Kuang-sheng Liao is the Chairman of the Department of Government and Public Administration and Program Director of the Japan and Asia-Pacific Development Research Program of The Hong Kong Institute of Asia-Pacific Studies at The Chinese University of Hong Kong. He obtained his B.A. from National Taiwan University and Ph.D. from the University of Michigan (Ann Arbor). His major publications include *Antiforeignism and Modernization in China* (1984, 1986, 1990), *Economic Development of Taiwan and China and Regional Interactions in Asian Pacific* (ed., 1991, in Chinese) and *Politics of Economic Cooperation in the Asia-Pacific Region* (ed., 1993). He has contributed articles to *World Politics, China Quarterly*, and many Chinese journals in both Hong Kong and Taiwan.

A new configuration of power relations is now emerging in the Asia-Pacific region in the post-Cold War international order. This realignment of power relations will be important to the stability of the region. The roles of the United States, Japan, China and Korea in this process, as well as those of Southeast Asia and the Oceania, have been a major topic of discussion. Other events in international relations, including the rise of trading blocs and territorial disputes are arousing growing concerns. The purpose of this book is to explore how this realignment process works and the views of respective powers of the region. The chapters in the volume are written by ten experienced scholars on Asia-Pacific affairs, sharing their views on East Asia in the post-Cold War international order.

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Kuang-sheng Liao

THE NEW INTERNATIONAL ORDER IN EAST ASIA

Research Monograph No.16

THE NEW INTERNATIONAL ORDER IN EAST ASIA

Edited by
Kuang-sheng Liao

Foreword by **Allen S. Whiting**

Hong Kong Institute of Asia-Pacific Studies
The Chinese University of Hong Kong

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Acknowledgements

It is commonplace nowadays to hear that many great changes have occurred in the post-Cold War era. Since no period is immune to dramatic changes in the global environment, it is natural for us to stretch our minds beyond the familiar concepts and confines of the Cold War. In the realm of international relations, cooperation among countries has become an irreversible trend. Cooperation — but not without competition — has replaced confrontation. The four major powers in the Asia-Pacific region, namely, China, Japan, the United States and Russia, are all cultivating webs of cooperative relationships among themselves and with other powers within the region. This progressive development is conducive to regional stability and prosperity.

The importance and immediacy of these transformations have prompted much academic and expert discussion on regional security, economic cooperation, and political and social issues throughout the Asia-Pacific region. Hong Kong, with its location in the heart of Asia, excellent communication facilities and enthusiastic support of the territory's academics, professional experts and private enterprises, has been the host of many of these conferences. Hong Kong has always served as a shining example of dynamism and partnership for the advancement of its own and global interests. Therefore, many hope that Hong Kong can continue to successfully function as a venue for intellectual discussion and international cooperation by maintaining its neutrality and openness even after China regains its sovereignty over Hong Kong in 1997.

As part of the Japan and Asia-Pacific Development Research Program's enduring commitment to further academic research on Asia-Pacific international relations, it organized the "Conference on The New International Order and Asian Pacific Development" at The Chinese University Hong Kong in September 1992. The collection of papers in this volume were selected from this conference. This is the fourth book published by the Japan and Asia-Pacific Development Research Program under the auspices of the Hong Kong Institute of Asia-Pacific Studies.

This conference served as a focal point to bring together some forty scholars and experts of diverse intellectual heritage, methodological

inclination and normative orientation in a common endeavor to understand the changing international order and its impact on the Asia-Pacific region in general, and East Asia in particular.

The draft papers presented and discussed at the conference were subsequently revised and restructured to incorporate individual and collective criticisms and to account for the crucial developments that rapidly unfolded in the remaining months of 1992. The contemporary focus of these papers, I believe, reflects the timeliness of the issues and captures a firm sense of the changes brought forth by the evolving new international order in the region.

Several specific acknowledgements are in order. First of all, I am indebted to the generous support of the Hong Kong Taiwan Chamber of Commerce in organizing this conference and the assistance of the Hong Kong-Macao Association at Taipei in preparing the conference. I am also grateful to Allen S. Whiting who, along with the writing the foreword, offered numerous useful and constructive comments.

Many thanks to all the people whose time and efforts were indispensable to the production of this book. Technical assistance from the publication staff of the Hong Kong Institute of Asia-Pacific Studies at The Chinese University of Hong Kong is much appreciated. I thank Miss Anny Wong of The East-West Center and The University of Hawaii at Manoa for her editorial assistance. Special thanks to Mr Edwin Chan, my research assistant, who worked closely with me in the organization of the conference and throughout the publication process. I am particularly grateful to his always sincere and diligent assistance in the revision of my chapter in this book.

Finally, though my personal convictions differ from some of the views expressed in this volume, these papers were selected because of their distinctive value to understanding the complex and challenging Asia-Pacific environment in the post-Cold War era. I hope that readers will find them enriching and thought provoking.

Kuang-sheng Liao
August 1993

Foreword

A New International Order: Reality or Rhetoric?

Allen S. Whiting

The concept of a new international order has come to supplement the classic notion of a balance of power in the imagery of statesmen and scholars when addressing the global system. The new concept, unfortunately, has some of the operational problems of the old one. As Deng Xiaoping once used it in addressing the United Nations, the new order is prescriptive in nature and economic in focus. It is a proposed remedy for the imbalance of wealth between the North and the South. As President George Bush used it in celebrating victory in the Gulf War, the new order is descriptive of reality and political in focus. It declares that preservation of the status quo is guaranteed by collective security.

After the Bush statement, Beijing accused Washington of trying to impose its hegemony on the world while China instead called for universal adoption of the Five Principles of Peaceful Coexistence, emphasizing the avoidance of force in resolving disputes. Washington persisted, however, in expanding United Nations authority to support multilateral military action, most notably against Iraq. The two capitals clearly differed on what the new order was and how it was to come about.

In addition to the confusing between prescriptive and descriptive uses of new order terminology, its varied application to political, military, and economic relations further complicated analysis. All could agree that the Cold War between superpowers ended with collapse of the Soviet Union in 1991. But the simple concept of bipolarity had long since ceased to describe the reality of political-military relations, manifest in the role of China in the so-called strategic triangle of 1971–1981. Bipolarity also proved inapplicable in economic relations, beginning with the oil price hike in 1973 and proceeding with the meteoric rise of

Japan in international trade and investment activities.

Finally, by implication, the notion of a "new" international order suggests there was an "old" order before the Cold War ended. The concept seemed applicable for the 1950s and 1960s when Europe remained tightly divided between East and West and the lines in Asia were not broken by the Korean War. But such systemic order gradually dissipated in the 1970s and 1980s. Washington's ignominious defeat by Hanoi and Moscow's abandonment of its ten-year struggle in Afghanistan mocked the notion of superpowers, much less of an international order. In the later 1980s and early 1990s the collapse of communist regimes in Eastern Europe and the Soviet Union brought disorder to the Eurasian continent for the first time since 1945. But other regions had experienced significant change in the alleged balance of power long before.

This challenge to the conventional concept of a new international order is a useful introduction to the chapters gathered herein. None of the authors claim that order has come about as yet in the Asia-Pacific region, much less globally. Neither do they see it as imminent. On the contrary, Mou-hong Xue emphasizes the "contradictions" extant among Japan, the United States, and the European Community. He depicts the United States as striving to define national as well as international politics in its own image. He sees local nationalism spawning conflict while international economics furthering competition. Order is not likely to come about for quite some time, given this perspective.

Herbert Yee is somewhat less negative in his approach. He offers an interesting glimpse of diversity among PRC scholars when interviewed anonymously on the prospects for a peaceful international order. Nonetheless, he warns there is no ground for optimism concerning Beijing's willingness to compromise its claims of ownership over the Spratly Islands. The economic costs of delaying or even foregoing exploration and exploitation of potentially vast seabed oil and natural gas reserves appear to be outweighed by nationalistic political considerations. Given China's potential weight, whether economic or military, in the power balance of East Asia, these chapters offer a critical perspective from Beijing on how much order and of what kind is feasible in the foreseeable future.

The perspective of an equally major player, Japan, is carefully examined by Kumao Kaneko through the dual prism of Diet debates and public opinion polls. Both the general question of Japanese defense policy and the specific question of peacekeeping operations in the Middle East and Cambodia provide a wealth of data supporting the proposition that Tokyo is a long way from substantial participation in collective security. It is even further removed from unilateral militarism. That Japan is not perceived this way by its Asian neighbors, particularly those close by, inhibits its will and ability to contribute what is expected of it by the United States. The paradox of politics within Japan versus its external politics confounds forefasts Japan's future security role in whatever order emerges in the Asia-Pacific region.

This problem is less serious in economic affairs, however, as spelled out in detail by Tsutomu Kikuchi. His recapitulation of Japan's record in promoting regional economic discussion over the past two decades strikes a positive note for the future economic prospects in marked contrast with the more pessimistic security analyses. Seo-hang Lee strengthens this emphasis in his survey of a so-called Northeast Asian Economic Circle, symbolized by six-power planning for the Tumen River Project. The project is a long way from financing, much less implementation. Yet the very fact of ongoing feasibility discussions and surveys under United Nations Development Program auspices justifies the term "new order" in Northeast Asia. One need only contrast this recent development with the past century and more of international relations in this part of the globe to appreciate the cause for cautious optimism.

Lee points out the relevance of Professor Robert Scalapino's useful term of "concentric arcs" for understanding détente in Korea. The term connotes relationships and structure without hierarchy, an attractive response to national status sensitivities with a minimum of formal organization. It also offers a prescription for a "new order" that has found real meaning in the defusing of conflict in Cambodia. There, the concentric arcs of local factions and external powers induced a cessation to hostilities, at least temporarily.

The image of concentric arcs suggests an approach, if not a solution, to a wide range of conflict potential situations covered by Anny Wong's

comprehensive survey of Southeast Asian security problems. In this regard, the addition of the Post-Ministerial Conference to Association of Southeast Nations meetings (ASEAN-PMC) in 1992 is a major step forward. At the same time, her review of defense policies and postures is a valuable reminder of how national prestige and perceptions of other powers can stimulate arms races that may obstruct the resolution of territorial disputes.

Gerald Chan's examination of Australia's entry into Asia-Pacific affairs through proposals for economic cooperation illustrates the dramatic change in attitude "down under" from that which prevailed down to the 1970s. Here, too, the adjective "new" deservedly distinguishes Australia's recent role from that of the traditional past. Lacking the somewhat mixed images of Tokyo and Washington held by other Asian capitals, Canberra can be a disinterested intermediary in attempting to bring regional order out of national economic competition. At the very least it has initiated regional discussion at a more official level than had been achieved by earlier meetings of businessmen and scholars.

However, there remains a considerable gap between the level of discussion at various regional fora that have evolved over the past decade and the actual political and economic interactions that will determine a new order. This is well illustrated by Milton D. Yeh's examination of the triangular trade between Taiwan, Hong Kong, and mainland China. The political dimension of this trade, particularly as it is perceived from Beijing and Taipei, links with the hard fact of a civil war that has lasted in one form or another for nearly seventy years between the Nationalist and Communist parties of China. The two sides can attend international meetings but not as national equals, Taiwan being constrained to adopt a nomenclature acceptable to Beijing. They can trade through Hong Kong but not directly, at least not openly with official sanction from Taipei. Unlike North and South Korea, they do not accept dual recognition or sit in the United Nations, although both acquiesce in thinly disguised formulas that let them coexist in other countries to conduct normal business.

Yeh brings into sharp focus the fragility of any order that is defined as the status quo. Hong Kong and Beijing are struggling to determine the colony's political structure after 1997. How that is resolved will impact on the relationship between Beijing and Taipei. And that relationship will

impact in turn on the Asia-Pacific region, in economic if not in political-military terms.

This brings us back to our initial comparison of the two dominant concepts, international order and balance of power. The balance of power, traditionally defined as tangible military capability, could be calculated with reasonable assurance at any given moment. However, it could not be projected indefinitely because military capability did not necessarily remain static within a country or an alliance system. Despite the fact that achieving a power balance at one time did not cement it in place forever, the careful monitoring of defense budgets and weapons acquisitions could forewarn attentive states of challenging changes that might be anticipated and prepared against.

This sense of international order through balanced power maintenance, transient as it proved to be in the first half of this century, disappeared with the addition of economic calculations and the technological product cycle in weaponry. The rapidity of international monetary flows and exchange rate changes, best illustrated by the sudden turbulence in European currencies of late 1992, makes interdependence real in political as well as economic terms. At the same time, the introduction of economic power calculations defies forecasting the balance of power. The national determination of interest rates on the basis of national growth rates that in turn are problematic confounds such forecasts. One need only compare successive projections of German, Japanese, and American economic power offered between 1982 and 1992 with the actual situations in 1993 to see the gap between prediction and outcome.

Meanwhile, the military power balance is potentially ephemeral given the rapidity with which technology can transform capability. The most dramatic instance in the Asia-Pacific region, of course, is the question of a nuclear armed Japan. If, as estimated, Japan can enter the nuclear club within two years of so deciding, what confidence can be placed in projecting Tokyo's present protestations of peaceful intent over a decade? Seen in this perspective it is not surprising that Asian worst case futures can be competitive with more optimistic forecasts. For China the single acquisition of aerial refueling enables power projection over the entire South China Sea. The Falklands War and the Gulf War provide ample illustration of how technology can change the contour of

conflict from that based on conventional weaponry. The transferability of such technology, openly or covertly, thereby undercuts the traditional reliance on defense budgets and visible forces to monitor the power balance.

The asymmetry between the economic and military power of China and Japan challenges any easy assumption of "balance" being attained in East Asia. This conundrum is compounded when we move from present to potential power along the two dimensions, depending on how one projects the economic and military development of these two states in the next century. Forecasting becomes even more complicated in attempting to map how China and Japan will relate to each other and, combined or separately, to the rest of the region.

Kuang-sheng Liao addresses this key relationship in light of the nascent triangle of Beijing-Tokyo-Washington emergent since the Tiananmen Incident. He notes how Beijing responded to Tokyo's softer response to the June 4, 1989 massacre, both immediately in tone and subsequently in initiating the suspension of sanctions. Chinese maneuverability derived from the strategic triangle of Beijing-Moscow-Washington ended with collapse of the Soviet Union. By comparison the opportunity afforded by Japanese-American economic tensions is far less promising from Beijing's standpoint and far less important in balance of power calculations whether in the region or globally.

Nonetheless, Liao shows how Beijing's initiatives and Tokyo's responses evolved into a tactical political gain for the Chinese leadership at a time when its relations with the United States reached their lowest point in ten years and its domestic image needed refurbishing. However, he also notes the ambivalence of Chinese attitudes toward the half-century aggressor and a potential future rival for leadership in East Asia. Meanwhile Japan for its part has primary dependence on the United States for defense and markets with only a secondary economic interest in China.

Yet all uncertainty notwithstanding, the Sino-Japanese relationship is clearly the most critical factor for any new order construct in the Asia-Pacific region. The likely range of possibility extends from armed confrontation over command of the East China Sea underwater resources to a mixed competition-cooperation coexistence. The two extremes of

major war and military alliance seem precluded by the logic of power and the heritage of history. However, Liao correctly calls attention to the rapidity of change in Sino-Japanese relations over the past decade as a caution against simplistic formulations for the future.

