment in foreign countries was strictly controlled by the Taiwanese government before 1984 (see Table 5). Private enterprises have aggressively invested overseas since 1986, especially in the Asian region, as a result of the appreciation of the Taiwanese currency,<sup>27</sup> the rapid increase in domestic production costs, such as the rise of labor costs and the accumulation of a large foreign currency reserve (US\$76 billion). Foreign investment has also been encouraged by the government policies of "liberalization" and "internationalization," which were officially adopted in 1984 to ease international pressure, especially from the U.S.

Appreciation of the New Taiwanese dollar has had a strong impact on Taiwan's foreign investment pattern. The first effect is that the destination of Taiwanese outward capital flow (foreign investment) has shifted from the U.S. to Asia-Pacific countries. Prior to 1986, Taiwanese investment was focussed on the U.S., but it has declined rapidly since 1987. Investment in the U.S., as a percentage of its total overseas investment, fell to 68

**Table 7. Taiwan's Foreign Investment Record Collected by the Governments of Thailand, Malaysia, Indonesia, Philippines**  
(Unit: Million US\$)

	1987		1988		1989	
	A	B	A	B	A	B
Thailand	300	(5.4)	842	(11.9)	871	(51.6)
Malaysia	90	(5.8)	307	(2.7)	785	(158.6)
Indonesia	1.35	(1.0)	1.9	(n.a.)	150	(0.3)
Philippines	9	(2.6)	109.3	(36.2)	149	(66.3)
China	100		600		600*	

\* Xiamen only.

Sources: *Current Situation and Future Prospect of Investment in East Asian Countries*, by Investment Bureau of MOEA, No.100, 1990; *Far Eastern Economic Review*, 19 April 1990, p.84.

percent in 1987, 56 percent in 1988, 55 percent in 1989, and further fell to 32 percent in the first six months of 1990 (see Table 6).

The second effect was an increase of foreign investment. Information shows that government-approved investment abroad amounted to only US\$41 million between 1984 and 1985, but rose to US\$57 million in 1986. With a 40 percent appreciation of the New Taiwanese dollar against the U.S. dollar between 1985 and 1987, foreign investment increased sharply (see Table 6). Total investment reached US\$103 million in 1987, or double that of 1986. It doubled again in 1988 to US\$219 million. Foreign investment peaked in 1989, reaching US\$931 million, or tripling that of 1988. According to the Investment Bureau of the Ministry of Economic Affairs, real investment abroad should be much higher than the official record due to the fact that the government has no detailed record of overseas investment activities by Taiwanese enterprises. For instance, the government record of Taiwanese foreign investment in Thailand was US\$5.4 million in 1987, US\$11.9 million in 1988, and US\$51.6 million in 1989. By comparison, Thai government records showed that Taiwanese investment in Thailand was US\$300 million in 1987, US\$842 million in 1988, and US\$871 million in 1989 (see Table

7). Taiwanese investment in 1988 was the second largest source of foreign investment in Thailand, with approved investment applications for US\$842 million, compared to only US\$650 million of investment from the U.S. (see Table 6 and 7).<sup>28</sup> But the Taiwanese government records show that investment in Thailand in 1988 was a mere US\$11.9 million. This huge difference in the official foreign investment records between the Taiwanese government and each of the local governments not only occurred in the case of Thailand but may be seen as a general phenomenon (see Table 7).

Since the rapid increase in total foreign investment after 1987, and an adoption of diversification investment strategy, Taiwan has become a major source of foreign investment in the Asia-Pacific region. Taiwan was the second largest investor in Thailand and Malaysia in 1987; also the second largest investor in the Philippines, Indonesia, Thailand and Malaysia in 1988. Taiwan was the largest foreign investor in Indonesia, Thailand and the Philippines in 1989 (see Table 8).

#### TAIWAN'S ROLE IN REGIONAL ORGANIZATIONS OF ASIA: IN PECC, PBEC, ADB AND APEC

While Taiwan has increased its economic influence in this region, it has not yet won a proper political position in the international community. Taiwan's role in regional political organizations of Asia remains crippled and needs to be improved.

So far, only a few Asian countries have diplomatic relations with Taiwan, and the most important one being South Korea. The Taiwan-South Korea relations may be jeopardized, however, if China and South Korea normalize diplomatic relations. The political relationships between Taiwan and other Pacific countries have been unofficial or informal. Thus, Taiwan has been unable to gain support to join any regional political organizations in Asia. In the future, Taiwan should not only try to establish and expand diplomatic ties with other Asian countries, but also to join regional inter-governmental organizations to enhance its regional and international status for political and economic reasons. Taiwan should pay particular attention to some of the forces and institutions that promote political and economic regionalization around the Pacific rim.

The most important regional institutions are the Pacific Basin Economic Council (PBEC)<sup>29</sup>, the Pacific Economic Cooperation Conference (PECC)<sup>30</sup>, the Asian Development Bank (ADB), and the Asia-Pacific Economic Cooperation (APEC). Taiwan is a member of PBEC, PECC and ADB. Taiwan should be more active in these organizations. For example, Taiwan can contribute more funds to the PECC Central Fund,<sup>31</sup> as well as to the Asian Developing Fund of ADB.<sup>32</sup>

APEC, founded in 1989 to create an intergovernmental forum to bring together trade, investment and foreign ministers on an annual basis in the Asia-Pacific region, is a new but important institution for coopera-

**Table 8. Foreign Investors in the Philippines, Indonesia, Thailand, Malaysia Between 1985 and 1989.**

		Philippines	Indonesia	Thailand	Malaysia
1985	First	U.S.	U.S.	U.S.	Japan
	Second	Japan	Japan	Hong Kong	U.S.
	Third	Hong Kong	W. Germany	Japan	Singapore
1986	First	U.S.	Japan	Japan	Netherlands
	Second	Japan	U.S.	Hong Kong	Singapore
	Third	Hong Kong	Singapore	U.S.	Japan
1987	First	U.S.	Japan	Japan	Japan
	Second	Japan	W. Germany	Taiwan	Taiwan
	Third	Hong Kong	Hong Kong	U.S.	Singapore
1988	First	U.S.	W. Germany	Japan	Japan
	Second	Taiwan	Taiwan	Taiwan	Taiwan
	Third	Japan	U.S.	U.S.	U.S.
1989 (1-6)	First	Taiwan	Taiwan	Taiwan	Japan
	Second	Japan	Japan	Japan	Taiwan
	Third	Hong Kong	S. Korea		U.K.

Sources: Chi-Ming Hou & Chien-Nan Wang, "Globalization and Regionalization — Taiwan's Perspective," a paper prepared for the 1991 Sino-European Conference on Economic Development: Globalization and Regionalization in Taipei, 23-24 May 1991, p.38; Wen-Zu Li, *National Policy Quarterly*, Vol.5, 1990, p.62.

tion. It would facilitate the regionalization of the Pacific rim and would have an important impact on regional political and economic developments. Therefore, Taiwan should try to gain membership in APEC as soon as possible. Since APEC's work program and agenda are supported by the research of PECC Task Forces, participation by Taiwan in APEC could thus be enabled indirectly through PECC. Taiwan should strive to increase its influence in PECC for the ultimate goal of direct participation in APEC. To do so, the primary obstacle of political differences between Taiwan and China has to be resolved or restrained.

#### IMPROVING RELATIONS WITH CHINA

Political differences between Taiwan and China have affected Taiwan's participation in APEC and other international organizations, e.g. GATT. For example, Taiwan was not invited to the 1989 APEC conference largely due to China's opposition to its participation in this organization. One way to overcome this predicament is to improve bilateral political and economic relations with China, and this is currently happening.

##### 1. Growth in Trade Between Taiwan And China

Indirect trade between Taiwan and China has increased substantially over the past decade. Statistics shows that the value of Taiwan-China trade surged from US\$77.76 million in 1979 to US\$3.48 billion in 1989, a 45-fold expansion. Total indirect trade via Hong Kong has risen to over US\$4 billion in 1990.<sup>33</sup> Apparently, indirect trade across the Straits ranked high in the total trade of both sides. China now is the fifth largest trading partner of Taiwan, while Taiwan also ranks fifth on China's list.<sup>34</sup>

In the 1979–1989 period, Taiwanese exports to the mainland increased 137-fold, at an average annual growth rate of 151 percent, while China's exports to Taiwan grew 10 times in value, at an annual growth rate of 38 percent (see Table 9). Indirect sales of China products from China to Taiwan were twice the value of Taiwan's exports to the mainland in 1979. The trend, however, has reversed since 1980, with Taiwan enjoying a surplus in its indirect trade with China. Furthermore, Taiwan

**Table 9: Indirect Trade Between China and Taiwan via Hong Kong, 1979–1990.(Unit: US\$ Million)**

Year	T to C Volume	G.R. %	C to T Volume	G.R. %	Trade Turnover Volume	Bilateral Trade Total G.R. %
1979	21.3	41,647	55.8	19	77.1	65
1980	242.2	1,038	78.5	41	320.7	416
1981	390.2	61	76.3	-3	466.5	45
1982	208.2	-47	89.9	18	298.1	-36
1983	168.6	-19	96.0	7	264.6	-11
1984	425.6	152	127.7	33	553.4	109
1985	988.0	132	116.0	-9	1,104.0	99
1986	811.3	-18	144.2	24	955.5	-13
1987	1,226.8	51	289.0	100	1,515.8	59
1988	2,239.3	83	478.1	65	2,717.4	79
1989	2,896.5	29	586.9	23	3,483.4	28
1990	3,278.0	13	765.0	30	4,043.0	16

Note: T = Taiwan, C = China. G.R. = Growth Rate.

Sources: Hong Kong Census and Statistics Department also in Chu-Yuan Cheng's paper, "Trade and Investment across the Taiwan Straits: Economic Consequences and Prospects," presented at the International Conference on Asian-Pacific Economic Cooperation on 13–14 March 1991 in Los Angeles, California.

out-performed China in both total export amount and the annual export growth rate during the ten-year period from 1980 to 1989. The value of Taiwanese exports to China in 1990 was more than four times those of Chinese exports to Taiwan. In the twelve years from 1979 to 1990, Taiwan's exports to China totalled US\$12.9 billion, while China's exports to Taiwan amounted to US\$2.95 billion.<sup>35</sup>

##### 2. Growing Taiwanese Investment in China

The rapid growth in trade stimulated greater interest in Taiwan to invest in China. Professor Chu-Yuan Cheng asserted that Taiwan's investments in China, non-existent before 1987, ranked fourth in 1990 after Hong Kong, the United States and Japan.

After the lifting of martial law in July 1987, the relaxation of foreign exchange control<sup>36</sup> and the adoption of a liberalization policy, Taiwanese

businessmen began to make or to increase investments in the coastal cities of China. By the end of 1988, total Taiwanese investment in China was estimated at US\$420 million and increased to US\$2 billion in 1990.<sup>37</sup> An official report by the Taiwanese government found that 2,503 Taiwanese enterprises have invested in China. Investment in China rose rapidly in subsequent years, due partly to the deterioration of the investment environment in Taiwan and partly to the various preferential treatments offered by China.

The annual growth rate of Straits commercial exchanges and investment has fluctuated and has been unstable in the past decade for the following reasons: the unstable political situation in Mainland China; its changing foreign trade policy; and the unstable Taiwanese trade policy with regards to Straits commerce. The main factor responsible for Taiwan's unstable trade policy on Taiwan-China trade is politics. Some of the central concerns are (1) whether trade should be changed from indirect to direct trade and whether investment in China should be fully legalized; (2) whether large-scale direct trade will render Taiwan's economy overly dependent on China; (3) whether increased investment in China will result in capital flight and industrial hollowing in Taiwan; and (4) whether trade and investment will be used as political leverage by China to bring Taiwan to the negotiation table under Beijing's terms.<sup>38</sup> In order to avoid these problems, Taiwan should, on the one hand, adopt a clear industrial policy to upgrade its own industrial structure and, on the other hand, find a solution to the political differences with China.

### 3. Improving Bilateral Relations with China

To improve political relations with China, Taiwan has created the Straits Exchange Foundation (SEF) as a private liaison organization between Chinese officials and Taiwan's Mainland Affairs Council. The main function of SEF is to handle non-political, routine technical matters involving problems that might arise in contacts across the Straits. The historical meeting of SEF representatives and officials from Mainland China took place in April 1991 to open unofficial but formal bilateral relations. In the long run, SEF may provide a channel for Taiwan and China to address the issue of Taiwan's participation in international organizations.

**Table 10: Financial Loan to Developing Countries up to 1990**

Receipient Countries	Nature of Loan	Amount in US\$
Costa Rica	Special economic zone	9.0 million
Panama	Special economic zone	7.8 million
Dominica	Special economic zone	2.5 million
Mexico	Special economic zone	10.0 million
Bahamas	Fishing culture zone	5.0 million
St. Vincent	Building construction	8.0 million
Lesotho	Irrigation system	30.0 million
South Africa	Developed turn-key port	60.0 million
Malawi	Purchasing airplanes	27.0 million
Ireland	Industrial zone	20.0 million
Papua New Guinea	Housing	15.0 million
Jordan	Science park	20.0 million
Total		214.3 million

Sources: A report by the Committee of the Overseas Economic Cooperation Development Fund of the Ministry of Economic Affairs, 1990.

**Table 11: Technical Assistance to other Countries up to 1990**

Receipient countries or Institutions	Nature of Technology Aid	Amount in US\$
1. Philippines	Job training center	0.3 million
2. West Africa Developing Bank	Trust Foundation	5.0 million
3. World Bank	Trust Foundation	2.0 million
4. U.S.	Tech. of fish culture	1.53million
5. Thailand	Reform commercial taxation	0.25million
6. Venezuela	Plan of exporting zone	0.35million
Total		9.43million

Sources: A report by the Committee of the Overseas Economic Cooperation Development Fund of the Ministry of Economic Affairs, 1990.

## CONCLUSION AND PROPOSALS

Whether Taiwan can gain legal status in international political and economic organizations, or play an important role in the Asia-Pacific region depends, in the long run, on how Taiwan makes the best use of its economic power to muster political support from other countries and to improve its relationship with China. There are some aspects of the problem that Taiwan can pursue at the current stage, which may have an impact on Taiwan's long term objectives.

### ECONOMIC DIMENSIONS: GREATER INTEGRATION IN REGIONAL AND INTERNATIONAL ECONOMIC COOPERATION

#### 1. *The Use of its Economic Resources to Attract Foreign Investment to Taiwan*

As mentioned earlier, the Taiwanese government has recently decided to embark on an extremely ambitious plan to upgrade the island's industrial structure. Under the new "Six-Year National Development Plan," Taiwan will spend a total of US\$300 billion on 779 projects starting from 1991. This sum is three times as large as the National Recovering Funds of Kuwait for the reconstruction of the country after Iraqi invasion. This six-year national development plan requires advanced technology and equipment (that may come from Japan) and labor and natural resources (that could be imported from Southeast Asian countries). This plan will attract foreign investors to Taiwan and will expand Taiwan's contacts with other countries. For instance, former U.S. Secretary of Defense, Caspar Weinberger, visited Taiwan specially to learn more about this new six-year plan. France and Italy have also sent ministers to Taiwan to assess the commercial possibilities of this major undertaking. Japan and the Philippines have also demonstrated interest. Japan sent a "Japanese Purchasing Delegation" of 150 members to Taiwan in May 1991 to investigate possibilities to reduce the bilateral trade imbalance between the two countries by proposing a Japanese role in this six-year plan. In the short term, Taiwan could use the "Six-Year National Development Plan" as leverage to improve its relationship with

the Asia-Pacific community by enabling closer bilateral economic ties. In the medium term, when Taiwan completes its current six-year plan in 1996, its ability for outward investment will be greatly enhanced. Extensive economic cooperation in the Asia-Pacific community or across the Taiwan Straits will be forthcoming.<sup>39</sup>

#### 2. *Investment in Other Asian Countries*

Taiwan has by now become a major foreign investor in the Asia-Pacific region, and has emerged as one of the front-running investors in Southeast Asia. In the future, the government of Taiwan could design tax incentives, establish feasible programs for overseas investment and even offer low-interest loans to encourage Taiwanese businessmen to invest in Southeast Asia. This would help partly to alleviate the problems of unemployment, capital accumulation, foreign exchange shortages and technical backwardness in these countries.<sup>40</sup> But the form and scale of each investment should be evaluated according to the merits of each case.<sup>41</sup>

#### 3. *Intermediary Between the North and the South in Finance, Trade and Technology Transfer in the Asia-Pacific Region*

Professor Yuan-Li Wu proposed and argued that Taiwan could serve as a tripartite and multilateral cooperation platform to transfer U.S. and European capital and technology to Southeast Asia. He believed that "Taiwan, as a center of trade exhibitions, new technology, offshore banking and other international financial transactions, can expand to the benefits of the region as a whole."<sup>42</sup>

### FOREIGN AID

Taiwan has created a US\$1.2 billion International Economic Cooperation Development Fund to assist economic development of developing countries. Taiwan has provided a total of US\$214.3 million in commercial loans and US\$9.43 million in technical assistance primarily to developing countries by September 1990 (see Tables 10 and 11). In utilizing its economic potentials for diplomatic objectives, Taiwan can allocate budget reserves to support international organizations such as

the World Bank, IMF and regional economic bodies like ADB and the African Development Bank by issuing bonds to raise funds for developing countries. The Institute for National Policy Research proposed that Taiwan could — with full consideration of its considerable military expenditures — set aside a value equivalent to 0.2 to 0.3 percent of its GNP for international aid programs.<sup>43</sup>

#### REGIONAL AND INTERNATIONAL ORGANIZATIONS

Furthermore, Taiwan should try to overcome the political difficulties to involvement in international and regional economic organizations, such as the World Bank, IMF and GATT, of which Taiwan is not a member. What Taiwan can do is to lend money to them by contracts, which can then be used by these international economic organizations. Taiwan could subsequently improve its relations with important international economic organizations. In addition, Taiwan should try to increase its influence in organizations in which it is a member — ADB, PECC and PBEC — by contributing more funds or other resources. This is of particular significance if Taiwan wants to fully participate in inter-governmental organizations, such as APEC, and to find the right niche for itself in the international political community. Harmonious bilateral ties with China is critical to this endeavor, as well as domestic political development in Taiwan.

Finally, by way of economic interaction among Taiwan and other Asian countries and regional organizations, Taiwan could promote its development experience as a model for other developing countries. Taiwan can, for example, promote development programs that it has successfully implemented, such as land reform and export-oriented trade strategies. Furthermore, apart from being the provider of developmental know-how, Taiwan could also learn from other countries. For instance, it can learn from the Japanese experience in economic development and economic aid to developing countries as Taiwan attempts economic restructuring from heavy to high-technology industries and enlarging its political and economic role in the Asia-Pacific region.