Fortunately one need not envision a new order as such to be optimistic in analyzing problems and prospects in the Asia-Pacific region. The Asia-Pacific chapters in this volume give ample evidence of the individual and collective efforts in economic cooperation in the region. While the symposium does not offer a blueprint for institutionalizing these efforts, it does capture aspects of change whose tendency is toward the reduction of tension. It also represents the hopes of all who strive to achieve a higher level of peace and stability than has previously been possible in recent history.

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Abbreviations

ADB	Asian Development Bank
ANZUS	Australia, New Zealand and the United States (military alliance)
APEC	Asia-Pacific Economic Cooperation
ASPAC	Asia and Pacific Council
ASEAN	Association of Southeast Asian Nations
CIS	Commonwealth of Independent States
COCOM	Coordinating Committee of Multilateral Export Controls
CSCA	Conference on Security and Cooperation in Asia
CSCE	Conference on Security and Cooperation in Europe
DAC	Development Assistance Committee
DSP	Democratic Socialist Party
EAEC	East Asian Economic Caucus
EAEG	East Asian Economic Grouping
E.C.	European Community
ECD	Economic and Commerce Department
G-7	Group of Seven (Canada, France, Germany, Italy, Japan, United States, United Kingdom)
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
KMT	Kuomintang
LNG	Liquefied Natural Gas
IBRD	International Bank of Reconstruction and Development
ICORC	International Committee on Reconstruction of Cambodia
IMF	International Monetary Fund
LDP	Liberal Democratic Party
MIA	Missing in Action (soldiers unaccounted for in wars)
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NDCs	Newly Declining Countries
NIEs	Newly Industrialized Economies
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PAFTAD	Pacific Trade and Development Conference
PBEC	Pacific Basin Economic Cooperation
PECC	Pacific Economic Cooperation Conference
PKF	Peacekeeping Forces
PKO	Peacekeeping Operations
PMC	Post-Ministerial Conference (of ASEAN)
PPP	Purchasing Power at Parity Price
PRC	People's Repbulic of China
ROC	Republic of China
SAARC	South Asian Association for Regional Cooperation
SEZs	Special Economic Zones
SDI	Strategic Defense Initiative
UNTAC	United Nations Transitional Authority in Cambodia
WEU	West European Union
U.K.	United Kingdom
U.N.	United Nations
UNDP	United Nations Development Program
UNF	United Nations Force
U.S.	United States of America

Part I
The New International Order in East Asia

1

Sino-Japanese Relations in the New International Order

Kuang-sheng Liao

INTRODUCTION

Western countries responded to Beijing's bloody crackdown on the democracy movement in June 1989 with harsh condemnations and diplomatic isolation. China's diplomatic efforts suffered further setbacks in the aftermath of political upheavals in Eastern Europe in the same year. The eventual collapse of the Soviet Union in 1991 left China as one of the few remaining Communist regimes. The Western camp, headed by the United States, centered its criticisms on China's human rights record, and the U.S. Congress even linked it to the annual revision of China's most-favored-nation (MFN) trading status. China was even denounced as the "anachronistic" regime seeking to repress an irrepressible spirit.[1] As a consequence of the new global political atmosphere, the Chinese leadership felt that China had become the prime target of the Western camp's "peaceful evolution" strategy.

China shifted diplomatic emphasis to improving relations with its Asian neighbors immediately after the Tiananmen Incident, and particularly with Japan. Japan's capital, its technology and its market are instrumental to China's dire need to continue its economic modernization. Dictated by its pragmatic strategic considerations, China's Japan policy aims to foster closer bilateral relations. China has more room to maneuver in this diplomatic offensive as it comes at a time of intensified tensions in Sino-U.S. relations over human rights and trade issues, and coincides with Japan's move to a more independent foreign policy and tensions in U.S.-Japan relations due to their bilateral trade imbalances.

Sino-Japanese relations are not merely a bilateral affair between

China and Japan. They do, in fact, have tremendous weight in determining the military balance equation in the Asia-Pacific region. The Sino-Japanese relations have gone through twists and turns ever since the end of World War II. This pattern has still lingered on even after their normalization of relations in 1972. On the whole, the tendency is a one toward cooperation. Only the cultivation of a web of interdependent ties can consolidate this once fragile relationship.

This chapter aims to explore how the Sino-Japanese relations will evolve in the post-Cold War era. It first examines the new realities of the strategic environment of the Asia-Pacific region which shapes the perception of both China and Japan. Their perception of each other is pivotal to the setting of their foreign policy agenda. As China is forging closer relations with Japan, it is essential to ask: How does China weigh Japan in its regional strategic consideration in relations to its own world view? Does Japan share common interests with China in this regard? Is there any room for Sino-Japanese cooperation, to what extent and where can they find cooperation? Or, what can they cooperate and how can they cooperate? Are there any constraints to their cooperation at both the regional and global levels? What will be the impact on the Asia-Pacific region of closer Sino-Japanese relations?

INTERDEPENDENCE AND SINO-JAPANESE RELATIONS: A THEORETICAL FRAMEWORK

Interdependence is the binding force determining the prospect of cooperation. There is general agreement on the need to concentrate attention on areas of bilateral, regional and global interests as bases for further deliberation and cooperation. Primary emphasis on economic cooperation and development has been a logical focus for China and Japan as economic cooperation is obviously a matter of mutual concern to them. Cordial Sino-Japanese relations are based on the premise of economic complementarity reinforced by geographical proximity and cultural affinity. However, they have also gone through ups and downs in their interactions in the last two decades as a result of their different political systems and, the most important of all, China's frequent manipulation of Japan's guilt feelings about its wartime atrocities.

Nevertheless, the trend of Sino-Japanese relations in the post-Cold War era is, on the whole, toward cooperation.

Resolving potential frictions and bottlenecks in the way of mutual benefits forms the fundamental basis of Sino-Japanese cooperation. Cooperation is the outcome of a myriad of objectives. The objectives are concerned with attempts to influence the surrounding environment and to shape the conditions for state action beyond one's own national boundaries.[2] Mutual benefits emerge when the pursuit of goals in the larger milieu are also in the interests of others. It is the expectation of mutual benefits which provides impetus to cooperation. Cooperation occurs when actors adjust their behavior to the actual or anticipated preferences of others through a process of coordination. There are two core assumptions to cooperation. First, cooperation assumes that each actor's behavior is directed toward some goal(s). It need not be the same goal for all actors involved, but cooperation does assume rational behavior on their parts. Second, it implies that cooperation provides the actors with benefits. The benefits need not be the same in magnitude or kind for each actor, but they are mutual.[3] Policy coordination, in turn, implies that the policies of each state have been adjusted to reduce their negative consequences for the other side.

The Sino-Japanese relationship is an interdependent one. The concept of "interdependence" refers to a synthesis of international realism and international political economy as put forward by Robert Keohane and Joseph Nye as early as in the 1970s.[4] Power, in an economically interdependent world, is complex. The ability to affect certain outcomes at acceptable costs will vary from issue-area to issue-area. Power also takes many forms with respect to different situations. What interdependence does, for Keohane and Nye, is to create a new source of power: it produces networks of "mutual asymmetric dependence" which statesmen must consider when defining and defending state interests. Thus, interdependence redefines politics.[5] The imbalances of power between China and Japan on political and economic fronts respectively provides much room for their cooperation.[6] China needs Japan's capital and technology to sustain its modernization program. Japan's importance to China has grown as a result of the Western sanction imposed on China. On the other hand, China's eagerness to foster closer relations with Japan

seems to endorse the latter's desire to play a greater role on the world theater.

THE NEW REALITIES OF STRATEGIC ENVIRONMENT

In the Cold War era, the Asia-Pacific region was one of the major areas — besides Europe — in which the U.S. competed with the former Soviet Union for control and influence. China and Japan, due to their adherence to differing ideologies, inevitably positioned themselves on opposite sides of the Eastern and Western camps. To deter communism from spreading in the Asia-Pacific region under the auspices of the Soviet Union and the People's Republic of China (PRC), based on the Domino Theory the United States saw no reason against the conclusion of the U.S.-Japan Mutual Security Treaty to contain the Soviet Union after World War II. This was consistent with the basic principle of U.S. foreign policy ever since the turn of this century which has been its opposition to any hegemony in Asia.[7] As Soviet expansionism intensified in the Brezhnev era, the U.S. joined China to oppose "Soviet hegemony" through bilateral diplomatic rapprochement in 1972. China was also wary of Soviet expansionism; thus, the "anti-hegemony" clause was added in the 1972 Shanghai Communiqué to enlist American support to counteract the Soviet threat.

China used to be able to exploit its function as a "trump card" in the former East-West confrontation. Given its vast territory, strategic geographic location and projectable nuclear capability, China was viewed as an important factor in the military balance equation in Asia. The U.S. objective to contain Soviet expansionism in the 1970s coincided with China's perception of imminent Soviet threat on its northern border. The end of the Cold War and the ultimate collapse of the Soviet Union has put an end to China's strategic importance. China is no longer as important as it used to be in U.S. strategic consideration, leaving the United States a relatively free hand to hold China responsible for its grimmer side, notably its arms trade and abominable human rights record.[8]

The Chinese leadership believes that the old world equilibrium has ended and the globe is moving toward multipolarity. However, this

transition from bipolarity to multipolarity is neither smooth nor tranquil.[9] U.S. victory in the Gulf War and the ultimate collapse of the Soviet Union confirmed its status as the only remaining superpower. The collapse of the Soviet Union has left China as the only mature, nuclear-armed totalitarian regime. Even though China tries to present itself to the West as the non-threatening variety of a Communist system, its growing economic strength and extensive purchase of arms and advanced technology, mainly from other former Soviet republics, are creating the nucleus of a formidable military machine with long-range capabilities. Its acquisition of modern weapons and its progressive development of military technology will one day enable it to flex its muscles in the surrounding region. Many of China's neighbors share a concern over this Chinese potential. For instance, Singapore's Defense Minister Yeo Ning Hong once said that "an economically stronger China may choose to exercise its strength in manner that is not in the interest of the region."[10]

China's ideological difference from the West and the readjustment of U.S. strategic consideration have made China the main target of the West's "peaceful evolution" strategy. The United States continues to oppose domination by any one state in East Asia. "Access" is now the keyword as the U.S. security posture in the region adjusts to the new conditions in the East Asian security environment. What the United States worries about is the potential threat from an economically strengthened China. U.S. Secretary of Defense Richard Cheney stated that "the United States is committed to the promotion and expansion of human rights and democracy, and no single state should assume unchecked power over this important region."[11] In U.S. parlance, the "unchecked" power is a euphemism for China, and one of the U.S. goals today is to keep China from threatening U.S. interests in the region in the new international order.

CHINA'S SURGE FOR COMPREHENSIVE NATIONAL STRENGTH

Three main trends of development in the emerging new political order shape China's foreign policy agenda. First of all, confrontation is now replaced by cooperation, and development is the common concern of the

global community. The recent arms reduction of both the United States and Russia has diminished the threat of total destruction. The world, on the whole, has enjoyed unprecedented peace ever since the end of World War II although some regional hot spots remain. Secondly, the cleavages between socialism and capitalism have been narrowed down. The remaining socialist states, plagued by domestic economic stagnation, have implemented economic reforms for their economic and political survival. Thirdly, there is growing emphasis on economic development instead on the competition for military superiority. The arms race between the United States and the former Soviet Union has made the former the largest debtor nation and brought the latter to its economic collapse. Their current plight is the most convincing admonition against excessive spending on military buildup.

These three major trends of development indicate to China that the contemporary world is no longer viewed as a struggle between socialism and capitalism but as a competition for "comprehensive national strength" among countries with diverse economic and political systems. Only nations that are fully integrated into the international economy and which maintain friendly relations with a wide range of trading partners and control military expenditures can engage successfully in that competition.[12] China has directed its resources to economic development ever since the affirmation of the Four Modernizations and the Open Door Policy at the Third Plenum of the Eleventh Central Committee Meeting in 1978. Even power struggles within the leadership are centered on the means to realize the goals of economic development. Despite the upheavals in Eastern Europe and the collapse of the Soviet Union, China still keeps its door open to foreign capital, investment and technology transfer, all for the objective of economic growth.

China's desire to build up its "comprehensive national strength" is expounded in its Four Modernizations and Open Door Policy. Economic reforms can foster advancements in the fields of agriculture, industry and technology simultaneously and ultimately contribute to strengthen its defense capability. Agricultural reforms have emancipated productive forces since 1978 and have been the foundation of rural stability. Diplomatic normalization of relations with the global community have enabled exploration of overseas market as outlets for its industrial

products, while the Open Door Policy has facilitated capital and technology transfer to China. Together, these "three" modernizations can actualize a comprehensive strengthening of China's defense capability. An article in early May 1978 pointed out that "without the Four Modernizations, building a powerful socialist country is out of the question.... We smoothly continue our march toward the bright future of communism."[13] Generally speaking, the Four Modernizations and the Open Door Policy have a dual emphasis on internal wealth and external power.[14] The forging of comprehensive national strength is a means to attain the goal of building up a strong communist state which can keep foreign intervention at bay.

China's perception of the emerging strategic environment further reinforces its struggle for "comprehensive national strength." The perception is that (1) the United States is at the pinnacle of the power pyramid in terms of comprehensive national strength; (2) the United States and Russia remain as the military superpowers; (3) in terms of economic strength, it will be a tripod of the United States, the European Community and Japan; and (4) China will be one of the leading political powers, together with the United States, Russia, the European Community and Japan.

The foregoing analysis reveals that China only has an edge in terms of political influence. This edge is derived from the privileges of its permanent membership in the United Nations Security Council, especially its veto power. For instance, China abstained from voting on U.N. Security Council resolutions to send troops to liberate Kuwait from Iraqi invasion and occupation leaving the United States a free hand in the Gulf War against Iraq. China is, however, not content with mere political influence. It has become more pragmatic in its foreign policy calculations. Anticipation of actual economic benefits overrides ideological consideration as exemplified in its normalization of diplomatic relations with South Korea in August 1992. China's fundamental objective is to strengthen its comprehensive national strength through bolstering economic development and striving for social progress. General Secretary Jiang Zemin reiterated that "China must further emancipate and develop the productive forces, enhances its overall national strength and improve the living standard of the people through reforms and opening up."[15]

CHINA'S FOREIGN POLICY AGENDA

China has its own version of the new international order. It strongly opposes the U.S.-dictated monopolarity which is perceived as threatening its own survival through the "peaceful evolution" strategy. The new international order, in China's views, should be established on the Five Principles of Peaceful Coexistence, insisting on the principle of non-interference in each other's internal affairs.[16] By the same token, the consideration of resisting and counterbalancing the U.S. hegemonism dictates China's foreign policy. Nevertheless, the United States will remain temporarily at the apex of the post-Cold War power pyramid; Germany and Japan are indisputably the world's economic dynamos and Russia, though plagued by domestic problems, will still be an important military power.[17] China's major diplomatic challenge in this emerging new international order is to "re-enter" the global theater while concurrently eschewing "foreign intervention in its domestic affairs."

Foreign policy is the extension of domestic politics and the tool to realize domestic political goals. Domestic economic development is now the basic goal of the Chinese government. The Tiananmen Incident severely discredited the Communist regime at home and abroad. Its survival now depends primarily on the success of economic reforms to improve the people's living standards, hence, diverting domestic discontent. It is, therefore, natural that China's foreign policy is increasingly dictated by its possible implication for its economic reforms and modernization, to the extent that political compromises are sometimes made to assure harmonious relations abroad.