#### NOTES

1. Richard Drobnick, "America and the Pacific Rim-1991 and Beyond," presented at the fourth annual Asia/Pacific Business Outlook Conference, Los Angeles, 4–6 March 1991.
2. *Ibid.*, PECC comprised the ASEAN countries, Asian NIEs, Australia, Canada, China, Japan, New Zealand and the United States.
3. *Ibid.*
4. *Ibid.*
5. C. F. Bergsten, "A New Big Three to Manage The World Economy," in *Challenge*, November–December 1990.
6. *Ibid.*
7. *Ibid.*
8. *Ibid.*
9. Lester Thurow, "World Economy in the 21st Century and What Is the Taiwan Role?" *Journal of Commonwealth*, January 1991.
10. Quoted from Richard Drobnick's paper. For more detail see *Nomura Medium-Term Economic Outlook for Japan and the World*, Nomura Research Institute, Tokyo: Nomura Research Institute, 1989, pp.66–79.
11. Besides the geographical and historical factors, the heterogeneity in the Asia-Pacific region covers different stages of development; differences in language, culture, and social systems; differences in industrial policies; and various political and security concerns.
12. Yuan-Li Wu, "Taiwan and the Regional Economy of the Pacific Basin," in *Taiwan in a Time of Transition*, edited by H. Feldman & I. J. Kim, 1988, pp.63–64.
13. Chi-Ming Hou & Chien-Nan Wang, "Globalisation and Regionalisation — Taiwan's perspective," a paper prepared for 1991 Sino-European Conference on Economic Development: Globalization and Regionalization, 23–24 May 1991, Taipei.
14. No doubt protectionist barriers still exist in this region. For example, there are protectionist barriers for foodstuffs in Japan, Korea and Taiwan, and for labor-intensive commodities (textiles, clothing, footwear and consumer electronics) in Australia.
15. Pacific Economic Cooperation Conference, *Pacific Economic Outlook 1990–91*, Washington, D.C.: U.S. National Committee for Pacific Economic Cooperation, May, 1990, pp.5, 51–53.
16. *Ibid.*
17. The increase of intra-Asia/Oceania exports: Hong Kong from US\$11 to US\$30 billion; China from US\$10 to US\$26 billion; Taiwan from US\$9 to US\$25 billion; Singapore from \$11 to US\$18 billion; Malaysia from US\$6 to US\$11 billion; Korea from US\$4 to \$10 billion; Thailand from US\$2 to



- US\$6 billion. Japan's exports to Asia dwarf all others with exports rising from US\$47 billion in 1985 to US\$85 billion in 1989. For more detailed information see "Business Asia," in *Business International*, Vol.22, No.52, 31 December 1990, p.439.
18. For more details, see K. C. Yeh, Man-Bing Sze, Norman Levin, "The Changing Asian Economic Environment and U.S.-Japan Trade Relations," Santa Monica: RAND Corporation, R-3986-CUSJR, September 1990, pp.7 and 50.
  19. Over the past forty years (1950–1990), the average annual growth rate of Taiwan's GNP in real terms was 8.9 percent. The inflation rate was maintained at around 3 percent, except for the years right after the oil crises. The unemployment rate has been about 2 percent over the past two decades. With this performance, the per capita income in Taiwan increased from about US\$100 immediately after the Second World War to US\$8,000 in 1990 (Shirley W.Y. Kuo, 1991).
  20. The World Bank, *World Development Report*, (New York: Oxford University Press, 1987), pp.202–203.
  21. Yuan-Li Wu, "Taiwan and the Regional Economy of the Pacific Basin," in *Taiwan in a Time of Transition*, edited by H. Feldman & I. J. Kim, 1988, p.46.
  22. For more details, see *A Draft of Six-year National Economic Development Plan, 1991–1996*, 4 volumes, Council of Economic Planning and Development, December 1990.
  23. *Ibid.*
  24. Julian Baum, "Rich in Six Years," in the *Far Eastern Economic Review*, 14 February 1991.
  25. Anton Galli, *Taiwan R.O.C.: A Chinese Challenge to the World*, Weltforum Verlag GmbH, Koln, 1987.
  26. See Richard Drobnick, "America and the Pacific Rim — 1991 and Beyond," presented at the Fourth Annual Asia/Pacific Business Outlook Conference, Los Angeles, 4–6 March 1991; Chi-Ming Hou & Chien-Nan Wang, "Globalization and Regionalization — Taiwan's Perspective," a paper presented at the 1991 Sino-European Conference on Economic Development: Globalization and Regionalization in Taipei, 23–24 May 1991.
  27. Between September 1985 and the end of 1987, the NT dollar appreciated some 40 percent against the U.S. dollar, from US\$1 = NT\$40.47 to US\$1 = NT\$28.55. This rate of appreciation was higher than that of the South Korea won of 12.55 percent, the Hong Kong dollar of –0.2 percent and the Singaporean dollar of 10.64 percent.
  28. See also Richard Drobnick's paper, "America and the Pacific Rim — 1991 and Beyond," p.13.
  29. It was founded in 1967 and gathered senior Pacific Rim business leaders for conferences.

30. It was founded in 1980 and it brought together academic, business, and government leaders from 14 Asian countries. It will be joined by Chile, Mexico, and Peru in May 1991.
31. In the Standing Committee of PECC in September 1989, Taiwan decided to raise its contribution to the PECC Central Fund from US\$40,000 to US\$80,000.
32. Taiwan has increased its contributions to the Asian Developing Fund from US\$2 million in 1989 to US\$5 million in 1991.
33. Chu-Yuan Cheng, "Trade and Investment Across the Taiwan Straits: Economic Consequences and Prospects," a paper presented at the International Conference on Asian Pacific Economic Cooperation, sponsored by the Claremont Institute, Los Angeles, California, 13–14 March 1991.
34. *Ibid.*
35. *Ibid.*
36. The Taipei government now permits its nationals outward transfer of US\$5 million per person annually.
37. Chu-Yuan Cheng, "Trade and Investment Across the Taiwan Straits: Economic Consequences and Prospects."
38. *Ibid.*
39. *Ibid.*
40. Y. H. Chu ed., *The Role of Taiwan in International Economic Organisations*.
41. Yuan-li Wu, "Taiwan and the Regional Economy of the Pacific Basin," in *Taiwan in a Time of Transition*, ed., by H. Feldman & I. J. Kim, 1988.
42. *Ibid.*
43. Y. H. Chu ed., *The Role of Taiwan in International Economic Organisations*.

## ***The U.S. Factor in the Political Future of Taiwan and Hong Kong***

*Cheng-Yi Lin*

### INTRODUCTION

The Sino-British Joint Declaration provided that Hong Kong will become a Special Administrative Region of the People's Republic of China (PRC) in 1997. Although the United States did not play an active role in the 1982-1984 negotiations between Britain and China over the territory, the U.S. Congress has shown growing interest in the future of Hong Kong since 1984. Beijing expects the U.S. to play a constructive role in Taiwan's reunification with the mainland.<sup>1</sup> The U.S., due to its special relationship with Taiwan, has greater leverage in shaping Taiwan's future than it does in the case of Hong Kong.

Beijing hopes to apply the concept of "One Country, Two Systems," or the Hong Kong model, to peacefully settle the Taiwan issue. However, the Republic of China (ROC) government insists that the Hong Kong model is inapplicable to Taiwan. The United States continues to express deep interest in the stability and prosperity of Hong Kong and Taiwan. A comparison of Washington's policies toward these two Chinese territories can clarify the limitations and leverages of U.S. influence.

### THE U.S. POSITION ON "ONE COUNTRY, TWO SYSTEMS"

Since the third plenary session of the Chinese Communist Party's 11th Central Committee in 1978, the concept of "One Country, Two Systems" has been gradually developed by Beijing to take into consideration the political and economic realities in Taiwan and Hong Kong in

the reunification process. The concept, however, was not made explicit until 1981. Ye Jianying, then Chairman of the National People's Congress, declared in a nine-point proposal for the peaceful reunification of Taiwan with the mainland in September 1981 that,

After the country is reunified, Taiwan can enjoy a high degree of autonomy as a special administrative region and it can retain its armed forces. The central government will not interfere with local affairs in Taiwan.

Taiwan's current socio-economic system will remain unchanged, so will its way of life and its economic and cultural relations with foreign countries. There will be no encroachment on the right to property and inheritance or laws governing private enterprises and foreign investment.<sup>2</sup>

The concept of "One Country, Two Systems" was, therefore, for the first time adumbrated in Ye's nine-point proposal. Beijing was anxious not only to get the message across to Taiwan but also to win support from the U.S. Before the Sino-British Joint Declaration over Hong Kong was reached, Deng Xiaoping had referred to the concept in meetings with former National Security Advisor Zbigniew Brzezinski (July 1982), Professor Winston L. Y. Yang of Seton Hall University (June 1983), to a delegation from the Center for Strategic and International Studies of Georgetown University (February 1984) and President Ronald Reagan (April 1984).<sup>3</sup>

Insisting on the principle that the Taiwan issue should be resolved peacefully, the Reagan administration expressed great interest in and appreciation of Beijing's peace proposals toward the island. Secretary of State, Alexander Haig, commented that Beijing's nine-point proposal was "rather remarkable," while President Reagan expressed, in a letter to Deng Xiaoping in April 1982, that he "fully recognized the significance of the nine-point proposal."<sup>4</sup>

President Reagan even set Beijing's policy to resolve the Taiwan issue peacefully as a pre-condition to gradually reduce U.S. arms sales to Taiwan. In a personal letter to Premier Zhao Ziyang on April 5, 1982, President Reagan stated that,

As I told the Vice Premier [Huang Hua] in Washington, we welcome your nine-point initiative. We expect that in the context of progress toward a peaceful solution there would naturally be a decrease in the need of arms by Taiwan.<sup>5</sup>

The August 17 Communique between the U.S. and China reiterated this major premise of President Reagan.<sup>6</sup> Should Beijing discontinue its peaceful approach to settling the Taiwan issue, the U.S. will make no commitment to fulfill the terms of the communique. President Reagan subsequently delivered a six-point guarantee to the Taipei government to lessen damages caused by the August 17 Communique. The Taipei version claimed that Washington told Taipei that the U.S.,

1. has not agreed to set a date for ending arms sales to the Republic of China;
2. has not agreed to hold prior consultations with the Chinese communists on arms sales to the Republic of China;
3. will not play any mediation role between Taipei and Beijing;
4. has not agreed to revise the Taiwan Relations Act;
5. has not altered its position regarding sovereignty over Taiwan; and
6. will not exert pressure on the Republic of China to enter into negotiations with the Chinese communists.<sup>7</sup>

The State Department has declined to serve as a mediator between Taiwan and China, but is willing to provide an environment for the people on both sides to increase their contacts and understanding. State Secretary, George Shultz, declared in Shanghai in March 1987 that the United States' "steadfast policy is to foster an environment in which such development [indirect trade and increasing human exchanges] can continue to take place."<sup>8</sup>

It was not until the signing of the Sino-British Joint Declaration in December, 1984 that the concept of "One Country, Two Systems" was written into an international treaty and Hong Kong became the first real test case of the formula. After July 1, 1997, according to the "One Country, Two Systems" formula, the Hong Kong Special Administrative Region (HKSAR):

1. will be directly under the authority of the Central People's Government of the People's Republic of China;
2. will be vested with executive, legislative and independent judicial power, including that of final adjudication;
3. shall retain the capitalist economic and social system;
4. will retain the status of a free port and a separate customs territory;
5. will retain the status of an international financial center;
6. will have independent finance;
7. may establish mutually beneficial economic relations with the United Kingdom and other countries; and
8. may on its own, using the name of "Hong Kong, China," maintain and develop economic and cultural relations and conclude relevant agreements with states, regions, and relevant international organizations.<sup>9</sup>

One significance of the "One Country, Two Systems" formula is its transitory character, which is based on the premise that after reunification, the capitalist system should be subordinate to the socialist system after a certain period.<sup>10</sup> The above-stated basic policies of the People's Republic of China regarding Hong Kong will remain unchanged for only 50 years. Taiwan is much more important to China in sentimental and military-strategic terms, so Beijing has agreed to an even more flexible policy. For instance, Taiwan will be permitted to retain its own armed forces.

In the early 1980s, the U.S. State Department maintained a low profile on the issue of Hong Kong's social, economic, and political future. Schultz commented in September 1984 shortly after China and Britain concluded their negotiations over the future of Hong Kong that,

The United States has a strong interest in the continued stability and prosperity of Hong Kong and believes the agreement will provide a solid foundation for Hong Kong's enduring future progress.

We expect the American business communities, both in the

United States and Hong Kong, will see in this agreement good reason for sustained confidence in the future of Hong Kong as an attractive and thriving commercial center.

The United States will provide any assistance it can, in close cooperation with the United Kingdom and the People's Republic of China, to maintain Hong Kong's appropriate participation in international bodies.<sup>11</sup>

Keeping Hong Kong prosperous is the only way to protect U.S. economic stakes in Hong Kong (see Appendix 1). Confrontation between China and Hong Kong in the aftermath of Beijing's crackdown on the democracy movement in 1989 does not serve any U.S. interests. Therefore, accepting Beijing's "One Country, Two Systems" framework was the only option for U.S. policymakers. Richard Williams, U.S. Consul-General in Hong Kong, publicly praised the formula of "One Country, Two Systems" when he observed that "after 1997 the citizens of Hong Kong will continue to enjoy civil and political liberties within the framework of 'one country, two systems'."<sup>12</sup> According to Beijing's version, both former President Jimmy Carter and former Secretary of State, Henry Kissinger, have expressed confidence in the applicability of "One Country, Two Systems" formula to Hong Kong.<sup>13</sup>

The U.S. has not challenged Beijing's intention to apply the principle of "One Country, Two Systems" in determining Hong Kong's future, but with respect to the future of Taiwan, the State Department has taken no distinctive position "on the specific terms of the proposal."<sup>14</sup> In other words, Washington welcomes Beijing's peace overtures toward Taiwan but has refrained from public endorsement of "One Country, Two Systems" formula to solve the Taiwan issue. Former President, Richard M. Nixon, argued that,

Deng hopes that the agreement he made with the British on Hong Kong, by which the Crown Colony will revert to Chinese sovereignty in 1997 under the principle of "One Country, Two Systems," will serve as a starting point for a comparable arrangement on Taiwan. In any case, the more sensitive we

[Americans] can be to Chinese concerns on this issue, the better it will be, both for Deng and for Taiwan.<sup>15</sup>

#### DIFFERENCES BETWEEN TAIWAN AND HONG KONG AND THEIR EFFECTS ON U.S. POLICIES

Taiwan is different from Hong Kong not only in socio-economic but also in political terms. Among those differences that have affected U.S. policies toward these two territories are their legal status and their abilities to resist Chinese coercion.

The Kuomintang (KMT) was forced to withdraw from the mainland to Taiwan in 1949 and the island has since been effectively controlled by the KMT-dominated government. The Republic of China had formal diplomatic recognition of 67 countries before it was forced out of the United Nations in 1971.<sup>16</sup> Although some international law specialists have questioned its legal status since 1971, the ROC is still recognized by 28 countries.<sup>17</sup> Before the U.S. shifted official recognition to the Beijing government, Taiwan was protected from possible invasion by China under the U.S.-ROC Mutual Defense Treaty. The U.S. has maintained unofficial relations with Taiwan since 1979, and has continued to provide Taiwan with defensive weapons under the Taiwan Relations Act.

Hong Kong, on the other hand, has been a British colony since 1842. Hong Kong develops its relations with the world through its overseas representative organizations, such as its Industrial Promotion Offices and Trade Development Council. At least 70 countries have consular offices in Hong Kong. For commercial and intelligence purposes, the U.S. Consulate-General is the largest foreign consular office in Hong Kong. Except for occasional port calls by the U.S. naval fleet, the U.S. maintains no military presence in the territory.

People in Hong Kong have enjoyed freedom of expression for years, but democratization in Hong Kong is only at its budding stage. Democratization in Taiwan is far from being satisfactory, but the opposition has long fought for freedom and sought representation through supplementary elections since 1969 for seats in the Legislative Yuan and the

National Assembly. The Hong Kong population was simply left out in negotiations leading to the Sino-British Joint Declaration. The U.S. was kept from playing any role during the 1982-1984 negotiation and had no alternative but to accept China's sovereignty over Hong Kong after 1997. If any negotiation over Taiwan's future were to occur between the Taipei and Beijing governments, the Taiwan constituency would inevitably serve as a third leg in a "three-legged-stool" power game.<sup>18</sup> The idea that the U.S. would serve as a guarantor of a future agreement between Taipei and Beijing has struck a responsive chord among some people in Taiwan.<sup>19</sup>

Hong Kong's dissidents have suggested some radical notions such as independence or internationalization of the territory, but they have gained little grassroots support. Moreover, their lobbying efforts in the U.S. started too late to exert any real pressure on the negotiations.<sup>20</sup> On the other hand, 10 to 20 percent of the people in Taiwan support an independent Taiwan (See Appendix 2) and leaders of the U.S.-based Formosa Independence Movement have successfully established effective liaison with key U.S. congressional members.

Due to geographic proximity, food, water and labor dependency, Hong Kong is indefensible vis-a-vis China. Hong Kong will also be more vulnerable than Taiwan if the U.S. discontinues the most-favored-nation trading status for China. Therefore, Hong Kong-based American businessmen have since 1989 become Hong Kong lobbyists in Washington.<sup>21</sup>

Until 1962, the ROC still considered Taiwan and the offshore islands under its control as bases to recover the mainland by military means. The 90-mile wide Taiwan Straits and U.S. protection not only shielded Taiwan from attacks by China, but also helped KMT to consolidate its legitimacy in Taiwan. Even without the U.S. Seventh Fleet patrolling in the Taiwan Straits and U.S. military bases, Taiwan is capable of defending itself and inflicting considerable damage on the People's Liberation Army if China decides to launch military operations against the island. In its three communiques with China, the U.S. has persistently maintained the position that resolution of the Taiwan question must be through peaceful means. Despite its pledges that it has no intention to pursue a "two-China" policy or a "One China, One Taiwan"

policy, Washington is far from recognizing China's sovereignty over Taiwan.

Differences between Taiwan and Hong Kong have important consequences on U.S. policies toward these two territories. In three areas, namely, democratization, immigration quotas and membership in inter-governmental organizations (IGOs), the U.S. assumes supportive positions for both Taiwan and Hong Kong. Yet, to what extent the U.S. is willing to challenge China in these three areas merits further analysis.

#### U.S. SUPPORTS DEMOCRACY IN TAIWAN AND HONG KONG

The United States has long been interested in Taiwan's democratization process, especially during the Carter administration. Washington's interest in a democratic Hong Kong, however, came only after the signing of the Sino-British Joint Declaration in 1984. While the U.S. State Department tries to keep a low profile by not directly commenting on political developments in Taiwan and Hong Kong, congressional members adopt a different approach, openly urging the Taipei government and the British government to consolidate and support democratic institutions in their domains.

Under the initiatives of Senator Claiborne Pell (D.-Rhode Island) and Congressman Edward J. Derwinski (D.-Illinois), the U.S. government declared that "the preservation and enhancement of the human rights of all the people on Taiwan" are affirmed as "objectives of the United States" in the Taiwan Relations Act (P.L. 96-8, April 10, 1979).<sup>22</sup> The Congress has used this legal basis to justify hearings and resolutions to expedite Taiwan's political developments.

At least six congressional hearings on Taiwan's democratization have been conducted by the House Foreign Affairs Subcommittee on Asian and Pacific Affairs since 1979: *Martial Law on Taiwan and United States Foreign Policy Interests* (1982); *Taiwan Agents in America and the Death of Professor Wen-chen Chen* (1982); *Political Developments in Taiwan* (1984); *The Murder of Henry Liu* (1985); *Political Trends in Taiwan since the Death of Chiang Ching-kuo* (1988); and *The Upcoming Elections in Taiwan* (1989). Despite Senator Pell's personal enthusiasm

for and specialization in Taiwan's affairs, the Senate Foreign Relations Committee held only one hearing — *The Future of Taiwan* — in 1983.

From 1979 to 1987, Senators Pell, Edward Kennedy (D.-Massachusetts), and Congressmen Stephen J. Solarz (D.-New York) and Jim Leach (R.-Iowa), consistently called upon the Taipei government to abolish martial law, as reflected by House Resolution 708 (1980) and House Concurrent Resolution 129 (1984).<sup>23</sup> In the mid-1980s, the same U.S. congressional members began to push forward a plan for fair representation of Taiwanese in all national-level government offices in the Republic of China. In the Senate's Concurrent Resolution 121 (1986), Pell and Kennedy urged the Taipei government to conduct "the free and fair election of all members of all national Legislative bodies, and direct Presidential elections."<sup>24</sup> These four congressional members organized the Committee for Democracy in Taiwan in May 1986, and publicly supported the claims of the Formosa Association for Public Affairs, a Washington group supportive of the Formosa Independence Movement.<sup>25</sup>

U.S. State Department officials and some congressional members regarded Taipei's historical move in lifting martial law as evidence of commitment by the Taiwanese authorities to "increase democracy and respect for human rights."<sup>26</sup> Though Pell, Kennedy, Solarz, and Leach have never ceased to express their concerns for Taiwan's democracy, U.S. congressional pressure on the Taipei government began to shift to Taipei's unfair trade practices with the U.S. in 1987.

The U.S. State Department regards Hong Kong's fate after 1997 as a foregone conclusion, but Washington is concerned with the preservation of U.S. commercial interests leading to and after 1997. Maintaining Hong Kong's membership or status in international economic organizations is a key element in guaranteeing its continued stability and prosperity for 50 years after 1997. Supporting democratization of Hong Kong, however, has yet to become a priority in the U.S. foreign policy agenda.

U.S. critics of KMT have pushed for an end to martial law in Taiwan, but refrained from supporting self-determination for Taiwan. Pro-ROC forces in the Congress have likewise rejected the principle of self-determination, but feel that it is all right to demand the same principle for Hong Kong's future. Congressmen Jack Kemp (R.-New York) and Tom Lantos (D.-California) in House Concurrent Resolution 299

(May 1984) were first among those in Congress to support the principle of self-determination for Hong Kong.<sup>27</sup> Such a principle was even endorsed by the Republican Party in its 1984 presidential election platform. State Secretary Shultz later repudiated the platform's language reasoning that Hong Kong was "a piece of acknowledged Chinese territory."<sup>28</sup>

Almost two months after the Tiananmen Incident, Congressmen Tom Campbell (R.-California), John Edward Porter (R.-Illinois) and Tom Lantos submitted House Concurrent Resolution 187 (August 1989) to the Committee on Foreign Affairs calling for self-determination for Hong Kong.<sup>29</sup> Very few U.S. Congressmen were willing to endorse the resolution, but democratization in Hong Kong is slowly becoming a significant concern to some Congressmen.

Congressman Porter, an unfailing supporter of the KMT government, is a pioneer in advocating democratization in Hong Kong. In March 1988, Porter asked his congressional colleagues to sign a letter to the then British Prime Minister Margaret Thatcher urging implementation of direct elections for Hong Kong's Legislative Council before 1991.<sup>30</sup> Porter introduced House Concurrent Resolution 393 in October 1988, which stated that "it is in the U.S. national interest that there be strong, freely elected democratic institutions in Hong Kong long before 1997." Sponsors of this resolution also called upon President Reagan "to communicate United States' concerns to China regarding the high degree of importance we [Americans] attach to the promises of Hong Kong's democratic rights and the stability and retention of its Western economic system."<sup>31</sup> The wording of House Concurrent Resolution 393 was preserved but its title was changed to House Concurrent Resolution 79 in the 101st Congress (1989-1990). Almost 20 Representatives (See Appendix 3) co-sponsored the resolution.<sup>32</sup>

In promoting democratization in Hong Kong, U.S. senators had made fewer efforts than their House counterparts. Only after the Tiananmen Incident did Senator Mark Hatfield (R.-Oregon) introduce Senate Concurrent Resolution 51 in support of human rights and democracy in Hong Kong.<sup>33</sup> Senator Jim Bradley (D.-New Jersey) echoed the House's concerns for full and direct elections in Hong Kong's Legislative Council. Bradley also introduced an amendment, which was later adopted, to the foreign relations authorization bill requiring "the Secre-

tary of State to report to Congress no later than January 1, 1990, on the implication of the Incident for Hong Kong, and on the administration's policy and plans to help ensure the stability of Hong Kong and the democratic rights of its people after the reversion of the territory to Chinese sovereignty on July 1, 1997."<sup>34</sup>

However, congressional support for Hong Kong's democratization came less from moral support and pronouncements in the House and Senate than from rather substantive changes in the Immigration and Nationality Act. Through a lengthy process, this approach will help to bolster confidence among the people of Hong Kong.

#### INCREASING THE U.S. IMMIGRATION QUOTA FOR TAIWAN AND HONG KONG

In section 4(b)(6) of the Taiwan Relations Act, Taiwan "may be treated in the manner specified in the first sentence of section 202(b)" of the Immigration and Nationality Act, which states:

Each independent country, self-governing dominion, mandated territory, and territory under the international trusteeship system of the United Nations, other than the United States and its outlying possessions shall be treated as a separate foreign state for the purpose of the numerical limitation set forth in the proviso to subsection (a) of this section when approved by the Secretary of State.<sup>35</sup>

Before the U.S. established diplomatic relations with China, the 20,000 immigrant visas for the Chinese state were allocated to the Republic of China. The Taiwan Relations Act authorized the U.S. Secretary of State to treat Taiwan as a nation with a separate immigration quota, but in practice, Taiwan had to share with China's applications for the 20,000 annual immigration quota. Under such circumstances, the U.S.-based Formosa Independence Movement lobbied for an administrative interpretation or an amendment through the Congress to grant Taiwan a separate immigration quota.

The State Department declined to grant Taiwan a separate 20,000 annual immigrant quota, because it believed such an action would violate the so-called "One-China" principle.<sup>36</sup> Through efforts by Congressmen Solarz, Joel Pritchard (R.-Washington) and Senators Kennedy and Alan K. Simpson (R.-Wyoming), an amendment to the fiscal year 1982 foreign aid authorization bill was adopted by the Congress in December 1981. The amendment extended to Taiwan eligibility for up to 20,000 U.S. immigration quota per year.<sup>37</sup> Both the Formosa Independence Movement and the Taipei government took credit for this amendment. The Beijing government protested strongly to the U.S. for initiating a "Two-China" policy.

Hong Kong is certainly different from Taiwan in terms of its legal status but is treated by the U.S. in a similar fashion. Hong Kong is considered a "dependency" and as such its immigration quota was subtracted from the British quota. In March 1985, Representatives Norman Y. Mineta (D.-California) and Sala Burton (D.-California) introduced House Resolution 1482 and 1549 respectively to amend the Immigration and Nationality Act to increase the immigration quota for colonies and dependent areas.<sup>38</sup> In the Senate, Paul Simon (D.-Illinois), Alan J. Dixon (D.-Illinois) and Edward Kennedy put forward an amendment to raise the Hong Kong immigration quota from 600 to 5,000 (instead of the 3,000 proposed by Alan Simpson).<sup>39</sup> Another amendment initiated by Senator Steve Simms (R.-Idaho) was adopted in 1989, and the U.S. quota for immigrants from Hong Kong was raised from 5,000 to 10,000 beginning in fiscal 1990.<sup>40</sup> After Britain initiated modifications of its Nationality Act to absorb more of Hong Kong's immigrants, some congressional members believed that it was necessary to provide multi-lateral guarantees to encourage a stable Hong Kong.

In November 1989, Congressmen Solarz and Porter introduced House Concurrent Resolution 227 to the House Committee on Foreign Affairs. Five months after the Tiananmen Incident, Solarz and Porter worried that the erosion of confidence in the future of Hong Kong would prompt large-scale emigration from Hong Kong. Therefore, they proposed "an international immigration insurance policy for the people of Hong Kong," and more importantly the Bush administration did not oppose this initiative.<sup>41</sup> The resolution's congressional sponsorship reflected bipartisan

support. Fortunately, both the Chairman of House Foreign Affairs, Dante B. Fascell (D.-Florida) and ranking member William S. Broomfield (R.-Michigan) endorsed this resolution. To promote confidence among the people of Hong Kong, the resolution:

1. welcomes the decision of the Government of the United Kingdom to implement a program to provide specified Hong Kong residents with a right of abode outside Hong Kong without their having to leave the territory prior to 1997 to retain that right, and urges the Government of the United Kingdom to expand the number of Hong Kong residents who will benefit from the program;
2. welcomes the efforts of the Government of the United Kingdom to encourage other nations to develop national initiatives designed to provide a substantial and significant number of Hong Kong residents with a right to abode outside Hong Kong without their having to leave the territory prior to 1997 to retain that right;
3. urges the executive branch to work with the Government of the United Kingdom in discussing with members of the European Community, Canada, Australia, Japan and other willing nations the development of such national initiatives as well as other measures, consistent with the Sino-British Joint Declaration, to encourage stability in Hong Kong; and
4. urges the executive branch to support efforts to enhance Hong Kong's status as an international financial center as described by the Sino-British Joint Declaration, including efforts to establish major public international organizations in Hong Kong.<sup>42</sup>

In July 1990, the House Judiciary Subcommittee on Immigration, Refugees and International Law proposed to increase the Hong Kong immigration quota up to 20,000 per year and to make Hong Kong recipients of these visas eligible to use them until 2002.<sup>43</sup> This proposal was later passed by the House and the Senate. This congressional act implied that Hong Kong would be treated in the same manner as other



independent countries, and the U.S. would be obliged to absorb a total of 60,000 immigrants from China, Taiwan and Hong Kong.

Congressman Robert G. Torricelli (D.-New Jersey) introduced House Resolution 3128 in August 1989 to modify L-1 visa requirements for certain Hong Kong employees of qualified United States companies to counter the brain drain in Hong Kong.<sup>44</sup> In the final stage, Richard Williams, U.S. Consul General in Hong Kong, and John Camm, Chairman of the American Chamber of Commerce in Hong Kong, communicated these recommendations to Chinese representatives of the State Council's Office for Hong Kong and Macau Affairs.<sup>45</sup> In addition to 20,000 immigration quota per year, at least 36,000 visas (from fiscal years 1992 to 1994) would be offered to Hong Kong employees of American firms.<sup>46</sup>

#### SUPPORTING TAIWAN AND HONG KONG'S MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS

As soon as the U.S. considered shifting its diplomatic recognition to the Beijing government, Taipei's membership in international organizations was jeopardized by the "one country, one seat" rule. Senators Ernest Hollings (D.-South Carolina) and Robert Dole (R.-Kansas), and Congressmen Elden D. Rudd (R.-Arizona) and George V. Hansen (R.-Idaho) initiated a proposal to insert a clause in section 4(d) of the Taiwan Relations Act, which stated that "nothing in this Act may be construed as a basis for supporting the exclusion or expulsion of Taiwan from continued membership in any international financial institution or any other international organization."<sup>47</sup> Nevertheless, the ROC was expelled from the International Monetary Fund (IMF) and the World Bank in 1980, and its presence in IGOs was further threatened when China applied for membership in the Asian Development Bank (ADB).

On several occasions between 1983 and 1987, the U.S. Congress adopted amendments and resolutions to forestall the expulsion of Taipei from ADB. Congressman Jack Kemp introduced House Concurrent Resolution 120 (1983) that threatened to stop U.S. contributions to ADB if Taiwan were expelled from the organization.<sup>48</sup> At least 50 Senators joined

Senator Robert Kasten (R.-Wisconsin) in supporting Senate Resolution 137 in 1983 to express their concern that Taipei should not be expelled as a precondition for China's membership in ADB.<sup>49</sup> Senator Kasten first introduced an amendment to the Domestic Housing and International Recovery and Financial Stability Act (1983) and again in the International Security and Development Cooperation Act (1985), stating that:

1. the Republic of China (Taiwan) should remain a full member of the Asian Development Bank, and that its status and designation within that body should remain unaltered no matter how the issue of the People's Republic of China's application for membership is disposed of; and
2. the President and the Secretary of State should express support of the Republic of China (Taiwan), making it clear that the United States will not countenance attempts to make administrative changes affecting the status and designation of another member without that member's full knowledge and consent.<sup>50</sup>

Unlike the Congress, the Reagan Administration adopted a low-key approach to Taipei's ADB membership impasse so as not to offend the one-China sentiments of the Beijing leaders. The ROC's new designation as "Taipei, China" was suggested by Washington and acquiesced to by Beijing. Former U.S. National Security Advisor, William P. Clark, was dispatched in 1985 to Taipei to persuade its leaders to accept this compromised designation.<sup>51</sup> If the U.S. had not played an intermediary role, Taiwan would likely have been expelled from ADB.

To avoid being harassed again by the issue of nomenclature, the ROC government, in January 1990, used a new title "Customs Territory of Taiwan, Penghu, Kinmen, and Matsu," when it formally submitted an application to rejoin GATT. The Bush Administration was internally divided over the issue of Taipei's application for GATT membership. U.S. trade representatives currently support Taipei's bid, while the State Department and the National Security Council are cautious because in the aftermath of the Iraqi invasion of Kuwait, Beijing's cooperation in the United Nations proved indispensable.<sup>52</sup>

In editorials on the same day, the *Los Angeles Times* and the *New York Times* simultaneously urged the Bush Administration not to yield to Beijing's One-China policy and to beef up its support to Taipei's application for GATT membership.<sup>53</sup> Congress again gave its generous support to Taiwan in the form of personal letters to President Bush. Moreover, Senator William V. Roth (R.-Delaware) introduced Senate Resolution 296 (June, 1990) expressing the Senate's view that:

1. the accession of Taiwan to GATT is in the best economic interest of the United States and of the world trading system as a whole and should be achieved prior to the end of the Uruguay Round; and
2. the Government of the United States should fully support Taiwan's accession to GATT by calling for the favorable and immediate consideration of Taiwan's request for contracting party status at the next GATT Council meeting, and by taking any additional steps deemed necessary to assure Taiwan's prompt membership in GATT.<sup>54</sup>

From June to October 1990, at least 60 co-sponsors reiterated their support of Senate Resolution 296, (See Appendix 5). The House Ways and Means Subcommittee on Trade even adopted an amendment, introduced by Congressman Philip M. Crane (R.-Illinois), to link China's MFN status with the position taken by Beijing toward Taiwan's participation in GATT.<sup>55</sup>

It is the U.S. policy to assist Hong Kong to maintain membership in international bodies. With respect to non-governmental organizations (NGOs), Hong Kong and Taiwan have had no serious difficulties with their entry and participation in them. The Sino-British Joint Declaration (Annex I, XI) and the Basic Law of the HKSAR (Article 152) provide that Hong Kong can use the name of "Hong Kong, China" after 1997 to join international organizations and attend conferences not limited to states. In inter-governmental organizations, representatives of "Hong Kong, China" may participate either (1) as members of delegations of the People's Republic of China or (2) in any other capacity as permitted by the Central People's Government.<sup>56</sup>

Toward the end of the 1980s, Hong Kong's memberships in IGOs and NGOs was 12 and 810, respectively, more than those of Taiwan which were 6 and 590, respectively.<sup>57</sup> In IGOs such as GATT, the Asian Productivity Organization, the Multi-fiber Arrangement, the Customs Cooperation Council, ADB and the World Meteorological Organization, Hong Kong has a separate and independent membership, but has no voting right in the latter two organizations. Hong Kong participates as an associate member in IGOs such as the United Nations Economic and Social Commission for Asia and Pacific, the Asia-Pacific Telecommunity and the International Maritime Organization. Hong Kong representatives participate as part of the British delegation in IGOs such as the Universal Postal Union, the World Health Organization, the Food and Agricultural Organization, the International Civil Aviation Organization, the International Telecommunication Union, the International Labor Organization, the International Telecommunication Satellite Organization, and the International Maritime Satellite Organization.<sup>58</sup>

U.S. assists Hong Kong participation in international bodies through two main channels: firstly, Washington supports Hong Kong's membership in specific international organizations; and secondly, Washington welcomes international organizations to set up their headquarters or local branches in Hong Kong.

The U.S. has endorsed the membership of Hong Kong, together with that of Taipei and Beijing, in APEC, which is the first governmental-level effort for Asia-Pacific economic cooperation. In October 1990, U.S. Assistant Secretary of State for East Asian and Pacific Affairs, Richard H. Solomon, pointed out that "the inclusion of China, Hong Kong, and Taiwan" in the APEC was "a goal the United States strongly endorses."<sup>59</sup> In December 1990, Solomon added that,

[W]e [Americans] look forward to early participation on a basis that was acceptable, not only to China, Taiwan and Hong Kong, but also to APEC as well. So issues of timing and status are still very much under discussion.

We believe, because participation both in APEC and GATT serves the interest of all parties, that this is not a zero-sum question

for any of the parties involved. We look forward to all coming to some mutually acceptable agreement, and we encourage the efforts of South Korea and others to encourage that kind of consensus building on the basis for participation by all three.<sup>60</sup>

The Hong Kong government's application in 1990 for membership in PECC, an NGO in which both China and Taiwan are members, would surely win U.S. support.<sup>61</sup> The U.S. has also welcomed decisions of the Asia Society, Amnesty International and the European Community to establish Hong Kong branches in 1990.<sup>62</sup> Washington believes that, as more and more important international organizations set up regional headquarters in Hong Kong, Beijing will be reluctant to take an opportunistic policy toward the territory.

In the case of Taiwan, the U.S. does not adopt a policy to encourage international organizations to establish local branches in Taiwan. The U.S. is cautious in supporting the participation of Taiwan as a newly industrialized country in international economic organizations lest Washington should be criticized by Beijing for intruding in China's internal affairs.

## CONCLUSION

The different status of Taiwan and Hong Kong prompts the U.S. to take a somewhat different approach to tackling the political future of Taiwan and Hong Kong. Washington is willing to accept the "one country, two systems" formula for Hong Kong, but has not endorsed the applicability of the same formula to Taiwan. Even though the leaders in Taipei and Beijing agree that China should be reunified, a civil society increasingly free from domination by the state has emerged in Taiwan and thus made Taiwan's future more unpredictable. Both Taipei and Beijing do not want the U.S. to get involved in China's reunification. This, to a certain extent, could prevent the U.S. from facing the dilemma of mediating the Taiwan-China rivalry. Another quandary is that Washington is not well prepared to respond to Beijing if it were to take coercive actions against Taiwan, though the possibility is remote. In the case of Hong Kong, the U.S. will be

more impotent should Beijing opt for a course of action that deviates drastically from the Sino-British Joint Declaration.

The U.S. support for democratization in Hong Kong takes the form of strengthening democratic institutions in the territory. Washington is not concerned about supporting an independent Hong Kong, because people in this tiny territory know too well what the outcome will be. With the end of the "Period of Mobilization for Suppression of Communist Rebellion," Taiwan is moving toward a truly representative government. The process of democratization and increased contacts with the mainland would not necessarily forestall the tendency for greater Taiwanese independence, which is gaining more grassroots support on the island. Therefore, U.S. support for Taiwan's democratization would probably have an unwelcomed result.