Peace and stability, both regional and international, are necessary conditions for China's economic reforms and the successful implementation and realization of the Four Modernizations. The Chinese leadership has been reiterating the importance of peace and stability on numerous occasions.[18] China's foremost objective is to maintain a stable regional and international environment which is favorable for China attracting foreign investment and concentrating on economic development, which in the end bolsters its comprehensive national strength. In Beijing's view, an international environment of lasting peace and stability is vital to its survival, and Beijing is committed to the maintenance of world peace.

The basic points of its foreign policy are summarized as follows:

(1) China decides upon its positions and policies on international issues independently;
(2) China's foreign policy aims to maintain world peace and create a peaceful international environment for its national modernization drive;
(3) China is ready to develop relations with all other countries on the basis of the five principles of mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit and peaceful coexistence;
(4) A cornerstone of China's foreign policy is to strengthen solidarity and cooperation with other developing countries in the third world and expand friendly and good neighborly relations; and
(5) China advocates the establishment of a new order in international relations in the political and economic fields on the basis of the Five Principles of Peaceful Coexistence.[19]

Asian countries have been the primary targets of China's diplomatic overtures as the West isolated China following the Tiananmen Incident. China's core objective is to reshape Asian politics to its own benefit. As far as Asia is concerned, China has not only gained the spotlight in the diplomatic arena, but it is "hogging" it.[20] China's active diplomatic campaigns after the Tiananmen Incident are due to the pragmatic desire to forge diplomatic leverage to deal with the West, the United States in particular, from the most advantageous position possible. It will not be easy for the West to accommodate China, and China is no longer the geopolitical trump card that it was in the era of East-West confrontation. Issues that have long plagued China's relations with the West, namely, the trade imbalance, nuclear proliferation, arms control and human rights violation, have become greater impediments since they are no longer over-shadowed by Cold War politics. In China's eyes, the country must expand its influence in the Asia-Pacific region to strengthen its bargaining position vis-à-vis the West and the United States. China is a member of the Asian Development Bank (ADB) and is seeking entry to the

General Agreement on Tariffs and Trade (GATT). Though not a participant in most regional economic fora in the past, it now keenly follows discussions and endorses most proposals that do not exclude China's participation in some direct or indirect way. China was admitted to the Asia-Pacific Economic Cooperation (APEC) in 1991, a sign of its positive attitude toward regional economic cooperation and its pragmatism in foreign policy.

China has tried to diversify its international contacts to maximize its maneuverability in the post-Tiananmen period.[21] It lost no time to improve ties with its Asian neighbors after the West imposed diplomatic and trade sanctions. Geographic proximity and shared experiences in their economic development and political structures provide the rationale for further strengthening of bilateral relations. China and many of its Asian neighbors share common reactions to Western criticisms of their human rights violations. Moreover, the tide of protectionism in Europe and the United States have drawn them closer. What China needs is a stable and peaceful Asia that is favorable to its domestic economic development, as reflected by its positive contribution to the Paris Agreement to settle the Cambodian conflict. In his trip to Singapore and Malaysia in January 1992, President Yang Shangkun expressed China's intention to disallow any military interference with peace and development in the Asia-Pacific region.[22] Peace and development are now the common interest that bind China and the Asia-Pacific countries. China finds it imperative to promote disarmament and security in the region to ensure regional peace and economic development. Cooperation on the basis of equality and mutual benefit, in China's view, will facilitate the maintenance of stability and development.[23]

China's move to strengthen its role in Asia also rests on economic considerations. The Asia-Pacific region continues to achieve high rates of economic growth, and its global political and economic significance continues to grow. The greater degree of peace and stability in the region today will enable the development of vast potentials for economic cooperation and other mutual benefits. China, in this post-Cold War era, undoubtedly attaches great importance to its relations with neighboring Asian countries.[24] In the recent Asia Pacific Security Conference attended by the U.S., China, Japan and Russia, Chinese Premier Li Peng

unequivocally stated China's Asian strategy. Li declared that "China is an Asian country and thus is deeply concerned with regional security and stability."[25] In another forum, the 48th United Nations Asia and Pacific Economic Council Conference in Beijing in April 1992, Li added that "stability and development in the Asia-Pacific region create a favorable international environment for China's reforms and economic development and opportunities for cooperation."[26]

CHINA'S JAPAN POLICY

The state visit of Japanese Emperor Akihito and Empress Michiko to China in October 1992 marked a significant breakthrough in China's diplomacy. It not only commemorated the 20th anniversary of the Sino-Japanese normalization, but also opened a fresh page in their bilateral relations. For its part, the Chinese government has been eager to host an official visit by the Japanese Emperor since bilateral diplomatic normalization in 1978. The recent royal visit was viewed as having enhanced China's prestige.[27] The Chinese government also used the event to signal to the United States that it will feel obliged to play the "Japan card" if the United States chooses to treat China as a pariah state.[28]

Forming A New Strategic Triangle

China's handling of Sino-Japanese relations, nevertheless, puts the linkage between Japan and its security into consideration.[29] Before the fall of the Soviet Union, its perception of Japan was shaped mainly by the Cold War atmosphere.[30] Japan is now being viewed in a larger strategic context as both an object of superpower interest, especially that of the United States, as well as an important regional actor in its own right. This larger context conditions China's position on Japan: as its policies toward the superpowers changes, its policies toward Japan also change.[31] The threat from the former Soviet Union was the vortex around which the United States, Japan and China were centered. Although China has never engaged in any military alliance with the United States, it adopts an understanding and cooperative attitude toward the United States while remaining staunch in its "independent" foreign policy. It acknowledged

the importance of the U.S.-Japan Mutual Security Treaty as a means to counterbalance the Soviet Union. The end of the Cold War has convinced China that it has to face a less accommodating United States. The most imminent problem facing China is the regaining of its diplomatic leverage over the United States, and Japan is one of the means to this end.

China's diplomatic campaign in Asia and elsewhere has been intended mainly to compensate its problematic relations with the United States.[32] The "peaceful evolution" strategy of the United States is considered most threatening. The Chinese government has reiterated that China has its unique domestic problems and conditions which are different from those of the West. China, however, is in need of capital, investment and technology as well as foreign markets to sustain its booming economy. Its MFN trading status is still subjected to annual review by the U.S. Congress, with high degree of uncertainties for its renewal. These prompt China to diversify its sources of capital and markets by cultivating new bilateral relations as well as deepening existing ones.

For China, Japan is the leverage to counterbalance the United States. Opportunity has arisen also due to the end of the Cold War. The security threat from the former Soviet Union had bound the United States and Japan for almost forty years. Japan has consistently endorsed the U.S. position on most international issues. The collapse of the Soviet Union has allowed Japan to act more independently. Furthermore, increasingly tense relations with the United States over trade deficits in Japan's favor has enabled China to maneuver in a "new strategic triangle."[33] China is using the economic opportunities available in its Four Modernizations and Open Door Policy to persuade Japan to unite with China as both countries deal with their respective, but similar, trade problems with the United States.[34]

Forging Closer Sino-Japanese Relations

In China's new strategic consideration, Japan is regarded as the major integral component of its foreign policy. Japan was the first industrialized country to relax economic sanctions against and re-establish high-level contacts with China after the Tiananmen Incident. A Japanese Diet

delegation visited Beijing and met with Premier Li Peng and General Secretary Jiang Zemin in September 1989. The frequency of diplomatic contacts between the two countries accelerated after the visit. Li Tieying, a Politburo member, and Vice-Premier Wu Xueqian visited Japan in mid-July and November 1990 respectively. Japanese Finance Minister Ryutaro Hashimoto, Minister of International Trade and Industry Nakao and Foreign Minister Taro Nakayama visited China on different occasions in 1991. On the international front, Prime Minister Toshiki Kaifu tried to press the other G-7 members at Houston in July 1990 to lift sanctions against China, as Japan resumed aid and loans to China. The visit of Prime Minister Toshiki Kaifu brought a promise of yen loans worth ¥129.6 billion (US$1.04 billion) which symbolized the full normalization of Sino-Japanese relations. At the same time, the five-year loan of ¥810 billion (US$6.5 billion) was further relaxed. More recently, Japan handed over a package of ¥700 billion (US$5.4 billion) of soft loans to help China develop its oil and coal fields.[35]

In China's eyes, Japan can serve as a bridge to the West, as demonstrated in its persuasion of the Western camp to lift sanctions. Japan's LDP one-party rule model is perceived as a way to justify and maintain Communist rule in China so long as the economy is booming. Yet, most importantly Japan, as an Asian neighbor, seems to be more lenient toward China. Japan's subdued criticisms of China's human rights record has won goodwill from the Chinese government. This is very critical to the Chinese leadership as it renders credibility to the regime and its beliefs, such as those manifested in its Five Principles of Peaceful Coexistence. In his visit to China in August 1991, Prime Minister Toshiki Kaifu stated that countries should settle their own problems by proceeding from their own conditions. In Prime Minister Kiichi Miyazawa's meeting with former U.S. Secretary of State Henry Kissinger, he stated that "Japan need not be anxious as to the way China rules its people.... Japan should have a better understanding of China's position and help China in its construction."[36]

China Manipulates Its Leverages

China's prescription in wooing Japan is a carrot-and-stick approach. It

fully recognizes the motive of Japan to become a prominent player in the global arena with the ultimate aim of becoming a political power. Japan has been striving to win a favorable position in establishing a new international order within which it can play a greater and more independent role that is commensurate with its economic strength. However, the United States is trying to establish a version of a new international order that comes under its domination, while the European countries are stepping up their unification process to strengthen their collective position in international politics and economics. Clashes between Japan and the United States and Europe over trade issues are sharpening, while there has been no significant breakthrough in Russo-Japanese relations.

China is aware that its support is essential to Japan's move to play a greater role in the new international order. China can be used as a trump card to counterbalance U.S. pressure and to offset its criticism. Japan's wish to obtain permanent membership in the United Nations Security Council will require China's support — or at least its non-opposition — to an amendment of the U.N. Charter.[37] The Chinese government has done virtually nothing to discourage Japan from seeking permanent membership in the U.N. Security Council.

With this kind of leverage in mind, China has been cautious and tactful in fostering Japanese goodwill. In his visit to Japan, General Secretary Jiang Zemin remarked that the Chinese government and people hope to see Japan continue to move along the course of peaceful development and play a positive role in maintaining peace in Asia and the rest of the world.[38] At the same time, China withheld any severe criticism of Japan's deployment of Self-Defense Forces to participate in the U.N. peacekeeping mission in Cambodia. Its mild request of prudence is in stark contrast to that of the other Asian countries. The Chinese government has also refused to act on behalf of some 300,000 private citizens in China to appeal for compensation from Japan for wartime atrocities.[39]

Cautious Handling Of Sino-Japanese Relations

Nevertheless, China has been calculating carefully its interests and handles the Sino-Japanese relations within a framework of "bilateral relations

in the midst of multilateral relations."[40] China does not want its closer relations with Japan to convey a message that is hostile to peace and security in the Asia-Pacific region. On the one hand, most Asian countries, including China itself, have been victims of the Japanese aggression in World War II. Bitter memories have once again been stirred up as Japan tends to cover up its wartime atrocities in the school textbooks. "Personal" pilgrimages to the Yasukuni Shrine by government officials has induced criticisms and worries from its Asian neighbors. On the other hand, most Asian countries were victims of Chinese-supported communist subversion in the 1960s. Though China has halted support to indigenous communist movements in the region, they still have an implicitly captious attitude toward China. Thus, it is important that China does not foster closer Sino-Japanese relations at the expense of cordial relations with other Asian countries. For instance, though China highly valued the state visit of Emperor Akihito, the visit was announced on August 25, 1992, a day after its normalization of relations with South Korea as a sign of balance in its relations with other Asian neighbors.

China's views of Japan are in fact highly ambivalent, with contradictory postures coexisting simultaneously. It has frequently raised the question of Japanese wartime atrocities to gain concessions and additional assistance from Japan. A posture of moral superiority by imposing a sense of guilt and the burden of concession on the part of Japan is frequently raised. The tone is one of lecturing and hectoring. It frequently recites a record of Japanese shortcomings and warns of trouble ahead if these shortcomings are not corrected.[41] The diplomatic sanctions that immediately ensued the Tiananmen Incident drew China closer to Japan, with appreciation for Japan's understanding and help in economic modernization. However, as China re-enters the global arena and sanctions have gradually been relaxed, Japan's importance to Chinese diplomacy has declined. In his visit to Japan in April 1992, General Secretary Jiang Zemin raised the question of Japanese wartime atrocities once again while he called for upholding Sino-Japanese friendship and cooperation in the years to come.[42] In Chalmers Johnson's words, "Japan's greed and guilt... permitted China to take political advantage of Japan in their bilateral relations."[43]

JAPAN'S FOREIGN POLICY AGENDA

China's diplomatic efforts to woo Japan coincide with Japan's move toward its own "independent" foreign policy in the new international order. Japan is gradually departing from its past low-profile stance and no longer seeking U.S. approval on all matters. It is now advancing its own version of an international order and is also launching a diplomatic offensive to advance it. Japan attempts to fill the vacancy in the Asia-Pacific region left by the withdrawal of the former Soviet Union and the diminishing influence of the United States.

Japan's voice and role in the international arena was restricted by its membership in the Western camp throughout the Cold War. Moreover, its inadequate military capabilities hindered its diplomatic assertiveness. Japan's primary strategic role was to counter the Soviet Pacific Fleet and to balance the Northeast Asian military equation, and this was only made possible by the U.S. military presence under the U.S.-Japan Mutual Security Treaty. Its asymmetrical relations with the United States had compelled Tokyo to endorse Washington's security and foreign policy initiatives, some of which the country did not agree with entirely.

Enlargement Of Japan's Role

The concept of a Western camp has become obsolete in the new international order. Simultaneously, a reference to economic dynamism in Asia is no longer restricted to Japan. The Newly Industrialized Economies are now playing an increasingly important role in both the regional and global economy. Therefore, Japan's foreign policy, with full consideration of its limited diplomatic leverage, must be adjusted to the new international environment. The *1991 Diplomatic Bluebook* formally announced that Japan's foreign policy was moving toward "a period of change."[44]

As Japan embarks on a new stage of international diplomacy, the country must make changes in at least two areas. First of all, Japan must end its overdependence on the United States and develop its own foreign policy. It is believed, that since the Japanese leadership has always had the proclivity to view the United States as the "big brother," Japan cannot

formulate its own independent foreign policy.[45] Foreign pressure, from the United States in particular, has substantial effect on Japanese politics. However, foreign pressure, as the term suggests, originates from foreign sources. It represents the national interests of that country and contributes little, if at all, to the formulation of policies that are beneficial to Japan. Thus, the *1991 Diplomatic Bluebook* asserted that Japan must enlarge the scope of its international coordination policy.[46] Nonetheless, Japan aims to maintain the U.S.-Japan Mutual Security Treaty. Despite their trade frictions, there are broad opportunities for security and economic cooperation with the United States in both the regional and international context. Furthermore, this alliance, in Japan's view, gives Japan an edge in its negotiations with Russia on the Northern Territories.