"One China, One Taiwan" may trigger tension between Washington and Beijing. A "Two-China" formula, or the idea of a separate but equal representation in IGOs also bothers Washington policymakers. Rhetorically, leaders in Taipei profess China's reunification, but they have their own agenda. Taipei has time and again demanded that Beijing renounce the use of force against Taiwan and cease isolating Taiwan in the international community. The U.S. supports a peaceful solution to the Taiwan issue but refrains from taking an official position on Taipei's efforts to pursue dual recognition and representation. Washington takes an ambiguous position regarding Taipei's application for membership in IGOs, such as GATT, and there is no sign that Washington is about to change in the near future.

## NOTES

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## Appendix I

### 1. People-to-People Contacts: U.S.-Taiwan and U.S.-Hong Kong

As of 1989

	Taiwan	Hong Kong
U.S. Visitors	220,594	600,000
Visitors to the U.S.	157,565	115,000
Students in the U.S.	30,960	12,000
U.S. Residents	7,859	17,700
U.S. States Offices	18	11

### 2. Trade and Investment: U.S.-Taiwan and U.S.-Hong Kong (in US\$)

	Taiwan	Hong Kong
U.S. Firms	411	900
U.S. Investment	2.8 billion	7.0 billion
Imports from the U.S.	12.0 billion	6.3 billion
Exports to the U.S.	24.0 billion	9.7 billion

Source: Andrew B. Brick, "Protecting America's Stake in Hong Kong," *Heritage Foundation Asian Studies Center Background*, pp.5-6; *Sino-American Relations Basic Statistics*, Bureau of North American Affairs, ROC Ministry of Foreign Affairs, January 1990, p. 1; *1990 Directory U.S. Firms in Taiwan*, Taipei: China Commercial Service, Inc., 1990, p.24.

**Appendix 2****Polls on Taiwan as an Independent Country**

1. Public Opinion Research Foundation (Taipei)
 

pro self-determination	38.9% (November 1988)
pro independence	2.0% (November 1988)
pro independence	16.0% (August 1989)
pro independence	8.2% (December 1989)
pro independence	15.8% (March 1990)
2. "Taiwan Survey" Conducted by Stephen J. Solarz among Taiwanese Immigrants in the U.S. (July 1989)
 

pro independence	89.5%
pro self-determination	99.3%
3. "Taipei Survey" Conducted by Legislator Shu-Jen Wu among Taipei's Residents (July 1989)
 

pro independent sovereignty	70.0%
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4. *Capital Morning Post* (Taipei) Survey (July 1989)
 

pro Taiwan self-determination	63.9%
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5. *Independence Morning Post* (Taipei) Survey (September 1989)
 

pro freedom to express Taiwan Independence	41.1%
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6. Survey by Graduate School of Sociology of Tung-hai University (December 1989)
 

pro independence	6.7%
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7. *United Daily* (Taipei) Survey (June 1990)
 

pro independence, if China maintains One-part dictatorship	42.0%
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**Appendix 3****Sponsors of House Concurrent Resolution 79, Supporting Strong and Freely Elected Democratic Institutions in Hong Kong Long Before 1997**

Gary L. Ackerman (D.-New York)  
 Robert Kenneth Dornan (R.-California)  
 Barney Frank (D.-Massachusetts)  
 James M. Inhofe (R.-Oklahoma)  
 Tom Lantos (D.-California)  
 Robert J. Mrazek (D.-New York)  
 Theodore S. Weiss (D.-New York)  
 Henry Arnold Waxman (D.-California)  
 Jan Meyers (R.-Kansas)  
 Walter Edward Fauntroy (D.-District of Columbia)  
 Charles Gradison Rose III (D.-North Carolina)  
 Danny Lee Burton (R.-Indiana)  
 Helen Delich Bentley (R.-Maryland)  
 Mervyn M. Dymally (D.-California)  
 James T. Walsh (R.-New York)  
 Robert D. McEwen (R.-Ohio)  
 Steven Gunderson (R.-Wisconsin)  
 William J. Coyne (D.-Pennsylvania)

**Appendix 4****Sponsors of House Concurrent Resolution 227,  
Multilateral Initiatives to Promote Confidence in Hong Kong**

Stephen J. Solarz (D.-New York)  
 \*John Edward Porter (R.-Illinois)  
 \*Charles Gradison Rose III (D.-North Carolina)  
 \*Robert Kenneth Dornan (R.-California)  
 \*Walter Edward Fauntroy (D.-District of Columbia)  
 Tom Campbell (R.-California)  
 Ben Nighthorse Campbell (D.-Colorado)  
 Lynn Morley Martin (R.-Illinois)  
 \*James T. Walsh (R.-New York)  
 Albert Bustamante (D.-Texas)  
 Peter A. DeFazio (D.-Oregon)  
 Richard K. Armey (R.-Texas)  
 Barbara Bailey Kennelly (D.-Connecticut)  
 Henry John Hyde (R.-Illinois)  
 Thomas J. Manton (D.-New York)  
 Newton Leroy Gingrich (R.-Georgia)  
 Nancy Pelosi (D.-California)  
 \*Helen Delich Bentley (R.-Maryland)  
 Frank Jefferson Horton (R.-New York)  
 William John Hughes (D.-New Jersey)  
 \*Henry Arnold Waxman (D.-California)  
 Gerald B. Soloman (R.-New York)  
 Gerry Sikorski (D.-Minnesota)  
 Nancy Lee Johnson (R.-Connecticut)  
 Stephen Lybrook Neal (D.-North Carolina)

\* Those who were sponsors of House Concurrent Resolution 79 (March 1989)

**Appendix 5****Sponsors of Senate Resolution 296,  
Supporting Taiwan's Membership in GATT**

John Sidney McCain (R.-Arizona)	Malcolm Wallop (R.-Wyoming)
Slade Gorton (R.-Washington)	Mark Hatfield (R.-Oregon)
Henry John Heinz (R.-Pennsylvania)	Thomas Daschle (D.-South Dakota)
Steve Symms (R.-Idaho)	Frank Murkowski (R.-Alaska)
Joe Lieberman (D.-Connecticut)	Daniel P. Moynihan (D.-New York)
John Kerry (D.-Massachusetts)	Dennis DeConcini (D.-Arizona)
Quentin N. Burdick (D.-North Dakota)	Richard Lugar (R.-Indiana)
Alan Cranston (D.-California)	Albert Gore (D.-Tennessee.)
Robert Kasten (R.-Wisconsin)	Ernest Hollings (D.-South Carolina)
Trent Lott (R.-Mississippi)	Paul Simon (D.-Illinois)
Robert Packwood (R.-Oregon)	Timothy Wirth (D.-Colorado)
John Danforth (R.-Missouri)	Jesse Helms (R.-North Carolina)
Gorton J. Humphrey (R.-New Hampshire)	Connie Mack (R.-Florida)
Daniel Coats (R.-Indiana)	William Armstrong (R.-Colorado)
Alan Dixon (D.-Illinois)	Arlen Specter (R.-Pennsylvania)
Thad Cochran (R.-Mississippi)	Christopher Dodd (D.-Connecticut)
Harry Reid (D.-Nevada)	John Exon (D.-Nebraska)
Robert Dole (R.-Kansas)	David Boren (D.-Oklahoma)
Claiborne Pell (D.-Rhode Island)	Daniel Inouye (D.-Hawaii)
Orrin Hatch (R.-Utah)	Pete Wilson (R.-California)
William Cohen (R.-Maine)	Conrad Burns (R.-Montana)
David Pryor (D.-Arkansas)	Dale Bumpers (D.-Arkansas)
Kent Conrad (D.-North Dakota)	Daniel Akaka (D.-Hawaii)
John Rockefeller (D.-West Virginia)	

## **Part IV**

### **Economic Cooperation in the Asia-Pacific Region**



***The Development and Prospect of Economic  
Relations among Mainland China,  
Hong Kong and Taiwan***

*Yan-Sheng Wei*

INTRODUCTION

Mainland China, Hong Kong and Taiwan are all of Chinese origin. Each is of the same race, culture and traditions. Invasion and intervention by imperialist powers in the last century have led to the current separation of the three places. The Sino-British Joint Declaration of 1984 reunites Hong Kong with Mainland China in 1997 under the principle of "One Country, Two Systems." The next endeavor for Mainland China is to realize the goal of unification with Taiwan under the principle of "Peaceful Unification."

There have been several proposals for the economic integration of Mainland China, Hong Kong and Taiwan, and numerous serious studies have been conducted on the subject. Though there is consensus that there still exists a number of obstacles, concrete measures are employed to overcome these obstacles.

The close economic ties among Mainland China, Hong Kong and Taiwan and their ultimate unification have an objective economic and social background. The implementation of the "Open Door Policy" and the Modernization Program in 1979 saw the emergence of special economic zones in coastal cities and further expansion of the scope of openness. For instance, the Pearl River Delta headed by Shenzhen and the Fujian Province headed by Xiamen, Quanzhou and Zhangzhou have all laid the foundation for closer economic cooperation. Reforms of the trading structure and openness to foreign investment in recent years have also created new opportunities for economic cooperation.

Despite substantial achievements in its development in the last three decades, Taiwan now faces new difficulties. Taiwan is moving closer to China as it seeks new investment venues for its surplus capital. Besides North America and Southeast Asia, Mainland China is an attractive venue for investment because of its proximity and cultural affinity. Mainland China's enormous market is another incentive. Taiwan's overdependence on the U.S. market and its huge trade surplus with the U.S. have put pressure on Taiwan to diversify its export markets. Washington has forced Taiwan to raise the value of the Taiwanese dollar and to curb its large trade surplus with the U.S.

Hong Kong is now a leading financial center and entrepot in Asia. This position is attributed to its special geographical location, the non-intervention policy of the colonial government and the people's diligence. The availability of relevant information, elaborate distribution channels and financial services and harbor facilities enable Hong Kong to serve as the bridge between Mainland China and Taiwan. The unique socio-political background provides a relatively free and relaxed environment for various forms of bilateral relations across the Strait. In view of the absence of direct bilateral relations between Mainland China and Taiwan, Hong Kong naturally becomes the economic, cultural and information bridge across the Strait.

## THE CURRENT SITUATION

The last decade has witnessed China's modernization, Taiwan's relaxation of economic controls and trade with Mainland China and Hong Kong's continuing prosperity and stability as an entrepot. These contribute to the expansion and strengthening of the economic ties among the three places.

### CLOSER ECONOMIC TIES BETWEEN MAINLAND CHINA AND HONG KONG

The development of economic and trade relations between Mainland China and Hong Kong in the last decade can be shown in a number of respects:

#### 1. Expansion of Bilateral Trade

The last decade saw the rapid expansion of bilateral trade. From 1979 to 1989, the value of bilateral trade rocketed from HK\$17.05 billion to HK\$343.44 billion, or a growth of 20 times. The annual growth rate was 35 percent, contrasting strongly with the 11.7 percent of 30 years ago. Trade with China accounted for 30.3 percent of Hong Kong's foreign trade value instead of the previous 10.5 percent. China's ranking rose from the third to the first as Hong Kong's primary trading partner.

The most striking phenomenon is the rapid development of bilateral trade between Mainland China and Hong Kong. A decade ago, trade was largely unidirectional, that is, a movement of goods from China to Hong Kong. China imported few products from Hong Kong, but the two have now attained more balanced bilateral trade. Parallel to the rapid development of trade, exports from China have undergone tremendous changes. They have expanded from foodstuffs and agricultural products to include processed manufactured goods and machinery. For instance, manufactured goods and machinery accounted for 80 percent of China's exports to Hong Kong in 1989.

#### 2. Investments

With closer cooperation in production and trade relations, reciprocal investments also increased. Hong Kong's capital accounted for about 60 percent of all foreign investment in China in 1990. In addition, China has also invested heavily in Hong Kong. Besides the injection of capital to Hong Kong's economy from well-established Chinese enterprises, the newly founded ones have also made considerable investments. China's investment in Hong Kong is just behind that of the U.S. and Japan.

#### 3. Northward Shift of Production Process

There has been a gradual northward shift of Hong Kong's manufacturers to Mainland China, particularly to the Pearl River Delta. Both labor-intensive and capital-intensive industries are being transferred due to the lower production cost in China and the favorable investment environment made possible by the opening of the coastal areas.

Semi-finished products processing is the main form of cooperation, combining Hong Kong's capital and technology and China's cheap and

abundant labor. These enterprises provide employment to several million Chinese workers. Mainland China is the manufacturing base, while Hong Kong functions as the center for sales and marketing, purchase of raw materials, product design. The combination of their comparative advantages results in a strengthening of the international competitiveness of Hong Kong's products.

#### 4. Closer Financial Linkage

Financial linkages between Mainland China and Hong Kong are expanding and deepening. Hong Kong serves as Mainland China's fundraising center and the latter as a host of Hong Kong's capital. Hong Kong's stock market serves to raise funds for local enterprises investing in China. Hong Kong government statistics indicated that loans provided by Hong Kong banks to non-banking institutions in Mainland China rose from HK\$0.407 billion to HK\$49.244 billion from 1980 to 1989, a 120-fold increase. In addition, Hong Kong has several investment funds to raise capital for Chinese enterprises whose investments are placed in China.

#### 5. Booming Entrepot Trade

Entrepot trade expanded in the past decade. Hong Kong's entrepot trade rose from 27.1 percent to 60.7 percent of total trade value from 1979 to 1989. This growth was spurred largely by the rapid economic development of Mainland China. Hong Kong statistics reported that entrepot trade to Mainland China via Hong Kong grew from HK\$1.315 billion to HK\$103.492 billion in this period. Mainland China now accounts for 29.87 percent of Hong Kong's total entrepot trade.

The rapid growth of entrepot trade between Mainland China and Hong Kong is due to the establishment of processing operations in Mainland China by Hong Kong's manufacturers. Hong Kong, in return, serves as a bridge of indirect trade between Mainland China and other places. Indirect trade between Mainland China and Taiwan via Hong Kong has been increasing. The value of trade rocketed from US\$70 million to US\$3.483 billion with an annual growth rate of 47.8 percent in the period from 1979 to 1989.

#### CLOSER ECONOMIC TIES BETWEEN MAINLAND CHINA AND TAIWAN

Parallel to international political and economic development, there has been evolutionary changes in economic relations between Mainland China and Taiwan. Taiwan's hardline attitude permitted little progress in the early 1980s. The change of attitude in the latter half of the 1980s opened a fresh page in their relationship. Taiwan adopted a non-intervention attitude toward bilateral indirect trade with Mainland China in July 1985, and further relaxed controls over trade with Mainland China in 1988, thus paving the way for the further development of bilateral economic ties. The following is a brief review of their economic relationship in the past decade.

##### 1. Trade

Indirect trade via Hong Kong has been increasing since 1979, recording a 50-fold increase in trade value from 1979 to 1989. However, the rate of increase has somewhat stabilized in recent years. The rapid increase in the past was due to a relaxation of the prolonged isolation of the two places. Current bilateral indirect trade across the Straits has also stabilized. Thus, though the rate of growth rises relatively slowly, the value of trade continues to increase. The value of trade value was US\$4 billion in 1990, with an increase of 13 percent compared with 1989. Mainland China is now Taiwan's fifth largest trading partner, while the latter is the sixth largest trading partner of Mainland China.

The commodity content of trade has also undergone changes. Taiwan's exports has evolved from consumer goods to equipment, machinery, industrial raw materials and semi-finished products. Semi-finished products and manufactured products now account for a higher proportion of Mainland China's export to Taiwan. Unlike the situation in the early 1980s, raw materials now account for less than 50 percent of Mainland China's export to Taiwan. The above changes reflect the transformation from the trading of simple commodities to more comprehensive economic ties.

Bilateral trade, however, is not in balance. The value of Taiwan's export to Mainland China rose from US\$13.65 million to US\$2.396 billion from 1979 to 1989. In the same period, Mainland China's export

to Taiwan (via Hong Kong) rose from US\$35.79 million to US\$0.587 billion. The above figures show that Taiwan now enjoys a huge trade surplus. Taiwan sustained a deficit in trade with China in the late 1970s due to the Taiwanese government's restrictions on trade with Mainland China. Taiwan enjoyed a trade surplus of US\$2.309 billion in its indirect bilateral trade with Mainland China in 1989, a figure that was four times greater than its imports from Mainland China. It is expected that such trade imbalance will be remedied as a result of gradual relaxation of restrictions on imports of agricultural, industrial products and raw materials and other commodities from Mainland China.

## 2. Investment

Taiwanese investment in Mainland China began four to five years ago. Since the abolition of martial law in 1987 and relaxation of restrictions on family visits to Mainland China, various channels have been opened for investments from Taiwan.

### (i) Increase in Capital

Total investments from Taiwan by 1987 reached only approximately US\$100 million. In stark contrast, the subsequent years have seen a rapid increase. Total investment from Taiwan was estimated to have reached US\$1 billion by the end of 1989. For instance, investments from Taiwan increased by US\$0.6 billion in 1989.

Taiwan has gradually replaced Hong Kong as the leading foreign investor in Xiamen. With the relaxation of travel restrictions and the commencement of family visits to China in 1987, Taiwanese investors have departed from the previous arrangement of joint-ventures investment with Hong Kong partners in the Pearl River Delta. Fujian Province has now become the most popular host of Taiwanese capital. Taiwanese investors had invested US\$0.6 billion and established about 270 firms by the end of 1987. Another sign of Taiwanese interest in China is the greater number and frequency of study-trips and investment projects. The "Wang Yungqing Shock" turned a new page for Taiwanese investment in Mainland China.

Despite the measures adopted by the Taiwanese Government to "cool down" the investment fever in Mainland China, this trend cannot

be reversed. It was estimated that the number of study trips of Taiwanese merchants have kept on rising since the latter half of 1990, with about 40 new investment projects worth US\$2 billion.

### (ii) A Widening Scope

Taiwanese investments are mainly in textile, garment manufacturing, leather, shoe-making, plastics, electronic components, electrical appliances, construction materials, metal, chemicals and machinery. The manufactured products are primarily for export. The quality of investment has also been improved, gradually shifting from the processing of semi-finished products to technology-based industries. Assembly lines have also been transferred along with greater utilization of local raw materials. In some investment projects, the whole process of production takes place within the locality. Furthermore, areas of Taiwanese investment are gradually moving from the coastal areas to the inland regions, and from the south to the north. Beijing, Shanghai, Zhejiang, Shangdong, Sichuan, Hunan and some other places are now popular venues of Taiwanese investors.

### (iii) Changes in Forms of Investment

Joint ventures and sole proprietorships have become more popular in recent years. This can be attributed to the accumulation of past experience and flexibility in management. Even in joint-ventures, the shares of Taiwanese investors usually occupy a relatively higher proportion. Taiwanese investors now look for long-term investment opportunities in Mainland China. A bill stipulating guidelines on visits to Mainland China passed in March 1990 by the Taiwanese government contributed to the rising number of study trips to Mainland China. The Taiwanese investors vary in size from large enterprises to small-and medium-sized firms.

The amount and scale of investment have been increasing. Using Xiamen as an example, it has the greatest growth in Taiwanese investment. The average amount of each Taiwanese investment project was US\$1 million in 1988, and the amount rose to US\$3.7 million in 1989. Some investment projects even involved more than several hundred million, and undertakings have gradually moved from short-term to long-term investments.

## FACTORS FOR CLOSER ECONOMIC TIES

*1. Modernization of Mainland China as Impetus*

The market of Mainland China has been expanding rapidly due to its "Open-Door Policy" and modernization efforts. The value of imports rose from US\$15.6 billion to US\$40 billion between 1979 and 1989. Mainland China has now become one of the most important markets in the west Pacific rim. Taiwan's exports to Mainland China via Hong Kong include textiles, construction materials, electrical appliances and light industrial products. Nonetheless, there is still much room for expansion as the channels for cooperation have not yet been fully developed. In view of the rising tide of protectionism, appreciation of the Taiwanese currency and keen competition in the international market, Mainland China — with a population of 1.1 billion — can be the most lucrative market for Taiwan's capital and goods.

*2. Mainland China as Source of Raw Materials*

Mainland China has gradually emerged as a supplier of certain raw materials and energy resources to Taiwan. Taiwan is short of resources and is densely populated. Primary products account for 60 percent of its total imports. The primary products are mostly imported from South America, the Middle East, Africa and Australia. Thus, its imports carry a high transportation cost.

Mainland China is abundant in petroleum, coal, iron, cotton, and other important raw materials. Their prices are relatively cheaper — 15 to 20 percent lower than the average international market price. Therefore, Mainland China is a good source for raw materials and energy imports for geographic and economic reasons.

*3. Opportunities for Taiwanese Investment*

Improvement of Mainland China's investment environment has created many opportunities for Taiwanese investment. Under the Open-Door Policy and coastal economic development strategy, the central government has initiated improvements in infrastructure, laws and incentive systems in popular places of foreign investment. For instance, Fujian Province has set up special zones for Taiwanese investors, and special provisions and tax incentives are offered.

*4. Easing Taiwan's Difficulties*

Investing in Mainland China has helped to alleviate many difficulties in Taiwan's economic development in recent years. Taiwan faces worsening protectionism from the West, and particularly troublesome are its trade conflicts with the U.S. In addition, the appreciation of the Taiwanese dollar (by 50 percent since 1985) and an acute shortage of labor make Taiwan less price competitive, and create problems for its labor-intensive industries. Furthermore, Taiwan has to upgrade its industrial structure to effectively compete with its neighboring economies which have comparatively cheaper labor.

Taiwan's economic development problems can be summarized in two points. First of all, the country has an enormous trade surplus and foreign exchange reserve, but the economy presents little incentive for further investment as there are limited outlets for capital. Consequently, idle capital seeks investment opportunities overseas. Secondly, the limited supply of land and growing concern with environmental protection retard the development of certain types of industries. Mainland China, therefore, becomes an attractive place for Taiwanese investors to relocate their labor-intensive industries.

## PROSPECT OF FUTURE ECONOMIC TIES

## FAVORABLE FACTORS

*1. Rational Reallocation of Resources*

The rational reallocation of both natural and human resources can enhance efficiency in resource utilization. It will benefit Mainland China, Hong Kong and Taiwan to have the former provide Hong Kong and Taiwan with relatively cheap raw materials and energy resources. At the same time, Mainland China explores and develops other sources of energy and raw materials.

Mainland China, with abundant resources and relatively cheap labor, shall continue to host labor-intensive and processing industries for export. Nonetheless, Mainland China will also capitalize on emerging opportunities to develop its capital-intensive and technology-based in-

dustries.

## 2. *Raising Economic Efficiency*

The development of closer economic ties will enhance cooperation and coordination among the three economies. Each can utilize its comparative advantage to achieve economies of scale in production. Moreover, Hong Kong and Taiwan can explore Mainland China's enormous domestic market, while Mainland China can make use of the information and distribution channels in Hong Kong and Taiwan to explore new markets.

## 3. *Promotion of Technological Transfer*

Technology transfer can provide impetus for further economic development of these three economies. Each has its comparative advantages. Mainland China has a sound base for scientific research though it does not effectively apply its new knowledge. Hong Kong and Taiwan are transforming their industries from labor-intensive to technology-intensive ones, and Mainland China can serve as a source of technology for Hong Kong and Taiwan. The latter can adopt the technology transfer and conduct advance research to meet their specific needs.

# ESSENTIAL CONDITIONS FOR UNIFICATION

## 1. *Coordination of Long-Term Economic Development Strategies*

Relations between Mainland China and Taiwan are still at the preliminary stage. Hong Kong can serve as the bridge between them as long as there is an absence of direct bilateral trade relations. Hong Kong can serve to facilitate the communication between the two as well as act as intermediary in adjudication, compensation, transportation, remittance, patents agreements and other areas.

There has been rapid development of economic cooperation between Mainland China and Hong Kong. However, the "added value" is still too low, unable to maximize the mutual economies of scale. Cooperation contributes nothing to the improvement of their comparative advantages save using the relatively cheap labor of Mainland China. On the other hand, unsound infrastructural foundation and shortage of raw

materials in Mainland China hinder further development of economic cooperation.

In light of the above, the scope and level of economic cooperation should be widened and upgraded. Based on the current foundation, further cooperation should be elevated to a structural one. A structural economic cooperation can reinforce economic ties, upgrade infrastructure and advance technological research and development. There is a number of elements to structural economic cooperation. One factor is to increase investment in energy resources, transportation and communication facilities. Another is to explore and develop raw materials, components and modern agricultural methods which are mutually beneficial. A third is to further develop the field of applied science and practical knowledge about the marketing of products.

Hong Kong can capitalize on the sound foundation of scientific research and advanced technologies of Mainland China for training technicians and development of new products to increase the "added value" of cooperation and facilitate Hong Kong's transformation into a technology-based manufacturing center. Mainland China can benefit by making use of Hong Kong's capital and market information to apply the relevant technologies and skills to manufacturing consumer goods. This can shorten the time lag between invention and application of new technologies.

## 2. *Hong Kong as the Intermediary*

Hong Kong can serve as an intermediary to bridge the gap between Mainland China and Taiwan. There is inevitably misunderstandings and distortion of information in indirect trade. Hong Kong can alleviate the situation by disseminating relevant information, offering advice, providing relevant services and mediation. The smooth flow of information from Hong Kong can facilitate mutual understanding between the two economies and aid in the evaluation of prospects of investment projects. Taiwan investors can also have access to essential information on Mainland China's legal system, taxes, procedures of investment and the business environment. Since there is currently an absence of formal and direct channels to settle trade disputes between Mainland China and Taiwan, Hong Kong can continue to serve as the arbitrator.

### 3. Structural Coordination

The strengthening of structural coordination in production can minimize waste of resources and unnecessary competition among Mainland China, Hong Kong and Taiwan. Mainland China's exports are mainly primary commodities and labor-intensive products. In the meantime, labor-intensive products still represent a relatively high proportion of Hong Kong and Taiwan's exports though they are upgrading the technological level of production and their industrial structure.

Keen competition among the products of the three economies is inevitable. Their products are similar: mainly textile, garment and electronic products, and they compete in the same markets: the U.S., Japan and Southeast Asia. According to a report of The Chung Hua Institute of Economic Research at Taiwan, 133 export commodities from Mainland China and Taiwan both compete for the U.S. market. The U.S. market accounts for about 12.7 percent to 17.1 percent of China's total value of exports, and 10.8 percent to 13.4 percent of Taiwan's total value of exports. The variety of their exports is expected to increase to 166 items in the future.

For mutual prosperity and continuing economic development, all sides should avoid unhealthy and unnecessary competition and allow full maximization of their respective comparative advantages. All parties should endeavor to coordinate the production, variety and marketing of their products.

## 9

### ***Basic Features and Prospect of Asia-Pacific International Relations in the 1990s***

*Shi-Xiong Ni*

#### INTRODUCTION

Several historical changes have transpired in the international arena since the 1980s and the world has entered the "post-Cold War" era as the twentieth century draws to an end. In a time of instability, competition, reform and integration, a new international political order is emerging, superseding the old one. This trend is not only apparent in Europe, the main arena of international politics, but also in the Asia-Pacific region, the world's most politically and economically vibrant region. Whether the next century will be the "European century," the "Asia-Pacific century" or otherwise, the Asia-Pacific region shall unquestionably assume an increasingly important position in international politics. The objective of this chapter is to delineate the trends, special characteristics and the future of Asia-Pacific international relations as we approach the twenty-first century.

#### I

Swift and dramatic changes have taken place on the international stage in recent years. Asia-Pacific international relations have concurrently witnessed rapid and visible changes. Three major international developments are particularly significant, serving as catalysts in Asia-Pacific international relations.

### “FIRST CATALYTIC WAVE”: WARMING TIES BETWEEN THE UNITED STATES AND THE SOVIET UNION

Improved relations between the United States and the Soviet Union since 1986 have basically ended the Cold War confrontation between the two superpowers. Firstly, in this new favorable environment, the two hot spots in the Asia-Pacific region: the Korean Peninsula and Cambodia, foci of U.S. and Soviet intervention and competition have cooled, and progress has been made toward peaceful settlement of these issues. Secondly, substantial improvement in the bilateral relations of countries in the Asia-Pacific region has also been made: normalization of Sino-Soviet relations, Sino-Vietnamese rapprochement, renewal of Sino-Indian relations, establishment of diplomatic relations between China and Singapore, new dynamism in Soviet-Japanese relations, establishment of diplomatic relations between the Soviet Union and South Korea, and signs of amelioration in U.S. relations with Vietnam, Mongolia and North Korea.

Soviet-Japanese relations have especially attracted global attention. Following Soviet Foreign Minister Eduard Shevardnadze's visit to Japan in 1986 that resumed Foreign Ministerial-level talks between the two countries, Anatoli Lukyanov, Chairman of the Supreme Soviet, visited Japan in November 1990, and announced that Moscow did not see the U.S.-Japan Mutual Security Treaty as a threat to the Soviet Union. Soviet President Mikhail Gorbachev then visited Japan in April 1991 and both governments made concessions on the territorial issue which will contribute to its eventual settlement, thus easing a major source of tension in Soviet-Japanese relations.

The U.S. and the Soviet Union have entered a new period of competitive and cooperative co-existence. Robert Scalapino had commented recently that, “The Cold War is over. I believe that we [the U.S.] will cooperate with the Soviet Union in many global and Asia-Pacific issues.”<sup>1</sup> The U.S. “Strategic Plan for Asia and the Pacific” declared that the possibilities of major U.S. and Soviet clashes in the Asia-Pacific region is diminishing progressively.

The U.S. announced on September 19, 1990, that it would close down 127 overseas military bases (including eight in South Korea and

one in Japan). Within the next three to four years, the U.S. will reduce 10 to 12 percent of its 120,000 military personnel in Japan, the Philippines and South Korea. The Soviet Union proclaimed that it would cut 500,000 of its military personnel between 1989 and 1990: 240,000 of which were withdrawn from the European theater, 200,000 from the Asian theater, and 60,000 from the southern border. Improved U.S.-Soviet relations does not mean that peace will necessarily reign, that there will be no tensions, competition and confrontation; nonetheless, it is clear that all the changes discussed above would not have occurred without the overall improvements in U.S.-Soviet relations.

### “SECOND CATALYTIC WAVE”: SINO-SOVIET NORMALIZATION

The normalization of Sino-Soviet relations in 1989 was a major historical event that marked the end of thirty years of Sino-Soviet confrontation. Sino-Soviet bilateral relations has entered a new era and exerts a positive influence on peace and stability in the Asia-Pacific region. Sino-Soviet normalization has further induced substantive changes in the triangular relationship among the three global powers: the United States, the Soviet Union and China. Improved ties among all three actors have for the first time since the end of World War Two enabled the emergence of a new Asia-Pacific environment devoid of superpower confrontation. Furthermore, China and the Soviet Union are important actors in the international arena. Thus, Sino-Soviet normalization has, like improved U.S.-Soviet relations, contributed positively to the solution of many international conflicts. For instance, the easing of international tensions and conflicts (including those between socialist countries) cannot rely on political pressure or military threat, but instead must rely on negotiations based on equality, mutual benefits and respect for each other's sovereignty.

Sino-Soviet normalization has also given impetus for Chinese and Soviet cooperation with other Asia-Pacific countries. On the one hand, Sino-Soviet normalization is necessitated by pressures for reform and the Open Door Policy from within and international cooperation from without.



On the other hand, it has also motivated continuing reform, openness and international cooperation. Foreign direct investment (FDI) in China in 1990 reached US\$6.1 billion and 6,259 joint venture applications were approved, indicating significant growth from the previous year.<sup>2</sup> Simultaneously, the Soviet Union amended its foreign policy toward Asia and the Pacific and strengthened cooperation with the Asia-Pacific countries. The Soviet Union has already invested Rub232 billion to facilitate the implementation of the "Far Eastern Development Project" approved in 1987.

### "THIRD CATALYTIC WAVE": THE GULF WAR

Though the Gulf War, also known as the "three S'es" (that is, Desert Shield, Desert Storm and Desert Shank), lasted only six months, it has affected not only the Middle East but the entire world, including Asia and the Pacific. It has, on the whole, demonstrated the materialization of the following new trends:

#### THE CRYSTALIZATION OF U.S.-SOVIET COOPERATIVE RELATIONS

The U.S.-Soviet relations began to improve in the late 1980s and the Gulf War was the litmus test of this new cooperative relationship. Looking at the entire Gulf War episode, the Soviets had rendered support to a series of U.S. actions. Soviet support and cooperation had, on the whole, outweighed the government's differences and competition with the U.S. Hence, it came as no surprise when Shevardnadze announced that "U.S.-Soviet cooperation will develop a relationship of mutual support and partnership."<sup>3</sup> Moreover, the Soviet Foreign Ministry spokesman, Gennadi Gerasimov, felt that the Gulf War was the first test of U.S.-Soviet cooperation in handling international crises since the end of the Cold War.

#### A PROFOUND IMPACT ON ASIA-PACIFIC SECURITY

The ambitions of some small- and middle-sized countries to militarize were stimulated by the Gulf War, each seeking to obtain high-technol-

ogy modern weapons. This worrisome development may lead to regional instability. The Asia-Pacific countries should, therefore, pay greater attention to new proposals and arrangements on regional security. Developments in the Korean Peninsula, Cambodia and Japan, in particular, will receive greater attention in the next few years. Anxieties and threats to peace in Asia and the Pacific, including the territorial disputes in the South China Sea, must be eliminated to avoid the outbreak of military conflict.

#### THE IMMEDIATE IMPACT OF THE GULF WAR ON THE OIL-IMPORTING ECONOMIES OF EAST ASIA

South Korea imports all of its crude oil; 11.8 percent of which is from Iraq and Kuwait. Thailand relies on foreign crude oil imports for half of its petroleum needs, 10 percent of which is supplied by Iraq. The Philippines imports 65 percent of its crude oil, with 23 percent coming from the Gulf area. Japan's reputed dependence on foreign oil imports has earned the country the nickname "the economy that floats on oil" and it obtains 71 percent of its oil from the Persian Gulf.

The Gulf War had been costly for many Asia-Pacific countries. The Philippines lost foreign currency remittances from its 85,000 overseas workers in Iraq and Kuwait, exacerbating the unemployment situation in that country, and its foreign debt rose to US\$26.1 billion. Inflation in Pakistan reached 20 percent and its foreign debt grew by US\$2 billion.

#### A Unique Impact on Japan

Japan's "involvement" in the Gulf War signals a major change in Japan's foreign policy. The administration proposed a new six-point policy toward the Middle East on August 29, 1990, followed by a proposal for a "UN Peacekeeping Cooperation" bill on October 11, 1990, and Japanese minesweepers were sent to the Middle East in April 1991. In addition, Japan donated US\$9 billion to the "cooperation fund" that financed the multinational military effort lead by the U.S. (with the depreciation of the Japanese yen, the actual sum was closer to US\$8.4 billion). Japan considered this "political capital for the maintenance of the new international political order." This indicates that Japan has,

through its international economic commitments, taken "a major step" toward expanding its world political and military involvement. This step has already raised popular concern within the international community.

## II

After a long period of instability and rapprochement, division and integration, Asia-Pacific international relations at a critical point of transition toward the twenty-first century, has developed some characteristics that are in response to the evolving trends, particularly the three catalytic waves discussed above.

Firstly, Asia-Pacific international relations have entered a period of overall improvement, but in some specific areas there still exist some unique destabilizing forces. The move from confrontation to communication between the U.S. and the Soviet Union, rapprochement between China and the Soviet Union, new dynamism between Japan and the Soviet Union, and the cooling of regional hot spots all reflected an easing of tensions in Asia-Pacific international relations as we approach the twenty-first century. But compared with Europe, the changes have not gone as far nor are they as profound because they have been constrained by some distinctive forces of instability:

1. The impact of the new U.S.-Soviet relations on Asia-Pacific affairs has not yet unequivocally manifested itself and a complete breakdown of the post-war order created at the Yalta Conference is still not clearly evident in the Asia and Pacific region. The most visible difference (setting the region apart from Europe in the post-Cold War era) is in the disarmament process in which Asia trails behind Europe. Military confrontation in Asia and the Pacific has not changed fundamentally. Disarmament in Europe is governed by SALT (Strategic Arms Limitation Treaty), INF and START (Strategic Arms Reduction Talks). Although the Soviet Union has announced unilateral military cutbacks (about 200,000 soldiers) in Asia, the Soviet Union still

deploys some 50 divisions in the Asia-Pacific region with some 500,000 military personnel, 1,640 fighter aircraft, 260 nuclear-armed long-distance fighters and 108 carriers.<sup>4</sup> The U.S. reaction to Soviet disarmament has been lethargic and no response has been made to Soviet suggestions to host an Asia-Pacific summit on regional arms reduction;

2. Disparity in the economic development of the Asia-Pacific countries deprives the region of the conditions present in the unification process in progress as, for instance, in the European economies for the formation of an economic community, a common market or free trade zones. The Japanese economic giant has a per capita GNP income of US\$26,000. Per capita GNP of the "four dragons" (that is, Singapore, South Korea, Taiwan and Hong Kong) stands between US\$3,500 and US\$9,000, while in the other ASEAN (Association of Southeast Asian Nations) countries and China the sum does not even reach US\$400. Moreover, the social and economic systems of these Asia-Pacific countries, as well as their cultural traditions differ greatly, thus, hampering the adoption or introduction of the European model;
3. Some countries in Asia and the Pacific are still raising their military expenditures and fortifying their military arsenals. This situation disturbs the peace in the Asia-Pacific region. Statistics shows that in 1990 the major countries of the region spent US\$60 billion on defense, and it was estimated that by the 1990s the sum could reach US\$130 billion; Japanese military expenditures since the late 1970s have grown at about 6 percent annually and the country has had the world's third largest defense budget since 1987. India's military expenditure in the 1990s will double. India's defense budget in 1990 grew 10.5 percent from the previous year reaching US\$9.2 billion. Even a small island state like Singapore spends US\$550 million on defense or some 23 percent of its national budget;<sup>5</sup> and
4. The relationships of cooperation and competition among the Asia-Pacific countries are extremely complex because

of the diversity of social, political and economic systems, as well as historical and ethnic tensions, religious differences, and territorial and seabed resource disputes. The primary hot spots have cooled down but still await final settlement. These differences may very likely become destabilizing forces in the region.

Secondly, political multipolarity is evolving rapidly within the region. Europe's unification is a move from regional bipolarity to ultimately becoming a single bloc in the multipolar world as seen in the unification of the two Germanys, the formation of a common European market, and the Conference on Security and Cooperation in Europe.

However, the situation is much more complicated in Asia and the Pacific. The diversity of the region's political and economic systems is not conducive to the establishment of a bipolar community and eventually a single unified bloc. Regional multipolarity is the stronger tendency. Multipolarity in the Asia-Pacific region has the distinctive character of involving many levels and roles for the region's actors.