The second area in which change is necessary is that Japan must decide on its diplomatic role and responsibilities in Asia. In the 1970s, due to its interests in market expansion and economic benefits, the scope of Japanese diplomacy encompassed the entire world, with a narrow focus on economic cooperation. More recently, the development of economic "regionalism" throughout the world, such as economic integration in Western Europe and the conclusion of the North American Free Trade Agreement (NAFTA) by the United States, Canada and Mexico, has compelled Japan to reconsider the construction of an "Asian Pacific economic sphere." Conflicts with the United States and Europe may be inevitable as each competes to strengthen its economic power base. Thus, Japan must first design a strategy to "re-enter Asia" if it is to become a regional power capable of influencing the future of the Asian economies. This new attitude was confirmed by the *Diplomatic Bluebook*'s declaration that "international problems and policy coordination among the countries of the Asia-Pacific region have become an important concern of the Japanese government."[47]

Japan aims to expand its influence in the Asia-Pacific region by filling the vacuum left by the gradual diminution of the U.S. presence. Japan is the largest aid donor, foreign capital investor and a top trading partner of all the Asia-Pacific economies. Simultaneously, Japan has displayed greater confidence in regional and international issues. The greater emphasis on economic development in the post-Cold War era allows Japan to translate its economic muscles into new political clout.

Its new diplomatic initiative places great emphasis on its Asian policy, specially in enlarging its role in regional security. The past emphasis on bilateralism centering on economic cooperation, trade, investment and development aid is no longer adequate.[48] Many regional issues, such as environmental pollution, the Indochinese refugee problem, tension reduction on the Korean peninsula, the Cambodian peace settlement and territorial disputes, require cooperation from all the countries in the region. Japan's new diplomatic initiatives must be able to solicit multilateral coordination and cooperation.

The Japanese presence in other regional and international issues and organizations has also been significantly enhanced. More Japanese nationals have assumed key positions in international agencies that include the World Health Organization, the United Nation's High Commission on Refugees, the Asian Development Bank and the International Monetary Fund. For several years now, Japan has made vigorous effort to acquire a permanent seat in the U.N. Security Council — a position it deems as commensurate with its global economic status. Japan has displayed particular assertiveness in realizing this goal in the new post-Cold War era under the prime ministership of Kiichi Miyazawa. At the U.N. General Assembly in January 1992, Miyazawa openly sought adjustments in the U.N. Security Council to "reflect the realities in the new era." He later repeated this demand in his meeting with U.S. President George Bush in Washington in July 1992 by openly declaring that Japan is qualified to be a permanent member of the U.N. Security Council.

Japan is becoming an active and key player in many regional and international initiatives, particularly those in the economic sphere. Japan is now a leading member of the Asia-Pacific Economic Cooperation (APEC) forum and the Pacific Economic Cooperation Conference (PECC) and a regular discussion partner in summit meetings and ministerial conferences of the Association of Southeast Asian Nations (ASEAN). Japan led the largest national delegation to the recent Earth Summit in Brazil and has been more outspoken in the G-7 summits and GATT meetings.

Japan's involvement in the Cambodian peace settlement is a good example to illustrate its ambitions to assume a more significant international role. It began its involvement in the Cambodian issue by adopting

the ASEAN position in the early 1980s. Gradually, Tokyo expanded its role by hosting in Tokyo negotiations among the various Cambodian factions and gave promise of economic investment, loans and aid to Vietnam and Cambodia following a peaceful settlement. The appointment of a Japanese national, Akashi Yasushi, to head the United Nations Transitional Authority in Cambodia (UNTAC) is an unequivocal manifestation of Japan's larger role in the peace process.[49]

The ruling Liberal Democratic Party (LDP) had tried to overcome constitutional constraints on overseas dispatch of military personnel since the prime-ministership of Yashuhiro Nakasone to bolster the country's international prestige and influence. The LDP finally pushed the "United Nations Peacekeeping Operations" bill through the Diet in June 1992 despite considerable domestic opposition, and it was finally approved by the cabinet on September 8, 1992.[50] Foreign opposition has been less vociferous than expected, but its Asian neighbors generally advise prudence and remind Japan that they are wary of Japanese re-militarization.[51] The first official overseas deployment of Japanese military personnel under the PKO bill was Japan's participation in the peacekeeping mission in Cambodia in October 1992.

Essential Support From China

In a nutshell, enlargement of Japan's leadership role in the Asia-Pacific region is obviously a central component of the country's post-Cold War foreign policy to shape the emerging international order. Signs of this new dynamism and assertiveness is already apparent. Nonetheless, realization of this objective depends not only on Japanese determination, but also the success of its diplomatic initiatives toward other Asia-Pacific powers — one of the most important being China.

It is apparent that China and Japan are important to each other. They share common interest in fostering a peaceful and stable environment, and this provides the rationale for their cooperation. Harmonious political ties are essential to both China and Japan. To Japan, it is a major pillar of Japan's foreign policy of having good Sino-Japanese relations, and improvement of bilateral relations with China benefits not only Japan but also contributes to regional peace and stability.[52] Japan is fully aware that

China can both be a source of stability and instability in the Asia-Pacific region. A stable China will facilitate Japanese trade and investment, serving as both a huge market for goods and capital. An unstable China will jeopardize trade and investment, and it will have negative spill-over effects on Japan and the region as a whole. No matter how small the magnitude of instability in China, Japan will suffer. For its national interest and in response to shifts in the international strategic environment, Japan's Foreign Ministry has even suggested that Sino-Japanese ties be promoted to a level second only to the U.S.-Japanese relations.[53]

CONCLUSION

In the new international order that is evolving in the post-Cold War era, both China and Japan consider their bilateral relations, as well as a new policy toward the Asia-Pacific region, crucial to their national interests and regional peace and stability. The two countries can easily find the rationale for cooperation in the economic sphere as both can derive considerable economic and political benefits. Cooperation in regional security is, however, more difficult as they are divided by some competing regional interests and the legacies of history. Precisely because of the possible dangers perceived from close Sino-Japanese relations and suspicion from their neighbors, China's Japan policy has its limitations. Although China has repeatedly declared that it has no territorial ambition and advocates peace, its staunch attitude toward the Spratly Islands presents a reverse side of the story. China's strong assertion of extensive territorial claims in the South China Sea, which is in conflict with the claims of Vietnam, Malaysia, the Philippines, Taiwan and Brunei has aroused distrust.[54] Moreover, China's substantial arms purchases from Russia and Ukraine and the 50 percent increase in defense expenditure over the last three years in the face of diminishing external threat has invoked suspicion of China's real intention.[55]

China's long-term political objective is to minimize or eliminate the strategic presence and the influence of the superpowers in the region. In pursuit of its own "independent" foreign policy, it has tried to retain its leverage by maneuvering among the powers. China is eager to break away from the U.S.-dictated global environment. It wants to fit into the

new global political framework, as well as to expand its regional and bilateral relations simultaneously. This three-level approach is demonstrated in its eagerness to rejoin the GATT, its keen interest in various economic fora and organizations in the Asia-Pacific region and its desire to strengthen relations with Japan.[56]

Japan's deep involvement in China's modernization is not merely out of economic consideration but also of politico-strategic considerations. It is hoped that strong economic links with China will accordingly cement political relations and contribute to political stability.[57] Both China and Japan have a stake in the Asia-Pacific region's overall stability. China also sees the Asia-Pacific region not simply as an economic entity but as a vehicle for Japanese and U.S. strategic ambitions in Asia — thus, any future "membership" will require the satisfaction of political as well as economic preconditions.[58] Following the American lead in 1972, Japan has also incorporated China into the concept of "regional security," forming "the new structure of peace," a term coined by Henry Kissinger.[59] It is apparent that the asymmetrical strength on the political front for China and the economic front for Japan creates room for their cooperation.

Japan, however, cannot ignore the sentiments of other industrialized democracies and those of its Asian neighbors in cultivating bilateral relations with China. Japan's predicament is that as a member of the exclusive club of industrialized democracies, it must act in accordance with some of the expectations of the West to maintain that status and to realize some of its diplomatic objectives, including a permanent seat in the U.N. Security Council. China's support is essential but does not outweigh the importance of the other four permanent members or other nations. Moreover, Japan is cautious of too much intimacy with China, thus jeopardizing its diplomatic efforts to assume a greater leadership role in Asia. Bitter memories of its past atrocities are still vivid in the minds of many Asian peoples. Having close relations with communist China will cause unnecessary suspicion of Japan and provoke unnecessary hostility toward Japan.

Though Japan is keen to pursue its own independent foreign policy, it cannot ignore U.S. foreign policy and sentiments. Japan is still constrained by the continuing Japanese strategic alliance with the United

States, and the U.S.-Japan Mutual Security Treaty is still perceived as the cornerstone of Japan's foreign policy. Japan's current regional policy emphasizes the twin goals of (1) support for a stable regional environment and (2) the promotion of its commercial interest. It is, therefore, necessary not to isolate China and to encourage China to continue its economic modernization and openness to the global economy, notwithstanding its political retrogression. However, China's explicit intention to forge a new strategic triangle and to exploit the current U.S.-Japan trade tension to strengthen its leverage has raised fears. China's bid for closer ties with Japan is perceived as preparing for deterioration of its relations with the United States. Japan is cautious of being dragged by China into the latter's new strategic triangle that marginalizes the United States.[60] Nevertheless, the United States remains Japan's foremost ally as affirmed by their "global partnership," and it is certainly not in Japan's interest to undermine the U.S.-Japan solidarity.

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2

An Analysis of Japanese Capability of Playing a Security Role in Asia

Kumao Kaneko

INTRODUCTION

It seems to be widely believed that, in the current post-Cold War world where economic power can influence international relations just as much as, or even more than, purely military power, Japan, an economic giant, could and therefore should play a greater role than in the past, a role commensurate with its economic strength for the maintenance of international peace and security beyond its own territorial limits. This new role might necessarily include certain "military" as well as "non-military" functions in the case of regional conflicts.

The Japanese government and people themselves have been increasingly conscious of this question in recent years but have somehow procrastinated to translate their consciousness into concrete foreign policy actions, even under increasingly heavy pressure from Washington and elsewhere. Living in peace for nearly half a century since the end of World War II, perhaps they have become too accustomed to a Cold War way of thinking or mentality, otherwise called "heiwa boke" (peace syndrome) in contemporary Japanese jargon.

Then suddenly in the mid-summer of 1990, Iraq invaded Kuwait, and the resultant Gulf Crisis literally shook the Japanese people out of their protracted hibernation. Their shock was perhaps the greatest of its kind in the forty-year period since the Korean War. They were compelled for the first time in so many years to face squarely the crucial but sensitive question of how far and in what manner Japan should contribute to the concerted actions of the international community to safeguard law and justice against the aggression.

The question with which they were faced more specifically was whether Japan, under its unique constitutional constraints, could send its armed forces, officially called "Self-Defense Forces" (SDF), outside of Japan to participate in the multilateral coalition forces deployed in the Gulf region.

A few months after the outbreak of the Crisis, the Japanese government submitted to the National Diet a bill designed to enable SDF participation in the coalition forces against Iraq, not in direct military operations but in certain logistic operations in support of the coalition forces, such as transportation, communication or medical care in non-combat zones. The government took the position that such logistic operations did not constitute the type of military activities or "use of force" prohibited by Article 9 of the constitution and that they were, therefore, permissible.

After about a month of heated debates in the Lower House of the Diet, the bill proved abortive on the grounds, among others, that the coalition forces as they were organized were not identical to the "United Nations Forces" envisaged in the United Nations Charter (Article 43). They were actually U.S. forces plus a few other volunteer forces, therefore, lacking in the legality required for Japanese participation.

During the parliamentary deliberations, it was also argued by the opposition parties that, despite the government's view to the contrary, it would be impossible for all practical purposes to distinguish direct combat operations from non-combat logistic operations. Hence, it was argued that SDF, once dispatched to join the coalition forces, might be forced inevitably to engage in some kind of military actions prohibited by the constitution. The government's answer to this challenge fell short of satisfying the opposition parties.

Under such circumstances, the government had to give up the idea of dispatching SDF to the Gulf and decided instead to make a financial contribution, paying eventually as much as US$13 billion, an amount far exceeding Japan's annual Official Development Assistance to the entire Third World. However, it soon turned out that even such a donation, quite substantial by any standard, neither impressed the international community including the United States nor improved Japan's international reputation as much as the Japanese people had hoped. Japanese

frustration, therefore, continued to grow in the wake of the Gulf War.

It is to be mentioned parenthetically, however, that a few months after the end of the Gulf War, in the summer of 1991, a fleet of minesweepers of the Japanese Maritime SDF was sent to the Persian Gulf to cooperate in the minesweeping operations there. This particular mission, self-evaluated by then Prime Minister Toshiki Kaifu as "very successful," was considered permissible under the constitution because the war had already ended — it lasted for only about 40 days — and there was, therefore, no possibility of the Japanese fleet getting involved unwillingly in combat actions in violation of Article 9.

Then came the second chance (or challenge?). In October 1991, the long-awaited Cambodian peace agreement was signed in Paris, and the United Nations Security Council decided to stage a large-scale peacekeeping operation (PKO) in Cambodia, indeed the largest ever in U.N. history. In yet another attempt to make a credible international contribution this time in Asia, the government submitted to the Diet in the autumn of 1991 a new bill aimed this time to authorize SDF participation in the appropriate activities of the United Nations PKO in Cambodia.

Again parenthetically, it is to be noted in this connection that the government has repeatedly made clear its intention to make substantial financial and other contributions to the economic rehabilitation of Cambodia and will have hosted a major ministerial conference for this purpose in Tokyo in mid-June 1992. However, most Japanese people considered mere financial contributions as insufficient in light of their unhappy experience during the Gulf Crisis.

The new bill, named "The United Nations Peacekeeping Operations Cooperation Bill" (hereinafter referred to as the "PKO Cooperation Bill"), already managed before the end of December 1991 to obtain the approval of the Lower House of the Diet where the ruling Liberal Democratic Party (LDP) commanded the majority. Whether or not the Bill will finally be enacted by the approvals of both Houses, thereby paving the way for overseas deployment of SDF for the first time in the post-World War II history of Japan remains to be seen at the writing of this chapter (mid-May 1992). In an event, the decision is expected to be taken one way or the other during the current Diet session which is due

to be over before the end of June 1992 because the next Upper House election is scheduled to take place sometime in July 1992.

Therefore, the objective of this chapter, being written as it is in the middle of such precarious political climate, is to describe first the historical background, dating back to right after the end of the Pacific War, of Japan's national security problems under its special constitutional constraints. Also, it aims to explain the current national debates concerning the PKO Cooperation Bill in and around the Diet for the benefit of foreign observers to whom these debates may sound somewhat esoteric or too theoretical, defying their precise understanding without proper explanation. Finally, it will venture to analyze Japan's capability to play a certain military role in international relations in the 1990s and beyond.

HISTORICAL BACKGROUND OF THE CONSTITUTIONAL CONSTRAINTS AND NATIONAL SECURITY PROBLEMS OF JAPAN (1945–1991)

When Japan surrendered in August 1945, it accepted the conditions of the Potsdam Declaration issued in July 1945, one of which was complete disarmament and the total destruction of Japan's war-making capabilities. Japan was then brought under military occupation by the Allied Powers headed by General Douglas MacArthur.