This region not only has the big four: the United States, the Soviet Union, China and Japan, there are also the "small four," as well as the politically and economically dynamic ASEAN states, India, and other countries. This is to say that this quadripolar formation may turn into small triangles or small quadrilateral networks based on political and economic interests. Even ASEAN, an organization that is part of the Western system, is beginning to move toward multipolarity in politics. Its member nations maintain friendly relations with the U.S., the Soviet Union, China and Japan, but do not depend solely on any one of them.<sup>6</sup> If this organization continues to dissimilate, a new organization composed of some member nations of ASEAN and the Indochinese states could emerge.<sup>7</sup> There are even suggestions in the West that the major powers of East Asia, India could become the fifth pole, or an arrangement that puts India, Japan, Europe and Australia together to join the league of the "big four" to fill the vacuum left by the two declining superpowers.<sup>8</sup>

Thirdly, bilateral diplomatic exchanges among the countries of the region are experiencing hitherto unprecedented dynamism, each putting heavy emphasis on coordinating its bilateral relations with other coun-

tries. This may be another characteristic of contemporary Asia-Pacific international relations. East-West confrontation and the Cold War between the superpowers had caused great anxiety among some countries in most of the first 45 years after World War Two.

However, improved U.S.-Soviet relations since the mid-1980s and Sino-Soviet normalization have produced conditions for peace and stability in Asia and the Pacific. National interests identified with East-West confrontation have begun to fade, and countries have shown greater inclination toward independent foreign policies. This is not only true of the major countries, but the small- and middle-sized countries, regardless of their social systems and levels of development, have started to base their foreign policies on their own national interests, each seeking to consolidate its position in the international system. These nation-states promptly begin to develop their bilateral diplomatic ties and are actively engaged in diplomatic activities to improve their relations with other countries. This trend has moved Asia-Pacific international relations to enter a stage of unparalleled vitality in bilateral relations. In effect, this development has weakened the importance of regional political, economic and military alliances and organizations.

The most significant influence on bilateral relations though would still be the improved U.S.-Soviet relations as the two countries move toward peaceful negotiation and cooperation. This is a shift from utilizing their strength for competition to cooperation and from confrontational to cooperative coexistence, setting a new pattern in the Asia and Pacific region. The Soviet Foreign Ministry announced that the country's official Asia-Pacific policy aims:

1. to facilitate multilateral disarmament in the Asia-Pacific region and to make this issue the next item on the agenda of U.S.-Soviet disarmament talks;
2. to ease the great complexity of conflicts in the region;
3. to commit the Soviet Union to cooperate in regional environmental issues, tourism and cultural exchanges;
4. to actively strengthen relations with the Asia-Pacific countries, particularly the Soviet Union's bilateral relations with Japan and the United States; and

5. to use broad-reaching policies to strengthen Soviet economic cooperation with the Asia-Pacific countries.<sup>9</sup>

Since the Soviet Union no longer views the U.S. as its enemy, the U.S. too has adjusted its policy toward Asia and the Pacific. The U.S. Asia-Pacific policy is no longer built on the assumption of superpower confrontation, but on the basis of dominant coexistence with the Soviet Union. The "East Asia Strategic Initiative" proposed in early 1990 decided that the U.S. military presence in the region shall serve as the "mighty balancing force" in localized crises and regional conflicts. In all practical terms, the U.S. no longer treats the Soviet Union as its main adversary.

The major hurdle to improving Soviet-Japanese relations is the territorial dispute over the northern islands. Henry Kissinger declared in Tokyo on September 6, 1990 that, "Before or after Gorbachev visits Japan, the Soviet Union and Japan will enter into agreement to return sovereignty of the northern territories to Japan."<sup>10</sup> However, until today this projection has yet to be realized. Nonetheless, the Soviet-Japanese summit meeting on the territorial question has seen concessions on both sides and produced some agreement on its future settlement. Interdependence will characterize Soviet-Japanese relations in the years to come. Hence, Soviet-Japanese cooperation will very likely intensify.

Soviet-South Korean relations have seen ground-breaking developments since the two countries normalized relations. South Korea announced that in the next five years, loans worth US\$2.5 billion will be extended to the Soviet Union.<sup>11</sup> Soviet-South Korean bilateral trade was US\$600 million in 1989, twice the figure of the previous year. Bilateral trade is expected to reach US\$1 billion by 1990 and may exceed US\$10 billion in four to five years.

Sino-Soviet normalization terminated their lengthy confrontation. In recent years other than rapid improvements in their political relations (for instance, Chinese Communist Party General Secretary Jiang Zemin's official visit to the Soviet Union was an important sign), commercial trade between the two countries has ostensibly increased. Sino-Soviet trade was US\$3.26 billion in 1988. The sum grew to US\$3.8 billion in 1989 and was about US\$5 billion in 1990. The potential for expanded cooperation in trade between the two countries is very great.

Chinese foreign diplomacy has scored some new successes in recent years. The most distinctive was further improvement and development in China's relations with its neighbors. China and India officially resumed diplomatic contact on August 8, 1990, after an interruption of 23 years. China and Singapore officially exchanged diplomatic recognition on October 3 in the same year and on October 16, 1990, China established relations with the Marshall Islands. Concurrently, Chinese relations with Mongolia and other countries have also attained varying degrees of improvement. All of this has a positive effect on the development of bilateral relations among the countries of the region and contributes to regional peace and stability.

Fourthly, the interdependence of the Asia-Pacific economies grows steadily, but economic competition, coordination and cooperation are even more visible. With the easing of international tensions, the countries of the region channel their energies mainly to their national economic development, while at the same time broadening economic ties and cooperation with foreign partners. The formation of a new North-South relationship based on equality and mutual benefits becomes a common concern that has galvanized popular support from most of the region's countries.

Robert Scalapino once pointed out that, "China, South Korea, Taiwan, and Japan are moving toward the creation of an economic network."<sup>12</sup> APEC (Asia and Pacific Economic Cooperation) formed by 12 countries in 1989 symbolizes this movement. Popular sentiments concur that a regional economic organization composed of most of the countries of the region should soon emerge.

In the Asia-Pacific rim, the industrialized countries like the United States and Japan, the NIEs and the developing countries each have their strengths and could through their own ingenuity compete, coordinate or cooperate with foreign partners. Nevertheless, their increased interaction would bolster commercial trade, facilitate the flow of investment capital, encourage international specialization, and deepen the extent of economic interdependence. Economic and commercial cooperation in the region has already become the trend of development.

**The United States.** The Asia-Pacific commercial trade with the U.S. constituted 36 percent or US\$270 billion of total U.S. trade in 1988. U.S.

foreign direct investments in the region account for 14 percent of its global investment or US\$25.7 billion.

**Japan.** Japan plays an important role in stimulating economic development in Asia and the Pacific. Japanese commercial trade with, investment in, and economic aid to the Asia-Pacific region have already exceeded that of the U.S. Japanese trade with the region in 1987 was one-fifth of the country's total import and export. In more recent years, Japan has aggressively expanded economic ties with the "four dragons" and the ASEAN states. Japanese investments in the "four dragons" grew by 109.1 percent and 68.5 percent in the ASEAN economies in 1987.<sup>13</sup>

**"The Four Dragons" and ASEAN.** In recent years, the economies of the "four dragons" have been growing rapidly, attaining growth rates of 11.3 percent in 1987 and 9.2 percent in 1988.<sup>14</sup> South Korea particularly stands out as the country's import and export trade already exceeds US\$100 billion, placing the country in the ranks of the top 10 trading nations globally.<sup>15</sup> Among the ASEAN states, Thailand has attracted the greatest attention with its remarkable economic growth. Its economy grew by some 9 percent in 1988.<sup>16</sup> The "four dragons" and ASEAN are assuming significant roles in fostering economic cooperation and development in the Asia-Pacific rim.

**China.** China is the major socialist state in the region's economic development boom. After ten years of reforms and open door policy, its economy is able to attain steady and stable growth. If China can maintain an average annual economic growth rate of 6 percent, China's GNP could exceed US\$1 trillion by the end of this century. China has always maintained close economic relations with the countries and regions of Asia and the Pacific and over 70 percent of China's foreign trade is with the region. With the deepening of economic reforms and liberalization, China will make important contributions to Asia-Pacific economic cooperation, development and prosperity.

### III

The twenty-first century should be a century full of opportunities and challenges. Nevertheless, we have to be conscious of our ideals as well as the actual potentials in projecting developments in the Asia-Pacific region. We need to be aware of the obstacles ahead, but we also have to affirm our confidence in the future.

#### THE ASIA-PACIFIC REGION IS BECOMING THE WORLD'S NEW ECONOMIC CENTER OF DEVELOPMENT, A "PACIFIC CENTURY" IS LIKELY TO EMERGE

Asia and the Pacific rim have undergone enormous changes since World War Two, especially in the past twenty years. The region's countries took advantage of the comparatively peaceful global environment to independently exploit their competitive edge and jointly to make the Asia-Pacific rim the most dynamic economic region in the world today. Economic growth in the region clearly surpasses other areas. The region's average annual economic growth was 8 percent from 1960 to 1980, while it was 6 percent in Latin America, 4.5 percent in Europe, and 3.5 percent in the U.S. Average global economic growth was 3.2 percent in 1986, 2.8 percent in 1987, and 3.8 percent in 1989, while average annual economic growth in Asia and the Pacific reached 4.2 percent, 6 percent and 8 percent for these three years.<sup>17</sup> Estimated average annual global economic growth in the 1990s could be 3.2 percent, and 5 percent for the Asia-Pacific region.

Asia and the Pacific produced only 5.5 percent of the world's GNP in 1960. The figure climbed to 16 percent in 1980, 20 percent in 1988, and could reach 23.1 percent in the year 2000, surpassing that of Western Europe and matching the U.S. This development is truly remarkable, demonstrating that there is a possibility that the twenty-first century could be the "Pacific Century."

# THE ASIA-PACIFIC REGION WILL CONTINUE TO BE THE MOST COMPLICATED REGION IN INTERNATIONAL TENSIONS AND CONFLICTS, MAKING THE CREATION OF A NEW ORDER A DIFFICULT AND LONG-TERM TASK

In the Asia-Pacific rim, the major tensions are extremely complicated: there are tensions between the Eastern and Western social systems, sharp tensions between the North and the South, that is, the developed and the developing countries, even among countries that share the same social system there are many conflicts of interests. General predictions foresee that general trends in the 1990s incline toward the easing of tensions. However, the United States, the Soviet Union, Japan, China, India, the "four dragons", the ASEAN countries will compete and sustain frictions in their interaction because of superpower intervention and competition. Tensions are also exacerbated by the fact that Asia and the Pacific lack the cohesiveness found in Europe. Therefore, North-South and East-West tensions converge, concentrate and coexist in the Asia-Pacific region. The solution to these tensions will directly affect regional stability and development and their solution is intimately affected by improvements in U.S.-Soviet bilateral relations, and Japan, U.S. and Soviet relations with their neighboring states.

The most distinctive trend in this new international environment of tension reduction is attempts by the United States and the Soviet Union to bring their new cooperative and competitive relationship to the Asia-Pacific region. The U.S. strategic interests in Asia and the Pacific are the maintenance of U.S. dominance and the free trade system. The former is achieved by reinforcing U.S. relations with its allies in the region to protect its national security interests. The latter is realized by strengthening its economic ties with the region and, to maintain its leadership position in the free market trading system. This strategy aims to achieve these objectives:

1. Bolstering U.S. military bases in the region. The United States shall maintain military cooperation in Northeast Asia, Southeast Asia and the South Pacific, considering this the foundation of the Asia-Pacific defense system;
2. Assuring the U.S. and its allies of their control over air space and sea

lines of communication in the region, and reinforcing their strategic control over the Pacific Ocean;

3. Continuing its "alliance strategy" and improving its alliance structure with its allies in the region; and
4. Establishing and expanding economic cooperation with Asia and the Pacific to ensure U.S. economic interests in the region.

To achieve these objectives, U.S. Secretary of State, James A. Baker, officially announced the U.S. concept on its future relationship with its Pacific partners at an Asia Association meeting in June 1989. The primary emphasis is that under the banner of continuing the U.S. leadership, U.S.-Soviet cooperation will expand into Asia and the Pacific. Simultaneously, the U.S. will push for "joint leadership" by the United States and Japan in the Asia-Pacific economy.

On the other hand, the Soviet Union's Asia-Pacific policy includes:

1. Taking initiatives in disarmament, reducing militarization in the Asia-Pacific region so as to induce the U.S. to respond;
2. Developing Siberia and the Far East to promote economic cooperation with the region;
3. Initiating full-scale tension reducing diplomacy, and aggressively improving relations with the U.S., China, Japan, the "four dragons," and the ASEAN states; and
4. Constructing a new order of "peaceful competition and interdependent coexistence" in Asia-Pacific international relations.

The Soviet Union will continue to adjust its Asia-Pacific policy in response to domestic and international changes so that it may realize a new Asia-Pacific order that is built upon U.S.-Soviet cooperation.

# THE GREATEST CONCENTRATION OF CHINESE STRATEGIC NATIONAL INTERESTS IS IN ASIA AND THE PACIFIC SO CHINA WILL CONTRIBUTE TO THE ESTABLISHMENT OF A NEW REGIONAL AND INTERNATIONAL ORDER

Deng Xiaoping pointed out at a meeting with international

entrepreneurs and financiers three years ago that there had been much discussion of the twenty-first century becoming the Pacific Century. He hoped that this projection would materialize but added that its realization would depend on China's development. In his view, a Pacific Century will emerge only if China can reach at least a level of development comparable to that of the middle-ranked industrialized nations. Although China hopes that the next century will be the Pacific Century, it also hopes that there will be a Latin American Century, a West Asian Century, and an African Century for only then will there be true stability. China's development, Deng believes, is first of all its own responsibility and a responsibility of the Chinese people toward mankind.<sup>18</sup>

China has a population of 1.1 billion. As a socialist state supporting a policy of reforms and openness, China is a major country with strategic and international influence. But in view of China's level of economic development and its actual strategic leverage, Asia and the Pacific should basically remain China's main playground for a long time to come and its foreign economic exchanges should also be most concentrated in the region. Chinese trade with countries of the region in recent years has constituted 70 percent of the country's foreign trade, and approximately 80 percent of foreign investments come from the region. China's strategic interests will still concentrate in Asia and the Pacific in the next decade. The country must first firmly establish itself in the region before it can effectively exercise leverage in the international arena.

China and other Asian and African countries forged the Bandung Spirit 35 years ago and proposed the "Five Principles of Peaceful Coexistence." China will adjust its foreign policy in response to changing trends in the years to come but it will maintain its staunch opposition to imperialism, defend world peace, and strengthen solidarity with the Third World. China's peaceful and friendly foreign policy has won international praise and support.

Chinese leaders have most recently expressed important perspectives on the establishment of a new international political order. They believe that this order must be built upon the foundation of equal participation and joint development by all nation-states, opposing control by superpowers, and using the "Five Principles of Peaceful Coexistence" as the criteria to resolve problems among nations and major international

issues. China is willing to contribute ceaselessly, sincerely and positively with actions to construct a new Asia-Pacific and international order.

## NOTES

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***Economization of Politics: The Key  
to ASEAN Success***

*Chak-Yan Chang*

INTRODUCTION

Southeast Asia is a land of great diversity. The Southeast Asian states are culturally, ethnically and historically diverse and differ in levels of political and economic development. The region has been a focus of attention since the end of World War Two. First of all, it is close to the two communist giants — the People's Republic of China (PRC) and the former Soviet Union. The withdrawal of the former colonial powers like Britain, the Netherlands and France left a power vacuum in the area. Fragile in both political and economic terms, regional organizations were established in the early 1960s to counter the spread of communism under the Domino Theory.<sup>1</sup>

The formation of several regional organizations or associations in Southeast Asia in different time periods reflects the importance of such institutions for the promotion of the national goals of countries concerned. The emergence of regionalism starting from the 1960s demonstrated the desire of the leaders who foresaw a supra-national guarantee for regional security and domestic development. However, the road to regional cooperation has never been without obstacles. Not all attempts at regional cooperation were successful. The Southeast Asia Treaty Organization (SEATO) was founded in 1954 and was the earliest attempt at regional cooperation in the post-war era. Commitment to the SEATO was never strong among its members. In the 1960s, there came the Association of Southeast Asia (ASA) and the Maphilindo under the



auspices of Malaysia. However, they both died in infancy. The Association of Southeast Asian Nations (ASEAN) was formed in 1967 and is thus far the most resilient regional organization in Asia.

This chapter endeavors to shed some light on ongoing economic cooperation in Southeast Asia after decades of development. Efforts are made to trace the development of regional cooperation in the past few decades. What was the background of the respective attempts at regional cooperation, both military and political, in Southeast Asia and Asia? How far do dissimilarities in various aspects among the countries hinder their cooperation? How and why does ASEAN manage to last for 25 years despite such diversity among the member countries? This chapter first briefly outlines early attempts of regional cooperation in Southeast Asia, followed by a description of the diversity among the ASEAN countries. Next, factors contributing to the success of ASEAN and a new pattern of economic cooperation among its members are highlighted. Finally, the conclusion, summarizes the key to ASEAN's success and discusses its role in advancing regional economic cooperation.

## EARLY ATTEMPTS OF REGIONAL COOPERATION

"You gain some and you lose some" is a fair statement to sum up various forms of regional cooperation in the Asia-Pacific region since the end of World War Two. The strife of politics has been a hindrance to economic cooperation in the region. ASEAN is a handy example. Much time was spent on negotiations and the chances of reaching mutual agreement were slim in its early years.

In the contemporary world, a vital state or superpower is a prerequisite of a significant organization. For instance, the European Community comprises the key states of France, Italy and Germany. The membership of the North Atlantic Treaty Organization includes major countries: the United States, Britain, France, Germany and Italy. The former Warsaw Pact was dominated by the Soviet Union. However, few significant results were accomplished in regional cooperation in Asia even with the participation of superpowers. Both right-wing and left-ring blocs suffered the same setbacks. SEATO could not have outlasted its feeble existence had it not been for the

support of the United States. The "Federation of Indo-China" proposed by Vietnam after its unification in 1975 met with the vehement criticisms of the PRC, even though they were close allies during the Vietnam War.<sup>2</sup>

The path of regional cooperation in Southeast Asia has never been smooth. ASA was proposed by Malaysia with a membership composed of Malaysia, Thailand and the Philippines in the 1950s. It did not last for long and accomplished virtually nothing. It was, from its inception, denounced by the PRC, the Soviet Union and Vietnam as a puppet of the Western imperialist powers.<sup>3</sup> Britain decided to form the Federation of Malaysia which comprised Malaya, Sabah, Sarawak, and Singapore in 1961. Indonesia and the Philippines objected to the inclusion of Sabah and Sarawak into the Federation of Malaysia. Owing to territorial disputes, the Philippines' withdrawal from ASA was a critical blow to the organization. The ASA ultimately collapsed because of its small membership.

In the course of forming ASA, the Prime Minister of Malaysia, Tunku Abdul Rahman also had the idea of creating Maphilindo which consisted of Indonesia, Malaysia and the Philippines. This plan failed due to the territorial disputes among the member states. In 1963, Indonesia and the Philippines opposed the inclusion of Sabah and Sarawak as Malaysian territory and swore to reclaim them. Indonesia even deployed its army to "confront" Malaysia and relations between the two states suffered as a result.<sup>4</sup> The Philippines also opposed Malaysia's inheritance of Britain's sovereignty over Sabah.

Another failure of regional cooperation in Asia was the Asia and Pacific Council (ASPAC) proposed by South Korean President Park Chung Hee. It was based upon the premise of anti-communism. He was eager to cultivate collaboration of non-communist and anti-communist states in the region to keep communism at bay. A meeting of delegates from Australia, New Zealand, Japan, Taiwan, Malaysia, Thailand, the Philippines and South Vietnam was held in 1966, but no concrete results were achieved. The normalization of Sino-U.S. and Sino-Japanese relations made ASPAC lose its appeal.

## DIFFICULTIES IN THE FORMATION OF REGIONAL ORGANIZATIONS

The foregoing paragraphs have traced the unsuccessful attempts of

regional cooperation in Asia. The only exception is ASEAN. ASEAN has a history of 25 years since its birth in 1967. It is the most lasting one in Asia. Credit should be given to the determination and painstaking efforts of the member states to narrow their dissimilarities and make cooperation possible. This has been a tremendous task as the states are culturally, ethnically, historically and politically diverse.

### Religion

The most saliently sensitive issue has been religious difference. Catholicism, Islam and Buddhism prevail in respective states. The diversity of religious beliefs within the states themselves and among their neighbors can be a source of instability and hence can jeopardize the harmony within the region. The forthcoming paragraphs will give a brief outline of different religious beliefs in the ASEAN states, and then further analyze how the diversity of religions has become a source of friction and poses difficulties for cooperation.

Indonesia is the most populous state in Southeast Asia. Its influence in the region is attributed to the gigantic size of its population and territory. Despite the dominance of Islam, other religions still prevail in some areas. This is a source of conflict. For instance, the historical wound has never been completely healed between the Hindus and Muslims. Mutual hatred resulted in many religious wars in the past. The religious conflicts were moderated in modern times due to the colonial rule of the Dutch. However, frequent damage to Indonesia's largest pagoda located at Yogyakarta remains a perennial problem. It is believed that the pagoda is the target of Muslim fanatics. Owing to the sensitivity of religious beliefs, the Indonesian government has never declared a state religion in order to avoid fanning hatred and hostilities.

Islam has been declared as the state religion of Malaysia ever since its independence. Almost all the Malays are Muslims and under the claim of "Malays as indigenous people." This is a source of friction as the non-Malay population accounts for almost half of the total population. Islam, as the state religion, enjoys keen support and promotion of the Malaysian government. However, the Chinese and Indians cling to their traditions and cultures and few of them are converted to Islam, preferring to distance themselves from Muslims. National integration is

hindered by the inadequacy of social interaction and inter-marriages. Inter-marriages between Muslims and non-Muslims are rare as Islam requires the non-Muslim spouses to be converted to the faith and most Chinese and Indians find this unacceptable.<sup>5</sup> Furthermore, the promotion of Islam and the Malay language has been met with resistance from the Chinese.<sup>6</sup>

Singapore is a small city state with a tiny population of only 2.6 million. It lies between two Muslim-dominated states — Indonesia and Malaysia. A melting pot of various cultures in the region, Singapore is very cautious in shaping its religious and language policies to avoid triggering any racial conflicts. The Singaporean government publicly pronounces its appreciation and respect of the various religions to foster national integration. It aims at appreciating differences among religions and cultivating better understanding.<sup>7</sup> Four official languages are in use; they are Chinese, Malay, Tamil and English as a sign of respect of the various ethnic groups, as well as pragmatic considerations. English has been the *lingua franca* since the colonial era and it is still the most commonly used language in business and government.

Thailand appears to be a country homogeneous in religion, with the dominance of Buddhism. There still exist actually some other religions. For instance, the five Muslim-dominated provinces in the south have a total population of about three million. Their religious beliefs and customs are dissimilar to the Thais who practice Buddhism. Thus, this provides impetus for the separatist movement of the Muslims in southern Thailand. The Muslims have close historical ties with the Malay Muslims at the border with whom they share a common religion and close ethnic origins. They use the forests in Malaysia as their base, and this remains a source of dispute between the Thai and Malaysian governments.

The Philippines has problems similar to those of Thailand. The Philippines is basically a Catholic country. A large proportion of its population was converted to Roman Catholicism due to the assimilation and intermarriage policies of the Spanish colonial government in the past three centuries. Yet, three million Muslims are scattered on the numerous islands at its southern tip. Owing to their scattered distribution and the lack of effective rule by the central government, the Muslims are

inclined to opt for separatism. They do not want to be the "odd number" in the Philippines. The high-handed rule of former President Ferdinand Marcos kept the Muslims under control. This resulted in the flood of thousands of Muslims to Sabah (Eastern Malaysia). The provision of shelter to the Muslim separatists discomfited the Philippines. On one hand, the Philippines has always claimed that the occupation of Sabah by the Malaysian government is illegitimate.<sup>8</sup> On the other hand, sheltering dissidents of a neighboring country is a source of dispute and strains bilateral relations.

### *The Colonial Legacy*

Apart from religious and ethnic diversity, the differences in the level of political and economic development as a result of respective former colonial governments are equally complicated. The century-long administration of different colonial powers made the Southeast Asian states more diverse despite their proximity to each other. The colonial powers of Britain, the Netherlands and Spain had different approaches and emphases in administering their colonies. This in turn deepened the diversity among the Southeast Asian states.

The British adopted a progressive economic policy in Singapore and Malaysia (formerly called Malaya). They clung to a non-intervention policy and remained politically passive. The British were prudent not to change the existing order and maintained the sultans in Malaya and their privileges. What the British did was to develop the Malayan economies to serve the economic interests of the British Empire. Thus, after a century of development, Malaya remained divided with a number of sultans dominating respective areas while Malaya as a whole was an economic entity.

The Dutch were not only progressive in the economic development of Indonesia but also aggressive in putting Indonesia under a strong centralized administration. Unlike the British, the Dutch were eager to put all the scattered islands under the administration of the central government. This was a lengthy, enormous and haphazard process, that relied on the Dutch military might to "unite" Indonesia. The post-colonial Indonesian government inherited this high-handed method in dealing with the minorities so it is not difficult to understand that a military government is an outcome of the precedent set by the Dutch.

The Spanish aimed at assimilating the indigenous population according to their standard model. They not only destroyed the local institutions but also imposed Spanish culture upon the indigenous people. Many mixed marriages over several generations produced a high percentage of mixed blood population. This distinguishes the present day Filipino culture from the other states of Southeast Asia. Instead, it is closer to the former Spanish colonies in South America than its neighbors.<sup>9</sup>

Thailand has never been colonized. It succeeded in maintaining its independence by playing the British against the French in its role as a buffer between British Malaya and French Indo-China. It did take initiative to modernize itself during the reign of Rama IV and Rama V. Reforms were carried out to learn from the West. Thus, though Thailand remains a Buddhist country, it has to a certain extent been modernized.

Therefore, the gap among the Southeast Asian states was further enlarged by the administration of their respective colonial powers. The independence of the former Southeast Asian colonies coincided with the peak of the Cold War. The spread of communism was countered by the Containment Policy of the West. Both attempted to yield support and extend their influence over the emerging leaders of the newly independent states in Southeast Asia. This inevitably dragged most of them into the East-West conflict.

The positive impact on the pro-Western Southeast Asian states is that they enjoyed prosperous economic development as they adopted the market economy on the Western model. They are Brunei, Indonesia, Malaysia, Singapore, Thailand and the Philippines. They share common economic policies and this provided a basis for their economic cooperation. However, this is not without negative impact. Since they align themselves with the Western powers, they are subject to vehement criticisms from the communist states like Vietnam and Laos. Even the self-proclaimed self-sufficient state Burma maintains distance with them. The gap between states with different ideologies and orientations produces distrust and difficulty in communication. The tense relations also resulted in domestic cleavages and instability in Malaysia, Singapore, Thailand and the Philippines in the late 1960s and 1970s.<sup>10</sup> Domestic unrest during the peak of the Cold War accounted for the difficulty in achieving concrete results in regional cooperation.

## KEY TO ASEAN SUCCESS: DEPOLITICALIZATION AND ECONOMIZATION

These diversities among the Southeast Asian states present to us a rather slim chance of wholehearted and lasting cooperation. Mutual suspicion and misunderstanding push the Southeast Asian states apart and hinder compromise. Yet, ASEAN, over a quarter of a century in existence, is the most enduring organ of regional cooperation among these very dissimilar states. What pertinent factors contribute to its success? How does ASEAN survive and how do the member states maintain their coherence? To what extent have the respective governments given deliberations to coherence? Is it the outcome of the rational planning of the policy-makers of the respective governments? It is interesting to explore this important regional organization which is the most enduring one in Asia.

### MINIMIZING POLITICAL DIFFERENCES

The success of ASEAN is neither by luck nor coincidence. Instead, it is the outcome of a high degree of rational planning by the member states. It was prudent for them to emphasize economic cooperation at its founding and play down the political differences. The aims and purposes of ASEAN were declared in the Bangkok Declaration of 1967.

The Bangkok Declaration stated that the core objective of ASEAN was to foster economic cooperation and to stimulate economic development in the region. The aim of ASEAN was mainly to cultivate regional cooperation and not military or political cooperation. In view of the sensitivity of the political arena, emphasis was placed on abiding by the principle of peaceful coexistence as laid down in the United Nations Charter. ASEAN states submitted themselves to the mediation of the United Nations should any political conflicts occur in the region. ASEAN's standpoint was to avoid taking sides in or making criticisms of regional conflicts and to defer the issues to the United Nations.<sup>11</sup>

Neutrality is one of the principles of ASEAN. The Bangkok Declaration also stated that ASEAN was "affirming that all foreign bases are temporary and remain only with the expressed concurrence of the coun-

tries concerned and are not intended to be used directly or indirectly to subvert the national independence and freedom of states in the area or prejudice the orderly processes of national development."<sup>12</sup> This declaration addressed the embarrassing question of the foreign military presence in the member states. For instance, the U.S. still has bases in the Philippines and Thailand, and Singapore and Malaysia are members of the Five Power Defense Pact.

From the Bangkok Declaration at the time of its establishment, it is crystal clear that ASEAN states understood the need of avoiding the strife of politics and to concentrate efforts on economic cooperation. The success of a lasting regional organization in Southeast Asia relies upon the need of avoiding political conflicts. The past 25 years have witnessed how ASEAN has been devoted to playing down political differences in the organization, in the region and in the world.

In the Sino-Vietnamese War in 1979, the PRC gained the acceptance and support of Thailand. PRC waged war on Vietnam in the name of "punishing" Vietnam for invading Cambodia. China claimed that Vietnam was aggressive and would invade Thailand under the support of the Soviet Union. Under the immediate military threat from Vietnam, Thailand sought military cooperation with China. The Chinese ambassador to Thailand even stated that China would be on Thailand's side if Vietnam invaded Thailand.<sup>13</sup>

Indonesia and Malaysia did not appreciate the Chinese move. Their view was that the Sino-Vietnamese War was an internal dispute between the two communist states and also a conflict between China and the Soviet Union in Indo-China. They did not regard the Vietnamese invasion of Cambodia as a threat of military aggression toward Southeast Asia. In the Kuantan Declaration, they opposed Thailand's military cooperation with China. Public opinion in Indonesia and Malaysia even regarded the founding of "The Federation of Indo-China" as not necessarily a bad thing for Southeast Asia. It could instead serve as a counterbalance to the preponderance of China.<sup>14</sup>

The difference in attitudes and insistence on their own viewpoints have strained relations among the ASEAN states. Indonesia and Malaysia had bitter memories of PRC-supported communist subversive activities in their own territories and hence they regarded China as the more

threatening neighbor. Thailand adopted a "Two Tigers Theory," that is, both China and Vietnam were threatening but the military threat from Vietnam was more imminent while China still remained at a distance. Hence, it would be prudent to play one tiger against the other.<sup>15</sup>

Being the two dominant states in ASEAN, Indonesia and Malaysia did make attempts to carry out dialogues with Vietnam. They were opposed to a military resolution and insisted on a political resolution under the mediation of the United Nations. To resolve the Cambodian issue politically, they proposed referring it to the United Nations. ASEAN finally came to a consensus. They initiated a resolution to the United Nations to end the military confrontation.

ASEAN's persistence in pressing the United Nations to intervene in the Cambodian conflict finally brought an end to 14 years of fighting. A peaceful solution was achieved through UN mediation. Vietnam withdrew its troops from Cambodia, and the United Nations Peace Keeping Forces were sent to monitor the peace process. This final resolution to the Cambodian question illustrates that ASEAN is dedicated to its own principles of not taking sides in regional political conflicts and the option of peaceful resolution.

ASEAN members have been very cautious on the issue of military cooperation. Throughout the past 25 years, they have stuck to the founding principle of not becoming a regional military organization and limited their efforts mainly to economic cooperation. One of the founding principles of ASEAN was to make Southeast Asia a "neutral, peaceful and nuclear-free" region. Despite this claim, ASEAN had received strong criticisms from and remained subject by the communist states of being a puppet of the Western imperialist powers.

Their determination not to turn into a military organization was hard pressed at the peak of Vietnamese expansionism in Indo-China and the Sino-Vietnamese War. The immediate threat from Vietnam was a challenge to their principle of rejecting the formation of a multilateral military organization. Nevertheless, the then existing bilateral military pacts with respective powers made ASEAN military cooperation less appealing. In the early years of ASEAN, the organization declared that the existing defensive pacts of the member states were already sufficient, and ASEAN needed not turn into a military organization.<sup>16</sup> For instance,

Malaysia and Singapore were members of the Five Power Defense Pact which include Britain, Australia and New Zealand. The Manila Pact was a military treaty among Thailand, the Philippines and the United States. Being the prominent state with the greatest military capability, Indonesia had confidence in its own defence capability and was uninterested in military cooperation. In light of the above, it made multilateral military cooperation among ASEAN states unnecessary, thus keeping them from being dragged into military confrontation with external forces.

#### MAXIMIZING ECONOMIC EFFORTS

To play down the political differences according to one's wishful thinking is inadequate. ASEAN needed a back-up measure to work successfully. The principle of economic cooperation was the key to the minimization of political turmoil. Economic cooperation provided the member states with a common goal and served as a binding force. Throughout the past 25 years, the ASEAN states have emphasized their internal economic ties and their bargaining power with the leading industrial countries and other trading blocs.

The economic basis of the ASEAN states was rather weak at the very beginning. Endowed with rich natural resources but lacking any industrial base, the export of raw materials was the major source of foreign exchange earnings. Thus, intra-regional trade was rather limited and accounted for only about 20 percent of the total trade value of respective ASEAN states. This remained true until the mid-1980s. Malaysia and Singapore began to industrialize upon independence. The shortage of capital, technology and skills confined their industrialization plans to the development of very primitive types of industries, mainly the simple processing of raw materials or low-level technologies. Thus, virtually no common ground of economic cooperation was available at this initial stage.

Experience, skills and technologies can spill over to the less developed countries. Through such a process, economic growth can be stimulated to create not only job opportunities and income, but also stability. Poverty is the source of discontent and instability, supplying excuses to rebel against the government and the existing order. Economic growth can ease the development of the nation as a whole as it channels the energy of the people

to a better living standard and aspiration for further development. A flourishing economy is vital to stability and nation-building within the nation itself and in its relationship with other countries.

The two noteworthy intra-regional economic cooperation proposals are the "Growth Triangle" which involves Indonesia, Malaysia and Singapore and the "North Growth Triangle" which involves Indonesia, Malaysia and Thailand.

The Growth Triangle was proposed by Goh Chok Tong, then first Deputy Prime Minister of Singapore, in mid-1990. Goh had expended considerable energy on this project before he became the prime minister at the end of 1990. He firmly believed that the survival of a vibrant Singapore was dependent on its association with dynamic neighbors.<sup>17</sup> Goh, in a speech to Singapore's parliament, set out his aspirations for this project for the coming years. He noted that, "within ASEAN, there will be a smaller region — a growth triangle, a special region that will grow faster than the rest of ASEAN...."<sup>18</sup>

The Growth Triangle is to share the successful experience of the industrialization of Singapore with her two neighbors; Indonesia and Malaysia. Singapore can serve as the engine to bring about industrialization in Indonesia and Malaysia by expanding its industries into those countries. In the course of expanding its industries, it will transfer technologies and skills as well as foster an economic boom in Indonesia and Malaysia. The Growth Triangle plans to establish two industrial zones: the Pasir Gudung Industrial Estate in Johor Bahru and Batam Island of Indonesia. Indonesia and Malaysia are to take over Singapore's labor-intensive industries as the city-state upgrades to high-technology based industries. The rapid development of Batam Island, in tourism and industrialization, has been fueled by Singaporean investment in the last two years. According to Singapore's Deputy Prime Minister, Lee Hsien Loong, Batam Island, together with the surrounding islands, will become "Hawaii in the East" within 15 years time. He further holds that the Growth Triangle is a means by which Singapore can transcend its physical limitation by making it part of a larger region of prosperity, while at the same time improving relations with its neighbors.<sup>19</sup> The North Growth Triangle was inspired by the Growth Triangle in the South. The participants involve Malaysia, Thailand and Indonesia. The center of the North

Growth Triangle is Penang.<sup>20</sup> It is hoped that the prosperity and proper development of Penang as the "Silicon Valley" of Southeast Asia will bring forth economic development in the region. The Penang state government initiated this plan with the hope that its industries would expand to Medan Island of Indonesia, northern Malaysia and southern Thailand. The rapid development of Penang in the past decade provides sufficient conditions for it to be the engine of economic development in the region.

These two plans bring the four members of ASEAN together in a massive mechanism for economic cooperation. They share common economic interests in developing their economies as well as fostering prosperity for their own sake. Through this, their skills and knowledge in finance, management, technology and marketing will be enhanced. This will provide a sound base for closer economic ties and better conditions for economic integration in the near future.

Apart from the initiatives and efforts of the ASEAN states themselves, other leading industrial states have also contributed to the flourishing economic cooperation among the ASEAN states. In granting economic development aid to the ASEAN states, Japan has helped their economic development as well as their industrialization. Japan requires the ASEAN states to diversify allocation of aid resources to various industries to avoid concentration and to prevent redundancy, thereby encouraging complementary rather than competitive trading relations among the ASEAN economies.

The inadequacy of capital, technology and skills was alleviated by the injection of economic aid from the West as well as Japan in the last two decades. Besides economic aid, foreign investment has also provided impetus for economic development. This results in the accumulation of capital, skills and improvement of living standards among the peoples in the ASEAN states. In recent years, the NIEs, namely Hong Kong, Taiwan, South Korea and Singapore have begun playing a more prominent role as foreign investors in ASEAN states. Indonesia, Malaysia and Thailand are now experiencing their own economic boom. This provides incentives for the ASEAN states to foster economic cooperation. Mutual benefits can be realized only through economic cooperation. It is a non-zero-sum game that could benefit all parties. ASEAN is now working to set up a tax-free zone in the region within the next 15 years to

facilitate intra-regional trade, reflecting their commitment to further economic cooperation.