The new constitution, drafted under the rigorous supervision of the occupation authorities, was approved by the Japanese Diet in late 1946 and promulgated in May 1947. It contained, as it does today, the following provisions:

Preamble (excerpts):

> "We, the Japanese people ... resolved that never again shall we be visited with the horrors of war through the action of the government, do proclaim that sovereign power resides with the people and do firmly establish this constitution ..."
>
> "We, the Japanese people, desire peace for all time and are deeply conscious of the high ideals controlling human relationships, and we have determined to preserve our security and existence, trusting in the justice and faith of the peace-loving peoples of the world. We desire to occupy an honored place in an international society striving for the preservation of peace ..."
>
> "We believe that no nation is responsible to itself alone, but that laws of political morality are universal; and that obedience to such laws is incumbent upon all nations who would sustain their own sovereignty and justify their sovereign relationship with other nations."
>
> "We, the Japanese people, pledge our national honor to accomplish these high ideals and purposes with all our resources."

Article 9:

> "Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes."
>
> "In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized."

The Japanese people, then utterly exhausted by the war and devastation, hailed enthusiastically the pacifism expressed in these constitutional provisions. Not a few of them, including some of the most influential constitutional scholars, went as far as to say that the country renounced even the right of self-defense and therefore renounced all kinds of war, not only war of aggression but also war for self-defense. They contended that virtually all wars in the past, including the Pacific War, were started under the pretext of self-defense.

On the other hand, the government held the view that the right of self-defense, which is a kind of natural right inherent in a state as in a man, cannot and need not be renounced under Article 9. This view was later endorsed by MacArthur himself, acknowledged to be the initial drafter of Article 9. As often pointed out rightly by international law

experts, Article 9 was originally based upon the Kellogg-Briand Peace Pact, signed in Paris in 1928, that proclaimed the renunciation of "war as an instrument of international policy," namely the war for aggression. At any rate, in the completely disarmed and occupied Japan in the latter half of the 1940s, it was only slightly more than an academic question.

Birth Of The Self-Defense Forces

However, less than five years after the end of the Pacific War, an important change took place when war suddenly broke out on the Korean peninsula in June 1950. The Allied Forces stationed in Japan were immediately dispatched to Korea to fight against the communists, leaving Japan in a grave security vacuum. Faced with the imminent danger of communist attack from the North, the Japanese government, under General MacArthur's order, decided in just two weeks to create a small armed force of 75,000 troops, officially called the "National Police Reserve Force." This was the beginning of what is now the 250,000-strong SDF of Japan with its annual budget ranked among the largest after the United States and the defunct Soviet Union.

Two years later, the National Police Reserve Force was renamed "National Security Force," and two more years later, in 1954, it was further expanded and remolded as SDF, with its three components: Ground, Maritime and Air SDFs. At the same time, a new Defense Agency was established to ensure civilian control over SDF.

However, there was considerable difficulty in rationalizing SDF under Article 9, particularly paragraph 2 of the constitution, which expressly prohibited the maintenance of "land, sea and air forces, as well as other war potential." The official interpretation adopted by the government in the later years was that SDF, as it was then organized, was too small in size and far from being adequately equipped in terms of military hardware with which to make wars effective against major powers of today and, therefore, was well within the limitation of the right of self-defense recognized by the constitution. Even so, the Upper House of the Diet adopted in 1954 a special resolution prohibiting the overseas deployment of SDF in order to make extra clear the defensive nature of the Self-Defense Forces. Of course, the drafters of this resolution did not

foresee the possibility of SDF being asked to join United Nations activities such as those of today.

Japan-U.S. Security Treaty Concluded And Revised

Meanwhile, the Cold War between the East and the West became a global reality by 1950. Japan had aligned itself with the Western bloc as a result of the Peace Treaty and the Japan-U.S. Security Treaty both signed in San Francisco in 1951. The latter treaty enabled U.S. forces to continue to station in Japan after the end of occupation because SDF by itself was not powerful enough as yet to defend Japan effectively from large-scale foreign aggression. Under the treaty, the United States obtained the right to maintain military bases throughout Japan. These bases were useful not only for the defense of Japan but also useful, indeed essential, to the U.S. military presence in the Asia-Pacific region as a whole in the fierce rivalry with the Soviet Union — the Vietnam War being one such example as will be seen below.

The Japan-U.S. Security Treaty was revised in 1960 in such a way as to balance the bilateral responsibilities. The revised treaty made it an unequivocal obligation for the United States to defend Japan when attacked. Even under the new treaty, however, the responsibilities of the two countries were not quite equal, unlike in the case of the U.S.-Korea or U.S.-Philippine treaties for similar purposes.

For instance, should Japan be attacked by a third country, the United States will have to help Japan to repel the aggressor, exercising the right (or obligation) of "collective self-defense" as provided for in Article 51 of the United Nations Charter, while Japan is not obliged to do the same should the United States be attacked by a third country because SDF cannot be sent abroad, certainly not as far as the continental United States, or even to the state of Hawaii. Unfair as it might appear in the eyes of Americans, to say nothing of the famous Vandenburg Resolution, such "unfair" arrangement was probably the only practical alternative compatible with Japan's special constitutional requirements.

During the Vietnam War, the United States used Okinawa as an air base for bombing North Vietnam, and this caused both anxiety and resentment among the Japanese people. The Security Treaty became the

target of violent anti-U.S. and anti-government demonstrations. There were even several cases brought before the judiciary challenging, in vain, the constitutionality of the treaty. The Japanese government managed to let the Treaty survive its original ten-year period until 1970. Incidentally, today the Treaty is to last indefinitely until terminated by either side with a one-year advance notification.

It was also during this period covering the Vietnam War that the government adopted the so-called "three non-nuclear principles" of not possessing nuclear weapons, not producing them and not permitting their introduction into Japan. However, serious doubts have often been cast as to the third principle in connection with the entry of U.S. naval vessels into Japan's ports.

JAPAN-U.S. RELATIONS AND THE SECURITY OF ASIA IN THE POST-COLD WAR ERA

On the other hand, a close Japan-U.S. partnership based on the Security Treaty has always been one of the cornerstones of Japanese diplomacy since the end of U.S. occupation.

As Japan developed into an economic superpower from the 1970s onward, U.S. demand grew for Japan to share a greater share of its defense burden. Today Japan is providing more than 140 facilities and areas to U.S. forces and paying more than US$3 billion annually in the form of host-nation support. It is projected that by 1995 Japan's financial contributions will cover approximately 70 percent of the expenses of U.S. forces stationed in Japan, excluding the salaries of military personnel and civilian components. One may safely say that the continued presence of U.S. forces financially backed by Japan is providing credible security assurances for other East Asian countries as well, an important point one must not lose sight of.

Since the end of the Cold War, particularly after the sudden collapse of the Soviet Union in late 1991, a voice has been heard not infrequently in Japan that the Japan-U.S. Security Treaty should be terminated now that the Soviet military threat has virtually disappeared or at least has been drastically reduced. With the treaty's termination, the U.S.-Japan relationship might be transformed into, or replaced by, more comprehensive multilateral arrangements covering the entire Asia-Pacific region, something like the Conference on Security and Cooperation in Europe.

In this context, it is worth being recalled that the Security Treaty itself does anticipate, as is provided in Article 10, that the treaty shall be terminated when, in the opinion of the two governments, "there shall have come into force such United Nations arrangements as will satisfactorily provide for the maintenance of international peace and security in the Japan area," meaning the Far East for the purpose of the treaty.

In the absence of such almighty United Nations arrangements in the foreseeable future, however, it is safely assumed that the majority of Japanese people, including the present writer, consider it the best policy to keep the U.S.-Japan Security Treaty intact at least for the rest of the 1990s.

Suppose that the Treaty should be abrogated at present. Theoretically there would be only two viable options for Japan: one would be to increase substantially or rather drastically Japan's own military capabilities by strengthening SDF (with or without a constitutional amendment, as will be discussed later); the other option would be to do nothing much in terms of military build-up and, with whatever little we have at the moment, try to "preserve our security and existence," merely "trusting in the justice and faith of the peace-loving peoples of the world."

The former option would inevitably increase the friction not only with the United States but also with some or many of the region's countries which are wary of the revival of Japanese militarism. It could also deprive Japan of the rare economic advantages it has enjoyed so far, spending so little for military purposes.

On the other hand, the second option sounds idealistic and might appeal to pacifist-minded segments of the Japanese people, but there would be no guarantee that Japan could successfully maintain its peace and security, given the geopolitical environment in the region. Nor can it be assumed that Japan, or any other nation for that matter, could continue to live a respectable life in such an insecure state. It follows, therefore, that the continuation of the existing arrangements based on the Security Treaty is the wisest and most practical policy for Japan to follow not merely for its own national interest but also for those of other countries

in the Asia-Pacific region.

Until relatively recently, there has been, among the Japanese people, an optimistic expectation for the United Nations to play an effective role in maintaining international security. But such an optimism seems to have vanished as a result of recent national debates concerning the PKO Cooperation Bill, through which they have received intensive education on the myths and realities of the United Nations.

Perhaps PKO, or the so-called Peacekeeping Force (PKF), or even the regular United Nations Force (UNF) provided for in Article 43 of the Charter but never really established to date, can be effective only for relatively minor international disputes, but not necessarily so for major disputes involving major powers. Consequently, it is essential to distinguish bilateral and subregional security arrangements such as those offered by bilateral treaties on one hand, and international or universal security arrangements such as those available within the framework of the United Nations, on the other. The former arrangements are far more important and reliable than the latter in the event of real need.

As the Japan-U.S. relationship has such vital importance to the peace, security and economic security of both Japan and East Asia, it will be discussed in greater detail in a broader context in the last section of this chapter.

NATIONAL DEBATES ON PKO COOPERATION BILL IN THE 1991–92 DIET

In the wake of the Gulf Crisis and War (1990–91), particularly after the signing of the Paris agreement on Cambodia in October 1991 and the decision taken by the United Nations Security Council to introduce major PKO in Cambodia, both the Japanese government and people have been engaged in lengthy "soul-searching" debates, in the words of Prime Minister Kiichi Miyazawa, on what kind of international contribution Japan should make other than financial ones.

The central questions being asked are (1) whether Japan should send its Self-Defense Forces, as a part of its international contribution, to participate in the United Nations PKO in Cambodia and, if so, (2) how or, for that matter, whether SDF can ever be dispatched to Cambodia, given

the constitutional constraints, especially those of Article 9.

The two questions are closely related but can be differentiated at least theoretically. The first question requires a political judgment in light of international relations in Southeast Asia in particular and East Asia in general, and Japan's international reputation, its status in the United Nations and other relevant factors. The second question is essentially a legal one, as it should be in its nature, and can be considered primarily in the domestic context, apart from the international situation.

Can The Constitution Be Amended?

In Japan, however, these two questions are often confused and greater attention tends to be focused on the second question rather than the first, thereby causing national debates to concentrate on legalistic, somewhat esoteric interpretive exercises concerning the specific words and phrases of the constitutional provisions.

This is most probably due to the fact that it is practically impossible under the present domestic situation to amend the constitution, especially Article 9 which has long been held as sacrosanct among considerable segments of the Japanese people. It would be no exaggeration to say, at least until very recently, that any mention of amending Article 9 would most likely be political suicide in election campaigns.

Technically, a constitutional amendment requires, under Article 9 of the constitution itself, the two-thirds majority votes of each of the two Houses of the Diet before the proposed amendment can be submitted to a special national referendum. As of May 1992, however, the ruling LDP has only 278 of the 512 seats in the Lower House and only 114 of the 252 seats in the Upper House. Accordingly, LDP alone cannot propose any constitutional amendment, unless it compromises on its position to obtain the support of some of the more moderate opposition parties other than the Socialist and Communist Parties — both are firmly opposed to any amendment of Article 9.

This being the case, even if the overseas dispatch of SDF is considered highly desirable from a political or diplomatic point of view, SDF cannot possibly be sent abroad in such a way as to expressly violate the provisions of Article 9 because a substantial number of the general public

continue to believe that it is contrary to the spirit, if not the letters, of Article 9.

Consequently, the strategy the Japanese government and the LDP have adopted is to explore the more realistic, or less controversial, path of sending SDF to Cambodia by modifying or expanding as much as possible, as the case may be, the official interpretations that the government has enunciated in the past concerning Article 9. The opposition parties are criticizing that this is nothing but an act of "constitutional amendment through interpretation" that bypasses the required procedures. But this "pragmatic" strategy seems to improve the chance of increasing support from some of the more moderate opposition parties.

Constitutional Constraints As Reflected In The Bill

As is seen from the text of the PKO Cooperation Bill approved by the Lower House of the Diet in December 1991 and presently under consideration in the Upper House, the Bill has the following features:

1. SDF may be dispatched to participate in United Nations PKO/PKF only at the request of the United Nations Secretary General.
2. The total number of SDF personnel to be dispatched in each mission shall not exceed 2,000.
3. The additional conditions for dispatching SDF are as follows:
   (a) There shall have existed a cease-fire agreement between the disputing parties concerned;
   (b) There shall be an agreement of all the parties to the introduction of the United Nations PKO;
   (c) The United Nations PKO concerned should be carried out in a neutral manner toward any of the disputing parties concerned;
   (d) Whenever any of the above conditions has proved to be unfulfilled, Japan's SDF shall be withdrawn; and
   (e) SDF personnel may carry light arms (such as pistols and rifles but never use them except in case of emergency).

These additional conditions were incorporated into the Bill at the request of the Komei Party, one of the more moderate opposition parties, in the course of political negotiations in the Lower House. These condition are deemed necessary, as argued by the party, to make sure that SDF participation does not violate the constitutional requirements. As a result, the Komei Party joined in the approval of the Bill in the Lower House.

The Democratic Socialist Party (DSP), another moderate party, has also been demanding that each and every case of SDF dispatch be subjected to prior Diet approval so that the Diet may effectively exercise "civilian control" over SDF to make extra clear the constitutionality of any SDF deployment.

The LDP and the Japanese government are reluctant to accommodate this demand because such a prior Diet approval on an *ad hoc* basis may well delay the dispatch and cause inconvenience not only to Japan's SDF and the United Nations but also to the receiving countries. More recently, it has been speculated that LDP may change its mind, making some compromise to accommodate the DSP demand in exchange for the latter's support of the Bill.

At the moment, judging from the parliamentary debates going on in Tokyo, the conditions (d) and (e) above are emerging as the most contentious points, reflecting the concerns of most people who are opposed to the Bill.

Can SDF Really Be Withdrawn If The Conditions Have Changed?

Condition (d) poses a sensitive question as to whether SDF troops can be withdrawn unilaterally when the objective situation has substantially changed and either of the conditions (a), (b), or (c) is unfulfilled. Another question in need of further examination is which side has "command" over SDF troops, the Japanese Commander-in-Chief (Director-General of the Defense Agency) or the United Nations Commander (Secretary General)? Such a question hardly arises for any normal armed forces of any normal country participating in PKO activities; it can arise uniquely in the case of Japan's SDF.

According to the lawyers of the government, there are subtle differences between the command of the Japanese Commander and that of

the United Nations Commander. The former issue "commands" while the latter gives "orders." In their view, the former includes among other things, the right to punish individuals constituting the Japanese force dispatched. In short, it is believed that the Japanese side somehow retains the final (or residual) authority over SDF engaged in PKO activities, although they follow the orders of the United Nations Commander under ordinary circumstances.

Thus, the government believes that SDF can be duly withdrawn from PKO (PKF), and its constitutionality can be safeguarded. It may be so, but just imagine the kind of impression or impact such Japanese withdrawal in the middle of their missions will have when other armed forces choose to remain in the area to continue PKO activities, possibly at the risk of their personal safety. Anyway, this seems to be a hypothetical and unrealistic question; nevertheless, it highlights more than sufficiently the uniqueness of Japan's national debates on the technical details.

Can SDF Personnel Use Arms In Self-defense?