## CONCLUSION

ASEAN has existed for 25 years. Its beginnings were humble with five very dissimilar nations. After years of struggles, it developed into a resilient regional organization which now emphasizes economic integration. The keynote to its success is that the member states are devoted to the founding principle of concentrating efforts on economic cooperation and avoiding political conflicts. The past 25 years provided various challenges to this original principle, and on several occasions changing circumstances exerted tremendous pressure on the member states. In several instances, the founding principle was put to the test and the solidarity of ASEAN was in question. The determination to maintain its original principle of non-partisanship in political conflicts has proven to be prudent. The Cambodian question has finally been resolved with the persistent diplomatic efforts of ASEAN states. In the course of maintaining a low profile in politics, energy can be channelled to domestic economic development of the member states and providing a sound base for further economic cooperation. My view is that ASEAN has proven itself to be a successful example of the economization of politics.

Any meaningful economic cooperation cannot be achieved without substantial market-sharing and resource pooling in a given region. For ASEAN, "in unity there is strength, in solidarity there is security." To recapitulate, for ASEAN to be an effective body advocating economic cooperation, it naturally takes time for the members to realize the core values of regional cooperation, i.e. the enhancement of bargaining power. All cooperation professes to eschew political and security issues, on the grounds that these issues are too sensitive and too diverse. However, political issues will inevitably arise in the course of interaction among states. Thus, it requires the prudence of those states to play down politics and to strive for a successful regional organization. Patience is needed in the course of interaction and it requires time to build consensus. ASEAN states can achieve more for their benefit by minimizing their differences.

## NOTES

1. It is the belief that, once communists overrun a country, they will sweep over Southeast Asian countries within the region.
2. On Vietnam's intention of forming a "Federation of Indo-China," China had disclosed several inside-stories through various sources. For details, see Bai-Bing Yang, "Vietnam Has a Long History of Forming the Federation of Indo-China," an unpublished conference paper presented at the Conference on Southeast Asia in 1979. Also see *On Vietnam's Expulsion of Chinese Residents*, Beijing: Foreign Language Press, 1978.
3. The communist regimes in the region were very hostile to and suspicious of the non-communist states' attempts at regional cooperation. This was clearly manifested in their media during the 1950s and 1960s. For examples, see *Renmin Ribao* and *Beijing Review*.
4. On the problems facing the formation of Malaysia, see Kuan-Yew Lee's analysis in *Malaysia Comes of Age*, Singapore: Ministry of Culture, 1962.
5. For a detailed discussion on the religious problem in constitutional arrangement, see Ratman's *The Communal Problems in Malaysia*.
6. Religious problems caused further difficulty for the Malaysian government even in the last election held in 1990. See "Barisan Manifesto," *New Straits Times*, 13 October, 1990, p.4.
7. Kuan-Yew Lee, *The Road to Singapore*, Singapore: International Publishing Company, 1967.
8. Kuan-Yew Lee, *Malaysia Comes of Age*, p.20.
9. For a detailed history of how the Western colonial powers colonized Southeast Asia, see D. J. M. Tate, *The Making of Modern Southeast Asia*, Vol. I and Vol. II, Kuala Lumpur: Oxford University Press, 1971.
10. See Joo-Jock Lim and Vani Shanmugaratnam, *Armed Communist Movement in Southeast Asia*, Aldershot: Gower Publishing Company, 1984.
11. *Facts on ASEAN*, Malaysia: Ministry of Foreign Affairs, 1977, p.22.
12. *Ibid.*, p.19.
13. *Bangkok Post*, 1st April 1979, p.6.
14. Chak-Yan Chang, "Sino-Vietnamese Rift: Political Impact on China's Relations with Southeast Asia," *Contemporary Southeast Asia*, Vol.4, No.4, March 1983, pp.539-540.
15. *Ibid.*, pp.544-545.
16. *Facts on ASEAN*, Malaysia: Ministry of Foreign Affairs, 1977, p.19.
17. Pushpa Thambipillar, "The ASEAN Growth Triangle: The Convergence of National and Subnational Interests," *Contemporary Southeast Asia*, Vol.13, No.3, December 1991, p.308.
18. *The Straits Times*, 14 June 1990.
19. *The Straits Times*, 5 June 1990.

20. For further information, see *Penang Marches On*, published by Barisan National, 1990. Also see the proposed idea of this plan.

## *Epilogue*

*Kuang-Sheng Liao*

Consequent upon the confrontation between the two rival blocs headed by the United States and the Soviet Union, bipolar politics dominated the international political arena from the end of World War Two until 1989. The international order had undergone several significant changes by the end of 1991, changes that involved a fundamental shift in the distribution of power. This movement from confrontation to tension reduction was a gradual trend that progressed with the unfolding of events around the world; the upheavals in Eastern Europe, the German unification, and the collapse of the Soviet Union in December 1991 symbolized the ending of the Cold War and the bipolar mentality. From this time on, economic development has been accorded increasing emphasis.

Some scholars believe that the post-Cold War world will enter an era of multipolarity in the international system. They are, however, still uncertain as to which powers will be the major players in this new and emerging multipolar system. I believe a "power pyramid" now prevails despite the fact that the emerging international political order is increasingly overshadowed by the new international economic order. The main features of this new power structure are:

1. the U.S. is at the pinnacle of this pyramid. Emphasized by its national capabilities and military power, the U.S. performs the role of the "world police";
2. Western Europe, Japan, Germany, China and Russia rank after the U.S. Owing to their political, economic and military influence in world affairs, the U.S. has to seek their political cooperation; and
3. at the base of the pyramid lies a large number of small states. Their influence in global affairs vary at different levels.

This "power pyramid" will likely persist for one to two decades.



U.S. leadership in global politics will continue despite its domestic economic problems. The former Soviet Union, bogged down by endemic instabilities, can no longer challenge the U.S. China is unlikely to risk any confrontation with the U.S. despite some sharp differences in their bilateral relations since the country is pressured by the demands of its modernization program to seek U.S. and other foreign assistance to obtain capital, technology, and markets for its exports. This new international order was fully manifested in the Gulf War in 1991.

Some Chinese leaders have recently stressed the dangers of a single dominant world power to world peace, rationalizing that wars will easily erupt in an unbalanced international environment. They have apparently ignored historical precedents, e.g., no global conflicts broke out during the period of British preponderance from the early 19th century to 1914. This proves that preponderance in the hands of a peace-loving nation can be beneficial to world peace. Thus, the dominance of a single power does not necessarily lead to wars. On the contrary, the Versailles Treaty concluded after World War One and the Yalta Agreement that came after World War Two sought to create a balance of power, yet they failed, and stability was at best precarious.

Kenneth Boulding proposed that wars could theoretically result from miscalculations in a balanced situation. David Singer also maintained the view that the more balanced situations are, the greater the frequencies of wars. The validity of the theory of balance of power to world peace should hence not be exaggerated since a military balance could entice some nations to belligerence as a result of miscalculations and misperceptions in the context of a balance of power. Moreover, the new international system emphasizes economic competition instead of political power struggle. The world is entering a new era — relations among nations have been altered, and the arms race is replaced by economic and technological competition. It is imprudent to cling with unyielding devotion to the theory of balance of power. Emphasis on economic development is the new global trend. Beliefs in the arms race and zero-sum game theory in international politics are antiquated and inappropriate in the new global environment. Various forms of mutually beneficial cooperation frameworks have emerged as mutual dependency now governs many aspects of international diplomacy. Furthermore, the

national interests of states are closely intertwined, demanding cooperation for the realization of national objectives.

In the contemporary international system, the U.S. remains the foremost actor in world politics; Japan and Germany are pivotal economic powers; Russia is no longer a superpower but it remains critical to world peace; and still China maintains its "Five Principles of Peaceful Co-existence" as the basis of its diplomatic relations. With the demise of the Cold War, many third world countries no longer receive generous military and economic aid from either the U.S. or Russia. Despite the relative decline in U.S. and Russian global leverage, these two great powers are still able to affect world opinions and the policies of other leading powers.

National interests remain the principal priority of every nation. Different nations have their own aspirations in the emerging new international order. It is clear that the subject of international relations has shifted to economic competition. In light of this, the new international order invariably would be shaped by some important economic principles. Cooperation and regional division of labor should be on a mutually beneficial basis to foster stability in the global community.

The focus on economic development and economic cooperation is the result of the greater interdependence of nations. For economies in the Asia-Pacific region, the formation of regional trading blocs and rising protectionism in North America and Europe give further impetus for initiatives for regional economic cooperation. Though national actors in the region all agree to the benefits of economic cooperation, there remain certain obstacles to the realization of regional economic cooperation initiatives in the form of organizations or more informal groupings.

Ideological differences are played down but other difficulties stand in the way of successful regional economic cooperation. First of all, there is rivalry for regional political and economic leadership. The end of the Cold War, coupled with the decline of U.S. preponderance, allows regional actors greater independence and assertiveness in their foreign policies. Since none of them qualifies simultaneously as a military and economic power, they are at least jockeying for leadership in specific areas while bolstering their strengths in others.

Japan is indisputably the most powerful economic dynamo in Asia

today. The new emphasis on economic development gives Japan greater clout in both regional and international affairs. Japan is already a top investor in all the economies in the region and Japanese capital continues to pour into these developing economies. Japan now seeks political influence that commensurates with its economic status. In the past decade, Japan took strong initiatives to enhance its regional role in security and peace. Japan adopted ASEAN's position on the Cambodian question in the early 1980s and gradually manoeuvred from the sideline to becoming a major actor in the peace process: making Tokyo a venue for peace negotiations and using promises of loans and aid as incentives. A Japanese national, Yasushi Akashi, now heads the United Nations Transitional Authority in Cambodia. Japan has also taken initiatives to encourage economic reform in North Korea and unification of the two Koreas. Also Japanese economic power assures the country a significant voice in any regional economic grouping or forum. For instance, Japan is a major actor in APEC and PECC forums, the EAEG and a regular discussion partner in ASEAN summits and ministerial meetings. Other countries may be wary of Japanese ambitions but they simply cannot exclude Japan for very practical reasons.

To give added credibility to its power status, Japan has been improving and enlarging its military capabilities causing anxiety among its neighbors who were victims of Japanese aggression in the last two world wars. Another hurdle for Japan in its quest for greater regional prominence is the United States. The U.S. is its closest ally and most important trading partner but the U.S., for fear of its political and economic interests in the region, is just as reluctant to endorse Japanese regional leadership as other countries in the Asia-Pacific rim.

China is no longer seen as an active security threat by most other Asian countries, but recent Chinese military expansion still worries some of its neighbors — particularly Taiwan. China, though a major country in terms of its military capabilities and economic potentials, is unable to significantly enhance its regional and international status as the country is wrapped up in its domestic political and economic development, as well as in the restraints imposed upon its foreign policies by its "Five Principles of Peaceful Co-existence." At the same time, few countries would openly endorse Chinese leadership though they may acknowledge

and accept the importance of a mainland Chinese presence in any regional economic grouping. China is just too big to be ignored.

The United States continues to have important political and economic interests in the region and thus opposes any suggestions to exclude U.S. participation in Asia-Pacific regional groupings. For instance, Secretary of State, James A. Baker, declared in no uncertain terms at the Third Annual APEC Meeting in Seoul in 1991 U.S. opposition to Malaysian Prime Minister Mahathir's proposal for EAEG which provided nothing for U.S. participation. U.S. trade with the Asia-Pacific rim far exceeds U.S.-European trade, and in the years to come the region is a rich potential market for U.S. goods and services.

The NIEs (Singapore, Hong Kong, Taiwan and South Korea) and the ASEAN-4 (Thailand, Malaysia, Indonesia and the Philippines) are probably the most vibrant economies in the region (and even the world). Though they are in many ways prime movers for regional economic cooperation as their economies are too small to support independent economic development, they are incapable of leadership in any Asia-Pacific regional organizations due to their limited national capabilities and lack of support from other powers in the region which are also in competition for leadership. At the same time, they are unwilling to accept dominance by any single power whether it be one of their own or other major powers such as the U.S., Japan or China for reasons of national pride and what they view as opportunities for a more vocal independent voice with the end of the Cold War.

Another political hurdle to Asia-Pacific economic cooperation is the issue of territorial disputes. Contests for the Spratlys Islands among the countries of Southeast Asia, Indo-China, as well as China and Taiwan, Japanese claims of the Kurile Islands, disputes over the Diaoyutai Islands (or Senkakus) by China, Taiwan and Japan, and the Malaysian and Philippine debate over Sabah are just some of the more prominent territorial disputes in the region. The surge of nationalism throughout the world since the end of the Cold War and the particular sensitivity shared by these countries, most of which were victims of colonialism, give due cause for concern. Already some subtle — and some not so subtle — moves have been taken by these countries to strengthen their territorial claims, e.g., the printing and circulation of maps that lay sovereign

claims to disputed territories, the posting of military and civilian personnel in these places. Open hostilities have so far been suppressed by aspirations for peace, stability and economic development, but to what extent challenges will be tolerated and for how long restraint will be exercised is open to question.

Finally, defense and security concerns may hinder regional economic cooperation efforts. The collapse of the Soviet Union and the end of confrontational Cold War politics have opened many new opportunities for diplomatic initiatives including the peace settlement in Cambodia, improvement of China's relations with Indonesia, Singapore, Vietnam and South Korea, and a more relaxed atmosphere in Northeast Asia. However, the reduced U.S. military presence has allowed room for individual expansion of military capabilities by the region's countries, giving cause for concern for a regional arms race. Economic dynamism in recent years has provided the economic support for more advance weapons (though armies have not been enlarged significantly in most countries). The fall of the Soviet empire and the desperate economic situation in Russia today have prompted the legal (and sometimes illegal) sales of Soviet weapons to earn hard currency. Already China is rumored to have purchased several Soviet aircraft fighters.

Japan's ruling Liberal Democratic Party, under the prime ministerships of Toshiki Kaifu and Kiichi Miyazawa, first proposed and then finally rammed the Peace Keeping Bill through the Diet in 1992. The bill would authorize the sending of Japanese armed forces overseas for peacekeeping missions, such as those under the auspices of the United Nations. Prior to this, Japan had already dispatched JSDF mine-sweepers to the Middle East during the Gulf War and had in the mid-1980s independently announced expansion of JSDF parameter of patrol to 1,000 nautical miles from Japan. All these changes are viewed with considerable apprehension by its Asian neighbors, and even the U.S., which had long pressured Japan to shoulder a larger share of its defense cost, has ceased to openly push for Japanese military expansion.

Another danger is the production of nuclear weapons. China and Japan already possess nuclear technology in Asia, but the most disturbing prospect for most countries is the development of nuclear potential in North Korea. The U.S., Japan and international agencies have used

various means to entice and pressure North Korea to join the International Atomic Energy Agency (China became a signatory in 1991) and to allow nuclear inspection. The 1992 *Japan Defense White Paper* downgraded the security threat posed by Moscow's military might and emphasizes the nuclear potential of North Korea and North Korean development of a version of the Scud missile which could threaten Western Japan. Furthermore, it stressed Japanese concerns about regional conflicts in Southeast Asia over the Spratlys Islands, the expanding Chinese naval capability and its increased activity in the South China Sea. Hence, in contrast to arms reduction in Europe, the arms race may intensify in the Asia-Pacific region.<sup>1</sup>

In summary, though there is general consensus on the desirability of regional economic cooperation efforts, there are factors other than economic ones that may impede the process.

Nonetheless, the future of Asia-Pacific economic cooperation looks optimistic despite the above difficulties as there are many positive signs and forces for greater regional economic cooperation. For the practical need of economic prosperity, these countries are willing to make compromises for stability and harmony in the region.

Intra-regional foreign investment and trade continue to rise to new heights. Japan and the U.S. are leading foreign investors in most of the region's economies. Their investments bring with them managerial know-how, technology and linkages to the international marketplace. The conclusion of the North American Free Trade Agreement is not expected to dampen U.S. interest in the Asia-Pacific region as U.S. companies should find that the rapidly growing Asia-Pacific economies hold enormous potentials for profit.

The NIEs and the ASEAN-4 may well have the most vibrant economies in Asia today, most of them sustaining high growth rates year after year and with impressive improvement in their standard of living and other indicators of social and economic development. Political reform too is slowly taking place in most of these places as their governments know it is critical to their long-term stability and economic development. These economies, though dynamic, are too small to independently support continuous economic growth so they foster close economic relations with each other and other economies within and without the region.

The NIEs are commonly affected by a shortage of labor, land and resources and rising production costs. They are, therefore, actively investing in less developed economies in the region, such as the ASEAN-4, China, and Indo-China, relocating their labor-intensive industries in these economies. Hong Kong and Taiwan are top foreign investors in China, while Singapore, South Korea and Taiwan are among the top five investors in the ASEAN-4. The opening of the Indo-Chinese economies has also attracted major investments from Taiwan and Hong Kong. For instance, Taiwan is now the largest foreign investor in Vietnam in financial terms, while Hong Kong tops on a unit basis. In addition, relaxation of foreign exchange controls by the Taiwanese government since the late 1980s has become another catalyst for intra-regional economic cooperation as it has encouraged a rapid outflow of Taiwanese capital to southern China and Southeast Asia.

The Hong Kong Policy Act approved by the U.S. Congress would authorize the U.S. government to treat Hong Kong as a non-sovereign entity distinct from China. "With the bill, all those areas that are left as autonomous areas (under the Joint Declaration) in terms of Hong Kong's future for the next 50 years, all those areas generally outside of defense and foreign affairs would be conducted directly between the United States and Hong Kong and not through Beijing...." said Rep. John Porter (R.-Illinois). This should benefit Hong Kong in safeguarding its position as one of the leading financial and communication centers in Asia. Hong Kong needs access to U.S. market, and access to U.S. high-technology — certain categories of which may not be granted to Hong Kong should Hong Kong be treated as part of Chinese sovereignty — to remain competitive.<sup>2</sup> A similar bill may be proposed for Taiwan so that economic cooperation between the U.S. and these economies will not be affected by the status of their relationship with mainland China.

There are also greater efforts made to devise some kind of regional economic cooperation framework, such as APEC, PECC, EAEG, and various other forums, with active high-level region-wide participation to discuss regional economic coordination and cooperation. Though most of these frameworks have yet to produce concrete benefits for the region's economies, they are certainly steps in the right direction and reflect consensus and determination.

The lack of experience and diversity in the types of economic systems and stages of development are other reasons for difficulties in forming multi-lateral region-wide economic cooperation organizations. Most of the Asia-Pacific economies are more used to bilateral economic cooperation. Though region-wide economic cooperation efforts have yet to be realized, there are more pragmatic attempts for sub-regional economic cooperation. For instance, Prime Minister Goh Chok Tong of Singapore has proposed growth triangles in Southeast Asia; the Pearl River Delta of southern China is the site of intense economic cooperation among Hong Kong, Macau, Taiwan and Mainland China; talks of a growth triangle in the Tumen Basin in Northeast Asia that brings in Japanese and South Korean capital and expertise, Chinese and North Korean labor and perhaps even a role for Russia is now moving toward more tangible actions toward its realization; and as the Indo-Chinese economies open up, sub-regional cooperation between them and Thailand will likely follow. The formation of sub-regional economic cooperation groupings should not be regarded as a step backward. It is a more feasible and practical alternative at this stage and should contribute to prepare these economies for greater region-wide economic cooperation in the future.

Economies in the Asia-Pacific will continue to work toward constructing a framework for regional economic cooperation. There remain obstacles and difficulties, but the conviction in the benefits to be derived from cooperation and the global trends for multilateralism and international economic dependency will sustain the efforts.

September 1992

## NOTES

1. *Far Eastern Economic Review*, 20 August 1992, p.9.
2. Robert F. Holden, "Senate Puts H.K. Policy Act on Hold Until September," *USIS News Release*, 12 August 1992.

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