Condition (e) is evidently related to paragraph one of Article 9 of the constitution prohibiting the "threat or use of force as means of settling international disputes." Given the extraordinary circumstances in Cambodia in the present instance, the personnel engaged in PKO activities may occasionally be attacked by insurgent guerillas or snipers. In such contingency situations, they are permitted under international law or any customary law of civilized nations to resort to their arms to repel the attackers. This type of arms use is clearly allowed as an act of self-defense for anyone, both civilian and military.

The "use of force" prohibited by Article 9 — originally based on the Kellogg-Briand Pact of 1928 — is the "use of force," more organized and destructive than the occasional use of light arms, "as means of settling international disputes." The type of arms use as envisaged in the PKO Cooperation Bill is not even addressed in Article 9, and that is only too evident. Those who are making a big issue out of this question seem to do so not because they are really afraid, as they claim, that sporadic uses of light arms may inevitably escalate to real fighting, but because

they are opposed to the dispatch of SDF itself. The present writer feels that there is not much sense in indulging in such semantic arguments as "use of force" or "use of arms."

These are only part of the national debates presently going on in and around the Diet but are still indicative of the type of discussions that preoccupy most of the Japanese people, not only politicians and experts but also the general public, for the past year and a half since the Gulf Crisis. It may be hard for people outside Japan to appreciate these discussions, extremely unique and esoteric by any international standards. Nonetheless, whether we like it or not, this is a reality in today's Japan and needs to be understood as such.

LINGERING EFFECTS OF WWII AND POPULAR ATTITUDES ON INTERNATIONAL SECURITY PROBLEMS

Having reviewed these debates in the Japanese Diet in recent months, foreign observers will naturally be prompted to ask more fundamental questions: What are the attitudes of the average Japanese people, particularly those of the younger generation, on the PKO (SDF) issues or, more seriously, Japan's role in international security problems in general? Why are they, at least some of those who are opposed to the PKO Cooperation Bill, so negative about playing a military role in the world? Is it because they think that people in other Asia-Pacific countries are critical of Japan playing a more active role in the region? Is Japan really willing to make international contribution commensurate with its economic wealth? Are the Japanese people willing to make some sacrifice, if necessary, in order to "occupy an honored place in the international community" as declared in the preamble of Japan's constitution?

Those opposed to the Bill argue that SDF should not be sent beyond Japan's territorial limits so as not to irritate other Asian peoples who still harbor ill-feelings lingering since the Pacific War and fear the resurgence of Japanese militarism. True, these ill-feelings die hard, but do the Japanese simply have to wait until — no one knows how long — such feelings have completely disappeared? Perhaps these Asian sentiments, whatever they are, are used as a plausible excuse for not accepting

international responsibility in terms of military contribution even in support of United Nations activities.

While it is difficult for the Japanese themselves to assess Asian feelings toward Japan, it seems that different Asians have different feelings toward Japan, perhaps depending on their experience during the Pacific War. Generally speaking, the Chinese and the Koreans are more cautious toward Japan than other Asians for understandable reasons and more critical of Japan's attempt to play a military role in Asia, including the overseas deployment of SDF, even under United Nations auspices, lest such a step should gradually lead to the resurgence of Japanese militarism and arouse the expansionist tendencies of pre-war Japan. Today, after nearly half a century since the Pacific War, there remain unresolved issues of "war reparation" for those Koreans, and possibly Chinese as well, who were forcibly mobilized in the war in various unrespectable forms.

On the other hand, Prince Sihanouk, Premier Hun Sen and other leaders of various Cambodian groups have stated publicly that they would welcome the participation of Japan's SDF in Cambodia's PKO, including military operations such as the removal of mines. The failure to send SDF would not only disappoint the Cambodians but could also spread suspicions among other Asian peoples that the Japanese people are after all interested only in their own peace and prosperity and reluctant to accept international responsibilities at the cost of their lives.

It is fashionable in international conferences and symposia held outside Japan these days to talk about Japan's willingness and ability to play a military role in the world, especially in the Asia-Pacific region. It is as if the international community were expecting Japan to do so. Certainly Japan has enough capability in terms of money, technology and even military hardware, except for nuclear weapons, long-range missiles and bombers, aircraft carriers, etc. These are regarded unnecessary for strictly defensive purposes within the territorial limits and, therefore, not permitted under the constitution.

Needless to say, however, a nation's capability cannot necessarily be measured by such material factors. It depends very much on psychological factors as well, namely the will of the people to make some positive contribution in the best interests of the international community, even at

the expense of their own domestic interests.

This is particularly true with Japan, where the general public, extremely egalitarian-minded, has recently been exercising, through democratic process or otherwise, more influence on the decision-making of foreign policy issues. If the Japanese government tries to satisfy short-term popular reaction, it will have to pay dearly later when it must satisfy the long-term interest of the country. This is no doubt one of the important reasons why LDP and the Japanese government have been taking much time, perhaps too much, in getting the PKO Cooperation Bill cleared by the Diet, avoiding as much as possible the impression that they rushed it through the Diet. Indeed the days are long gone since the Japanese armed forces were deployed abroad through policy decisions taken by a handful of top political or military leaders.

One public opinion survey conducted very recently in mid-April 1992 by the *Yomiuri Shimbun*, a leading Japanese newspaper, reported the fact that 44.9 percent of those interviewed believed that there was no constitutional problem in sending SDF abroad to join the United Nations PKO, whereas 41.1 percent of them replied that there was such constitutional problem.

A more significant fact revealed that as much as 57.2 percent of those who favored the dispatch of SDF answered that SDF thus dispatched to Cambodia should engage only in medical care, election supervision and other relatively minor activities to be carried out in "safe (non-combat)" areas; another 19.3 percent answered that SDF troops should also join in military patrols to supervise the implementation of the cease-fire agreement; and only 16.6 percent answered that SDF should participate in all PKO activities, including peacekeeping activities which will entail considerable danger, requiring the use of arms in self-defense when attacked.

Admittedly, these figures are not entirely reliable because, for one thing, the Japanese people have only limited knowledge about the United Nations PKO and the current situation in Cambodia. Their position can evolve for better or worse as they become more informed. Some of the opposition party Diet members who used to be critical of SDF involvement in Cambodia have changed their mind after their recent visit to Phnom Penh.

Still, there are a very significant number of Japanese people, particularly of the younger generation who were educated by "pacifist-minded" teachers in their school days. Those teachers have negative feelings toward SDF *per se* or, for that matter, anything military and prefer not getting involved in any armed conflicts elsewhere in the world. Their naive "pacifism," when carried too far, may be confused with a kind of insular isolationism, or national egotism or even xenophobia. This is exactly opposite to the self-righteous expansionism, blind militarism or chauvinism so characteristic of the pre-war Japanese society.

The older generations of Japanese who have personal memories of the Pacific War and the occupation years have kept working "like ants," in the words of former French Premier Mme Edith Cresson, through the 1960s and 1970s, too busy to teach their children about the wartime experience. As a result, the young Japanese of today have very limited knowledge of the war and tend to dislike any military matters, including SDF.

In fact a majority of highschool and college students regard the very existence of SDF as unconstitutional, like many Socialist or Communist politicians in this particular respect. It is no wonder that SDF has always been so unpopular among young people that it has great difficulty in recruitment nowadays. More than 20 percent of recent graduates of the SDF Academy have refused to be commissioned, preferring "more trendy, easy and less risky" jobs elsewhere.

These tendencies have become even more conspicuous after the end of the Cold War. Perhaps it is high time for the Japanese to learn a useful lesson from the history of Carthage, an affluent mercantile city-state, which once ruled the Mediterranean Sea but was defeated and totally demolished by the Roman Empire in the Punic Wars during the Second Century B.C.

CHALLENGES FOR JAPAN IN THE 1990S AND BEYOND

Like any other nations, Japan is still unable to adapt itself effectively to the rapidly changing international situation after the end of the Cold War. The country is not yet ready for greater responsibility which equals its economic and technological strength. Perhaps it will take some more time before Japan graduates from its self-identifying struggles and fully realize the type of role the nation considers befitting its self-pride and sense of international responsibility. Too much pressure on Japan at one time, like that from Washington during the Gulf Crisis and War, would do more harm than good to Japan and to the rest of the world. In the meantime, if the present PKO Cooperation Bill is finally enacted in the very near future as desired by the government, the first troops of SDF will be sent to Cambodia sometime before the autumn of 1992, just in time for full-scale PKO operations including a series of preparatory activities for the Cambodian elections scheduled to take place in the spring of 1993 under the auspices of the United Nations Transitional Authority in Cambodia (UNTAC).

Initial Japanese participation will inevitably be limited both in size and in the type of operations, as was examined earlier in this chapter, due to the constitutional constraints and various domestic factors; but it will hopefully give to the Japanese government and people both the self-confidence and experience which they need so badly. It will also provide Japan with a good opportunity to demonstrate not merely the effectiveness but the peaceful and impartial character of the type of military contribution Japan can make to the maintenance of peace and security in Asia as well as around the world.

In this sense, Japan's participation in the United Nations PKO activities in Cambodia at this juncture will have a symbolic importance for the future. It marks the beginning of the slow but steady transition of Japanese diplomacy from "passive" to more "active" diplomacy for the first time since 1945. Japan cannot afford to miss such an opportunity. Nor can the rest of the world, especially countries in East Asia, afford to be indifferent to this transformation of Japan.

As regards the more fundamental problem of peace and security of Japan itself, there is not much space left in this chapter. Suffice it to say that Japan is best advised to continue to rely on its security arrangements with the United States so carefully constructed on the basis of the Japan-U.S. Security Treaty of 1960. In the final analysis, this is the most realistic policy option for Japan, the United States and other countries in the region, as noted earlier in this chapter.

Remarkably enough, both Russia and China, persistent critics of the Japan-U.S. Security Treaty during the Cold War era, are now openly in favor of the continuation of that treaty. There seems to be, also among other Asian countries, a widespread support to the present Japan-U.S. relationship because they all know well enough that Japan will be a safer country — safer for them, that is — under the U.S. umbrella rather than be left free and independent militarily. Indeed there seems to be a near consensus among East Asian countries that they can live a secure and rich life under U.S. military protection and Japanese economic assistance.

Whether the United States also likes this scenario or not is a big question. The most important thing for East Asians including Japan at the moment is not to irritate the United States by an unduly exclusive stance against it but to convince the United States that it, too, will be secure both politically and militarily under the above-mentioned system existing in the region. For this common purpose, Asian countries, Japan included, should do their best to help the United States, first and foremost, by alleviating U.S. economic worries, especially its huge trade deficits with Japan, the Asian NIEs and ASEAN countries.

In this respect, there is no doubt that Japan's responsibility is particularly large. Japan's trade surplus in Fiscal Year 1991, as disclosed by Japan's Ministry of Finance recently, hit an all-time high of US$113.4 billion. Approximately 40 to 50 percent of the sum was due to U.S.-Japan bilateral trade, in other words, the sum came from the U.S. trade deficit with Japan. Japan must buy more from the United States for the sake of Japan's own security, as much as for the survival of the world free trade regime. Likewise, Japan must try harder to buy more from Asian countries in place of the United States, the biggest absorber of Asian exports, albeit gradually declining in the past few years.

In conclusion, it must be borne in mind that politico-military security and economic security are essentially inseparable. One obvious lesson the Japanese can learn from the tragic history of Carthage is that a nation that pursues economic interests only at the sacrifice of the others, cannot long endure, much less prosper. Then, how to harmonize these two propositions in the rapidly changing world of today is truly an enormous challenge for the Japanese people, as they move on in the 1990s and beyond.

EPILOGUE: QUO VADIS, JAPAN?*

The PKO Cooperation Bill was approved by the Upper House of the Diet on June 9, 1992 with several important amendments incorporated into the Bill. These amendments were worked out as a result of the political compromise reached between the ruling Liberal Democratic Party and the two more moderate opposition parties, the Komei and Democratic Socialist Parties. The two parties joined LDP in passing the Bill through the Upper House, while the Socialist and Communist Parties remained opposed but were overruled in the end. The important amendments which were incorporated into the Bill were as follows:

(1) Those PKO activities which are of a more military character and are usually carried out by the United Nations Peacekeeping Forces such as patrol to supervise the implementation of ceasefires agreements and demilitarization, transportation of weapons and ammunition, collection of abandoned weapons, assistance in the exchange of prisoners of war, etc, shall not be performed by Japan's Self-Defense Forces until a new law authorizing SDF to perform such activities is enacted; (which means that for the time being SDF troops in Cambodia will engaged only in "logistic" activities of PKO, such as transportation of materials other than weapons/ammunition), communication, supervision of election, medical care, assistance in repatriation of refugees, etc.

(2) A prior approval of the Diet is required for SDF troops performing the above-mentioned peacekeeping force activities; both Houses of the Diet shall endeavor to give such approval within seven parliamentary days; (LDP originally objected to the "prior approval" requirement but accommodated to win the support of DSP, which had strongly insisted on it.)

(3) The PKO Cooperation Bill shall be reviewed by the Diet after three years from the date the Law is put into practice. (This

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* This portion was rewritten on October 31, 1992.

amendment was added in response to the demands of the two cooperating parties.)

The Bill, amended as above by the Upper House, was referred back to the Lower House which, after nominal deliberations, approved the Bill overwhelmingly on June 15, 1992, with 329 (LDP, Komei and DSP) in favor and 17 (Communist and others) in objection. In an extraordinary tactical move, all members of the Socialist Party were absent from the voting. Moreover, immediately before the voting, they resigned *en masse* in protest (although the resignations were never accepted by the House speaker). Thus the Bill became the "PKO Cooperation Law" and was put into practice within three months after its promulgation.

It is to be noted that, while the PKO Cooperation Bill was being debated in the Diet, students and other citizens' groups launched demonstrations nationwide to oppose the Bill and to protest against the Japanese government and LDP for trying to rush it through the Diet. But those demonstrations never really reached a significant level, quite unlike the explosive demonstrations directed against the U.S.-Japan Security Treaty in the 1960s and 1970s.

A preliminary study mission of the government was sent to Cambodia at the beginning of July 1992 to pave the way for the full-fledged dispatch of SDF troops. The first group of SDF troops, about 600 in total, drawn mainly from the Construction and Engineering Division, arrived to Cambodia in early October 1992. They were initially assigned to the repair of roads and bridges in the Takeo district between Phnom Penh and Sihanoukville. The Director-General of SDF (or the Minister of Defense) visited the district in mid-October 1992 to observe their operations.

In the meantime, the first Ministerial Conference on Rehabilitation and Reconstruction of Cambodia was held in Tokyo on June 20–22, 1992, as scheduled, to deal with the economic and social rehabilitation of Cambodia and the international cooperation necessary to that end. The conference was attended by the four Cambodian parties constituting the Supreme National Council and 33 interested countries, including the five permanent members of the United Nations Security Council, and 13 international organizations. The representatives of the Pol Pot group did not seem willing to attend the conference when they first arrived in

Tokyo but under diplomatic pressure decided to attend it in the end.

The Ministerial Conference agreed to establish a consultative body called the "International Committee on Reconstruction of Cambodia" (ICORC) to coordinate the related international cooperative activities. As the host of the Conference and chairman of ICORC, the Japanese government pledged, among other things, to contribute US$150 to US$200 million within three years for Cambodia's reconstruction, the sum constituting one quarter of the total which was set at US$880 million.

On the other hand, the continued refusal of the Pol Pot group to disarm in defiance of the terms of the Paris Peace Agreement, coupled with occasional but markedly intensified fighting in recent months, has added uncertainty to the already confused future of peace in Cambodia. There seems to be little that the UNTAC can do under the present circumstance. If armed conflicts continue to escalate and reach a serious level, SDF troops might have to be withdrawn according to the requirements of the PKO Cooperation Law. It all depends on the further developments there. Thus, Japan has become involved in what eventually may or may not turn out to be "the second phase of the Cambodian quagmire."

It should be stressed, however, that Japan has made a significant contribution to keeping international peace and security by sending its armed forces abroad for the first time after World War II which ended nearly half a century ago. The SDF troops dispatched to Cambodia are quite modest both in character and in size, but if they successfully fulfil their mission, they will help to restore the Japanese people's self-confidence so badly needed as they begin to play a more active political role in the international community in the post-Cold War era.

3

Changing World Situation and the New International Order: A Chinese View

Mou-hong Xue

INTRODUCTION

The biggest world event in recent years was the chain of debacles between 1989 to 1991 in Eastern Europe and the former Soviet Union. Since then, the Cold War has gradually ended, and East-West contradictions have greatly eased. Nonetheless, other contradictions hidden or restrained formerly by East-West contradiction have evidently arisen. At this critical juncture, there is a universal desire for a new international order. It is, however, also realistically recognized that the road leading to that goal is still long and arduous.

SOUTH-NORTH CONTRADICTIONS SHARPEN

In the economic field, the gap between the South and the North is not narrowing, but widening. The United States, the European Community (E.C.) and Japan have one-eighth of the world's population but two-thirds of the world's economic output. Japan's population equals one-twentieth of the total population of developing countries of East and South Asia combined, but its output is twice that of these two regions put together. During the last decade, per capita income increased faster in the North than in the South; in 1990 and 1991, per capita income of the South even decreased.[1]

The world's population is forecasted to swell by one billion in the 1990s, and 94 percent of this growth will be in the South.[2] Although some developing economies are flourishing, they are still a minority in the vast South. On the whole, the globe is accumulating its wealth in the

North and expanding its population in the South. This situation is fraught with danger. In many developing countries, poverty breeds instability, even triggers tumult. A *Wall Street Journal* article said that the main weapon which poor countries can wield against the rich ones is the threat of massive emigration.[3] Near the end of 1991, there were 17.5 million refugees in the world, and about three-quarters were scattered in Africa and Southwest Asia. If a big emigration tide from the South to the North surges, developed countries will confront enormous difficulties. Facts show that the flow of only 600,000 refugees from Eastern to Western Europe last year had already brought much trouble to Western European countries, especially Germany.

In the political and military fields, a new situation has emerged, that is, the West and the East have détente between themselves, and they now turn the spearhead toward the South. When western countries export their values and social systems or formulate their armament and disarmament policies, their main "target" is the Third World. They conclude that the East "has changed color," and now it is the South's turn. The United States, the E.C. and Japan have all officially declared that hereafter one important criterion for aiding the developing countries is whether the aid receivers practise western-style political democratization and market economy. Those western countries also conclude that the main military threat they now face does not come from the East but from the South. Most of the seven hypothetical armed conflicts that the Pentagon envisions are supposed to be launched by Third World countries. Some western governments have altered their defense priorities, changing their focus from deterring the big "eastern bear" to dealing with some small "southern bears." They are trying to build a "trimmer and more agile force," as President George Bush called it, in order to cope quickly and effectively with "low intensity" or "medium intensity" wars which nobody knows when and where they will occur in the South. The U.S. government decided to cut its military budget, but simultaneously asked the Congress to appropriate more funds for the Strategic Defense Initiative (SDI) program. Vice President Dan Quayle emphasized that the anti-missile system the United States was going to build would prepare the country against surprise nuclear attack not from Russia, but from certain developing countries.[4] Formerly, disarmament was essentially a

U.S.-Soviet affair; but today, arms control (especially the anti-proliferation of weapons of mass destruction) in the Third World is given high priority in the international agenda. Several Asian countries are already under heavy pressure from the West to limit their military build-up.

Russia openly supports the West's endeavor to remold the world with the western value and social system. The U.S.-Russian Charter signed by the presidents of the two countries is a clear testimony. There is even a possibility that the two will join efforts to build an anti-missile system to guard against the "nuclear threat" from the South. The Coordinating Committee for Multilateral Export Controls (COCOM), formed by 17 western countries in Paris, is willing to lift restrictions on Russia and even "coordinate" with Russia to prevent the flow of specific types of high-technologies to the Third World. Important officials of the U.S. government describe it as a hand-in-hand effort of the winner and loser of the Cold War to guard against the "New Strategic Threat" from the South.[5] A number of Third World countries look backward nostalgically to the Cold War era in which they could take advantage from the East-West struggle. They are now the victims of U.S.-Russian "cooperation" in many fields. South-North relations today are more complicated than before; it is not only a difficult economic problem, but also a troublesome political issue.

REVERSAL OF THE U.S-JAPAN ECONOMIC BALANCE

As East-West contradictions ease, North-North contradictions, just like South-North contradictions, become more acute. While the two sides of South-North contradictions are very unequal in strength, the competitors in North-North contradictions are well-matched. Since power still plays a critical role in international relations, the North-North contradictions exert greater impact on the transformation of the world structure than does the South-North contradictions.

The contradictions between the United States and its main allies are not new ones. In the past decades, they were contained by the exigencies of anti-Sovietism. The disintegration of the Soviet Union promotes the intensification of the North-North contradictions. Moreover, the growing importance of the economic factor in the post-Cold War period makes

North-North economic contradictions especially salient. Friction among the three capitalist economic centers: the United States, the E.C. and Japan, is developing. The focus of the friction is Japan, and the sharpest expression can be found in the U.S.-Japan economic relationship. Some suggest that the rivalry between the two military superpowers, the United States and the Soviet Union, has been replaced by the rivalry of the two economic superpowers, the United States and Japan.

To a majority of Americans, Japan is now deemed the main threat to the country's national economic interest.[6] The *Washington Post* even called Japan the new Number One enemy of the United States.[7] Why are there such viewpoints? The main reason is that more and more "reversals" have emerged in the U.S.-Japan economic relationship. News reports and commentaries in the United States and Japan around December 8, 1991, the 50th anniversary of the Pearl Harbor Attack, gave the impression that several decades ago the United States defeated Japan militarily, but several decades later, Japan was defeating the United States economically.

In 1940, Japan's per capita income was just one-sixth of that of the U.S.[8] It sustained a deficit in bilateral trade with the U.S. and total U.S. direct investment in Japan exceeded Japan's investment in the U.S.[9] By 1990, Japan's per capita income was one-sixth higher than that of the U.S.[10] Japan-U.S.trade in 1991 gave Japan a US$43 billion surplus;[11] aggregate Japanese direct investment in the U.S. at the end of 1989 surpassed U.S. direct investment in Japan by more than US$50 billion.[12]

It is not easy for the U.S. to accept the "cruel reality" that Japan has the leading edge in selected industries in which the U.S. took pride traditionally. The automobile was first mass produced in the United States and for many years the United States was "the kingdom of the car." The country produced 3.7 million cars in 1940, while Japan produced less than 24,000. In 1990, however, the U.S. produced 6.1 million cars, while Japan produced 9.9 million.[13]

Nowadays, Japan's share of the U.S. domestic car market is around 31 percent, but the U.S. share of Japan's domestic car market is only 0.5 percent.[14] About three-quarters of the US$43 billion U.S. trade deficit with Japan last year was caused by the serious imbalance in the bilateral trade of cars and automobile spare parts. Lee Iaccoca, former president of

Chrysler, angrily cried that the U.S. spent much money protecting Japan in the Cold War period not for the purpose to become Tokyo's economic colony.[15]

High savings and investment ratios still characterize Japan's economy. Data presented to the Joint Economic Commission of the U.S. Congress showed that Japan's per capita investment was US$5,320 in 1991, while that of the United States was only US$2,133.[16] This meant that the total investment in Japan last year exceeded that in the U.S. by US$794 billion. A renowned Swiss economic research institute, which annually compares the competitive capabilities of countries, put Japan as number one in 1992, and the United States as number five.[17] In the first half of 1992, Japan's foreign trade surplus reached a historical height of US$63 billion.[18] Japan's growth rate has recently slowed but some international economic organizations forecast that Japan might still develop faster than the U.S. in 1992 and 1993.[19] In both countries, there are predictions that Japan's GNP could surpass that of the U.S. by early next century, and Japan might become the leading economic power in the world.[20] It is said that in purely economic terms, the 19th century was the "British Century," the 20th century was "the American Century," and the 21st century would be the "Japanese Century."[21]

In order to ease the U.S.-Japan economic contradiction, both sides began bilateral "trade talks" in 1978 and "Structural Impediment Talks" in 1989. In the latter negotiations, the U.S. listed more than 200 complaints and, in an attempt to change the highly cartelized Japanese economic structure, even asked Japan to alter its high-savings and high-investment policies. This signifies that the U.S.-Japan disagreement is not merely a scramble for market but has escalated to a competition between development models. A *U.S. News and World Report* article commented that the rivalry between socialism and capitalism has largely been replaced by the competition between the American and Japanese models of capitalism.[22]

In addition, there are U.S.-E.C. and U.S.-Japan contradictions in the U.S.-E.C.-Japan triangle. The U.S.-E.C. dispute over agricultural subsidies is confrontational, but the Japan-E.C. contradiction is, on the whole, sharper than the U.S.-E.C. contradiction.

As U.S.-Japan trade friction intensifies, Japan makes more efforts to

expand its market in the E.C. Japan's trade surplus with the E.C. is rising rapidly, from US$18.2 billion in 1990 to US$27.2 billion in 1991, a 50 percent hike in a single year. U.S. trade with the E.C. in recent years has grown from deficit to surplus, and the surplus has also been rising rapidly, reaching US$16.7 billion in 1991. Nonetheless, this is still smaller than Japan's surplus with the E.C. in the same year.[23]

In response to outcries that "Japan is buying America" and in anticipation of greater protectionism in a unified Western European market, Japan is increasing direct investment in the E.C. more vigorously, enlarging it by more than US$45 billion in five years from Fiscal Year 1986 to Fiscal Year 1991. That sum equals four and a half times Japan's aggregate direct investment in these economies in over three decades from 1951 to 1985. The E.C.'s direct investment in Japan grew less than US$3 billion in the same five-year period. At the end of Fiscal Year 1990, Japan's direct investment in the E.C. was over US$55 billion, while the latter's direct investment in Japan was less than US$4 billion.[24] Thus, the flow of direct investment between Japan and the E.C. has been very uneven. This differs from the flow of direct investment between the U.S. and the E.C., which has been quite balanced in recent years. We must also note that the E.C.'s total direct investment in the U.S. is still larger than the latter's direct investment in the E.C.[25]

On the development model question, there are greater similarities between the United States and the European economies than between the latter's and Japan's. In a certain sense, competition between the Japanese and American models is also a rivalry between the Japanese model and the American-Western European model.

Against the background of intensifying Japan-E.C. economic contradiction, French ex-Premier Edith Cresson accused the Japanese of sitting around and plotting ways to squeeze the Europeans and Americans. She even drew a parallel between *Japan That Can Say No* and *Mein Kampf*.[26] For a rather long time, Germany remained comparatively calm to Japan's economic offensive, but recently the *Spiegel* has also alleged aggressive Japanese economic imperialism. These European complaints easily found echoes on the other side of the Atlantic. Director of the Institute for International Economics Fred Bergsten anticipates

that conflicts among these three economic centers would evolve into a U.S.-E.C. alliance against Japan.[27]

WHILE ONE SUPERPOWER COLLAPSES, ANOTHER WEAKENS

The sharpening North-North contradiction expresses itself not only in the economic domain, but also in the political and military fields. The East-West détente has made American allies in the developed world less dependent on the U.S. nuclear umbrella and more independent vis-à-vis the U.S. Yet, that remaining superpower still wishes to remain the leader of the West and even the leader of the world. *The New York Times* published the draft report of the Pentagon's "Defense Planning Guidance" on March 8, 1992. The report suggested that the U.S. should dissuade other advanced industrial countries from challenging that country's leading position. This "Guidance" aroused strong reaction from its main allies. When correspondents asked President Bush for comments, he answered that he had not seen that document but emphasized that the U.S. was the leader, and it must continue to lead.[28] Richard Cheney, the Defense Secretary, deleted some "irritating" sentences from that draft, but the idea to "contain" Japan and Germany could not be wiped out with one stroke. Professor Samuel Huntington frankly pointed out that America was obsessed with Japan, just as it was once obsessed with the Soviet Union.

Japan and Germany are now major economic powers and will inevitably have more say on the international political stage. Takakazu Kuriyama, the new Japanese ambassador to the United States, warned that U.S.-Japan relations were close to a crisis because the U.S. had difficulty in accepting its diminishing influence in the post-Cold War period and in sharing power with Japan.[29]

In a new Japanese book *Changing Fortunes*, Toyoo Gyohten, one of the chief architects of Japan's post-war financial policies, wrote that the U.S.-Japan alliance was built upon two inseparable pillars: one was Japan's acceptance of U.S. leadership in global affairs, the other was U.S. acquiesence to Japan's free entry to the U.S. market. A *Washington Post* article stated: "Now Japan wants to retain its economic free hand while

becoming increasingly reluctant to remain as political subordinate. The United States wants to remain as the world's warden but does not want to allow Japan to continue its economic onslaught. The U.S. and Japan want to maintain the only pillar that suits its own interest but remove the other because it has got in the way."[30]

Germany flexed its new political muscles by insisting on the early recognition of independent Croatia and Slovenia and raised German interest-rate to the highest level since 1948, both actions against the will of the U.S. Opinion polls showed that the majority of German people wished to have U.S. troops, especially U.S. nuclear weapons, withdrawn from the Federal Republic. Germany and France have decided to expand the German-French Brigade into a Western European Corps which is in fact a big step toward establishing a more independent Western European armed force.

France enthusiastically advocates a strong and united Europe. President François Mitterand openly declared: "France will remain a great nation but our future lies in Europe. We must be able to speak to the Americans, we must be able to do so as equals and we can only do this through Europe."[31] It seems that in the process of disintegration of one superpower, the capability of another superpower to control world affairs is not strengthened, but weakened.

President Bush declared in early 1992 that the U.S. had won the Cold War. His government estimated that the U.S. had spent US$4 trillion on the war.[32] Of course, the former Soviet Union paid a higher price. For many years, military expenditure swallowed about one-fourth of its GNP. The militarization of its economy brought about national disaster. Russian news reports estimated that 80 percent of Soviet industries were directly or indirectly connected to military production. About half of Moscow's factories and almost two-thirds of St. Petersburg's factories were military enterprises, and military-related activities consumed 90 percent of all electrical power.[33]

Mikhail Gorbachev lamented that both the U.S. and the former Soviet Union had lost the Cold War and that Japan and Germany were the victors. Indeed, even the remaining superpower was seriously debilitated by the Cold War. The *International Herald Tribune* concluded that France had won in World War I but had declined afterwards; Britain had triumphed in World War II but also had declined afterwards; finally, the

United States won the Cold War but it too is in decline. The post-Cold War world would, therefore, not retrogress from a bipolar to a unipolar structure but will further develop into a multipolar system.

People have begun to talk about a tripolar structure in the contemporary world set-up, either a "U.S.-Germany-Japan" or "U.S.-Western Europe-Japan" international framework. It is difficult for Britain and France to accede to the idea of a U.S.-Germany-Japan troika. As to a U.S.-Western Europe-Japan formula, the time has not yet come for the E.C. to fully represent Western Europe. Both the Gulf War and the Yugoslav crisis show that the E.C. is still incapable of acting as a united entity in global politics. Hence, Western Europe has to be represented by Germany, France, Britain and Italy, and a concrete mechanism for a tripolar structure would be the Group of Seven (G-7).

One Japanese scholar has remarked that the current world set-up is quite similar to the "Versailles and Washington systems" that formed after World War I. Winners of that war, including the U.S., Britain, France and Japan, shaped the world through an intriguing combination of confrontation and coordination, but it is now the job of the G-7 manifested in their summit meetings.[34] Former Japanese Prime Minister Yasuhiro Nakasone believes that the world today can only be governed by a "collective leadership" of the seven industrialized economies.

CRISIS AND UNCERTAINTY IN RUSSIA

Russian Foreign Minister Andrei Kozyrev has declared that Russo-American relations have been raised to the level of an alliance, and Russia is well qualified to join the club of the most developed countries. Russia clearly wishes to squeeze its way into G-7, but it has not yet succeeded. Its relations with this exclusive club and its position in world affairs will be determined to a great extent by "how Russia develops."

In the process of disintegration of the former Soviet Union, armed conflicts have erupted between or inside republics due to ethnic disputes and power struggles. If the situation worsens, the former Soviet Union will be "Balkanized" and certain ex-Soviet republics will be "Lebanonized." It should not be ignored that 25 million Russians are living outside Russia. In ten other ex-Soviet republics, Russians are the

second largest ethnic group. General Grachev, the Russian Defense Minister, once asserted that Russia had the responsibility to protect its citizens living outside Russia.[35] A case in point is the Moldovian-Russian conflict in Moldovia, a worrisome omen with respect to Russian and non-Russian relations in the former Soviet Union. Henry Kissinger is even concerned that the Commonwealth of Independent States (CIS) might degenerate into another Yugoslavia.[36]

Instability intertwines with recession. Countries within CIS share similar economic troubles. It is forecasted that Russia's GNP will fall by about 20 percent in 1992. Furthermore, consumer prices rose by 15-fold from January to May 1991, while wages increased only by nine-fold in the first five months of 1991, and half of Russia's inhabitants lived below the poverty line.[37] Petroleum production is crucial to the Russian economy, but its production is shrinking rapidly. Yeltsin has been extremely distressed by the news that petroleum production is projected to reduce from 460 million tons in 1991 to 230 million tons in 1995.[38]

President Yeltsin knows that the Russian people's tolerance is fast approaching its limit. In the past few months, he has slowed the pace of "shock therapy" and resisted pressure from the International Monetary Fund (IMF) to free oil price completely. He has recognized that the people cannot endure another new tide of hyperinflation, or the domestic situation might spin out of control. Chaos will reign and all reforms may reach their doomsday.[39]

Polls held in Moscow in May 1991 showed that Yeltsin's approval rate was 32 percent and that of Yegor Gaidar was only 16 percent.[40] Yeltsin had to face the fact that both his and Gaidar's reforms were quite unpopular. On June 4, 1992, he said in a meeting with Richard Nixon that he would only serve one-term and had no plans for re-election. He, therefore, did not have to be overly concerned with his popularity ratings in the polls.[41] He later said in a speech to correspondents on July 14, 1992, that "several months before, I did not feel that people might lose their confidence in reform and the presidency, now I see this prospect."[42]

Yeltsin longs for large-scale Western aid. Some individuals in the United States, such as Nixon, are also afraid that economic deterioration could trigger political chaos. Nixon has maintained that should Yeltsin's reform fail, Russia could fall under the control of a new totalitarian

system, its neighbors would be threatened, and the U.S. might lose its "peace bonus." He has publicly asserted that Yeltsin "is the most pro-western leader in Russian history," and "Yeltsin needs us; we also need Yeltsin."[43] But the West's plan to aid CIS with US$24 billion has not materialized quickly. Even if the West does ultimately give that sum to Russia, how big a role can it play in the recovery and development of Russian economy? Gaidar acknowledged in July 1992 that "we cannot expect to get those US$24 billion immediately and use those monies to solve our problems."[44]

When Bush pushed the Congress to pass the "Freedom Support Bill," he emphasized that, if Russia's democratic revolution was defeated, the world in certain aspects might be more dangerous than in the darkest years of the Cold War.[45] Congressman Lee Hamilton, an influential Democrat on U.S. foreign affairs, expressed his support for that bill with the rationale that "Yeltsin is in danger" and should Russia further destabilize, U.S. military expenditure will have to increase.[46] Yet, even if Yeltsin's reform succeeds and Russia strengthens itself on the road to capitalist development, does it augur a positive or negative omen for the U.S.?

Russia is a large country, with a sizeable population. It is very rich in natural resources and has considerable capabilities in science, technology and an educated population. The country also possesses a solid military industry and a large nuclear arsenal. Furthermore, Russia has a long history of expansion. When such a big power stands up, who can assure that it will not contend with the U.S. again? Moscow's *Russia* commented on Yeltsin's trip to the United States last June 1992 with the prediction that Russia as a big nuclear power has its own foreign policy interest which will sooner or later conflict with U.S. foreign policy interest.[47] Therefore, to a certain degree, we can say that the U.S. is wary of both Yeltsin's failure and his success. His failure will bring some trouble to the U.S.; his success might also do little good to this remaining superpower. If Bush — as Nixon alleges — lacks enthusiasm in aiding Russia, it is not only because of the U.S. government's financial difficulties. Bush is caught in a dilemma in which it is "difficult to both advance and retreat."

The situation in Russia harbors a series of unstable and uncertain

factors. "How Russia will develop" is still an important issue in international politics.

NO SECOND YUGOSLAVIA AND NO SECOND GULF CRISIS

In the Cold War years, the bipolar structure stimulated the growth of nationalism but suppressed its expression. The disintegration of the "Soviet Empire" and the collapse of the bipolar structure have permitted nationalism to come to the fore like an "unbridled horse" throughout Eastern Europe and the former Soviet republics where the nationality problem is "ultra-serious." Europe was the West's former front line against Communism. It is now the focus against "uncontrolled" nationalism. Since countries with multiple national groups are common in various regions of the globe, including the Asia-Pacific region, the ethnic wars in the former Yugoslav republics alarm not only Europe, but the whole world.

After World War II, national independence movements transformed many colonies and semi-colonies into sovereign states. In recent years, however, national independence movements have generally turned from national liberation movements into national secession movements. The liberation of one nation from reign or control of colonialism, imperialism or hegemonism is a progressive movement. Nonetheless, whether the secession of one nationality from an already independent country is progressive or not requires an analysis of the concrete situation. Should national minorities in different independent countries all declare themselves independent and create their own nation states in the name of national self-determination, there would be major upheavals throughout the world, detrimental to the political stability and economic development of many countries. Therefore, the transformation of national independence movements from a national liberation movement to a national secession movement carries dangers of "degeneration" and might play a retrogressive role in history.

Several Asia-Pacific countries have nationality problems to varying degrees, and some have resulted in bloody violence. It is an enormous task to insist on the policy of equality, friendship and cooperation between and among various nationalities in multinational countries and to

prevent nationalism (which is progressive under certain historical conditions) from going to the extreme and become a retrogressive exercise.

As the Cold War ends, territorial disputes erupt in different region. The main reasons are: firstly, some countries deem it opportune to settle old territorial problems now that they have more "freedom of action" without the shackles of the bipolar structure; secondly, intensified national quarrels in many cases touch off territorial disputes; thirdly, economic interests are accorded higher priority in foreign affairs, and territory involves resources.

The invasion of Kuwait by Iraq was an obvious example of how territorial disputes could set off armed conflicts. Someone asserted that the outcome of the Gulf War has given serious warning to potential aggressors. Yet, it seems that the Gulf War did not even give enough warning to Saddam Hussein.

It is difficult to settle territorial disputes through negotiation, especially when nationalism is on the rise. Nevertheless, territorial disputes have to be resolved through negotiation and not by war. Furthermore, it is imperative that all parties in a dispute maintain patience and restraint, neither abusing the "freedom" nor utilizing the "opportunities" afforded by the collapse of the bipolar structure.

NECESSARY BUT DIFFICULT ESTABLISHMENT OF A NEW INTERNATIONAL ORDER

The above facts testify to the still turbulent post-Cold War world. It is hoped that the end of that "war" might be a juncture to build an international order in which "right is might" instead of "might is right." Not all the main players in the world arena are, however, willing and ready to implement this historical change.

For a while, President Bush enthusiastically advocated the establishment of a new world order. His design was, in essence, "one leader, one value" in the world. In his 1991 *State of Union Address*, he mentioned eight times U.S. leadership in world affairs. In his 1992 address, he categorically asserted that the "United States is the leader of the West, which is the leader of the world." In his *National Security Strategy Report* sent to the Congress in August 1991, he emphasized that the

United States wanted to build a new international system based on its own values and ideals. Such a plan is neither realistic nor reasonable.

Nowadays, the international balance of power has changed so much that numerous prominent personalities in the United States have openly admitted that the irony of the Cold War was that the winner had become more feeble than before.[48] Under these circumstances, it is impossible to realize "Pax Americana." Henry Kissinger was prescient to point out rather early that the gap of superiority between the United States and other countries was narrowing. As several centers of power emerge in the world, U.S. policy-makers should recognize that the new international order cannot be formulated according to American design. Moreover, since the U.S. has lost the capability to dominate the world, it cannot but return to the idea of balance of power.[49]

It should also be emphasized that there are more than 170 countries in the world, and each with its own special characteristics. How can all these countries be cast in one ideological mold? It seems strange to stand for pluralism within each country but unitarianism in the international community.

Japan is the most westernized Asian country. In the field of international politics and economics, the concept of the "West" frequently includes Japan. However, Japan openly declares that its historical, ethnic and cultural roots are distinct from those of North America and Western Europe and sharply criticizes attempts to impose the American way of life on Japan. The *New York Times* published an article in December 1991 by Kazuo Ogura, Director General of Cultural Affairs in Japan's Foreign Ministry, who said that, for many Japanese, "the concepts of freedom, democracy and market economy do not have a home-grown feeling. Although they have taken deep roots in Japan, they give us a vaguely unsettling sensation, as if we were wearing a new suit of western clothes." He accused the U.S. of attempting to "create a spiritual colony on Japanese soil" and "refute the Japanese way of life." He bluntly emphasized that "American way of life is not the world's." Should Americans want to americanize the whole world, "it is nothing more or less than imperialism."[50] Saburo Okita, former head of the Ministry of International Trade and Industry, also maintained that the United States always emphasized the idea of human rights, but since countries vary in

their level of development and cultural backgrounds, "imposing the idea of human rights on others could only lead to the tensions in U.S.-Asian relations."[51] Since Japan opposes other countries imposing specific values on it, it is reasonable to expect that Japan will not impose its own values on others.

In order to make this world better, every country should explore and choose its own best way to improve the economic, political and cultural life of its people. One bitter lesson must be drawn from the great transformation in Eastern Europe: either imposing one's own model on others arbitrarily or copying others' model mechanically will lead both the imposer and the imposed to disaster.

To establish a new international order, legislation is necessary, but execution of the law is crucial. More than two dozen years earlier, the world community assumed the task of establishing a new international economic order. The United Nations passed a series of resolutions, but they were not well put into practice. As a result, the new international economic order was not realized. If we wish to establish a new international political order today, the difficulties also do not lie in legislation, but in execution. In fact, the basic principles are already there, like the United Nations Charter and the Five Principles of Peaceful Coexistence. They can form the legal foundation for the new international political order. The crux is to enforce these basic principles of international law fully and fairly. It is hoped that in the process of establishing a new international political order, the United Nations will act not only as an efficient legislature, but also as an impartial enforcer. Unfortunately, its record is not always encouraging. In recent years, following the East-West détente, the United Nations has begun a process of revitalization, playing a positive role in solving some regional disputes.

Nonetheless, it has not yet totally abandoned "double standards" or liberated itself from the "selectiveness" of specific big powers in running the organization. We must also note that, even though many governments advocate the strengthening of the United Nations, many member states do not fulfil their financial obligation toward the organization in due time. Until mid-July 1992, they owed the United Nations US$1.75 billion, including US$760 million from the U.S.. Secretary General Butros Butros Ghali warned at the end of July that the international organization

might close down if its financial crisis continues.[52]

Following the disintegration of the bipolar structure, the impetus for the world has shifted "from centripetal to centrifugal."[53] Les Aspin, influential U.S. Congressman in setting the country's defense policy, has described the world today as a jungle ambushed with different kinds of dangers. Facing a complicated international situation, we feel both the necessity and the hardship of establishing a just and reasonable international order. In this respect, we should not expect too much from such a global organization as the United Nations. One better way to safeguard and enhance world peace and security may be stronger regional consultation and cooperation and a firmer execution of the good-neighbor policy.

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4

The New International Order and Arms Control in Northeast Asia: A Korean Perspective

Seo-hang Lee

INTRODUCTION

In the past few years, we have seen a series of revolutionary developments in world politics. They include, *inter alia*, the reunification of Germany, the end of the Cold War and the demise of communism in the former Soviet Union. Without doubt, these radical changes have a global impact. These changes, in turn, have made it possible for Europe to build a durable peace within the Conference on Security and Cooperation in Europe (CSCE) framework in which former arch-enemies are now working hand-in-hand. They could also provide a rare opportunity to secure peace and stability in Northeast Asia. In fact, there is an argument that the Northeast Asian region is the next logical arena in which a major geopolitical shift can be expected, albeit under conditions different from those in Europe.

There are many reasons why Northeast Asia could be next in line for a new order. Among other things, confrontation among the major powers — China, Japan, the former Soviet Union and the United States — is diminishing, and North and South Korea's relations with each other's allies have significantly improved in recent years. Moreover, the easing of tensions on the Korean peninsula is clearly noticeable. The two Koreas have recently joined the United Nations and have adopted two security related accords. In addition, there is a growing economic interdependence and emerging chain of regional economic communities in Northeast Asia.

Recognizing these developments, the primary purpose of this chapter is to explore approaches to enhancing confidence, expediting

disarmament and securing peace and stability in the region which would be the major contents of a new order in Northeast Asia.

RECENT POLITICAL DEVELOPMENTS IN NORTHEAST ASIA

For more than four decades since the end of World War II, the Northeast Asian region had been dominated by deep division and acute confrontation as a result of the Cold War. In fact, Northeast Asia probably had the most deeply divided regional pattern of state relations in the world. In addition to traditional rivalries, there were chasms along ideological lines, epitomized by two divided states, China and Korea. Until recently, most states in the region did not even recognize the presence of each other. As they did not recognize each other, discussions to build a new order in the region were out of the question.

In recent years, five major developments have characterized the changing Northeast Asian security environment. First, Seoul's establishment of diplomatic relations with Beijing in August 1992 is going to generate a wave of change in Northeast Asia. The establishment of diplomatic ties between Seoul and Moscow in September 1990 has already brought about various changes in the region. Seoul's primary goal in normalizing relations with Moscow and Beijing has been to enhance its security and legitimacy *vis-à-vis* Pyongyang. This has been pursued under the name of Nordpolitik, a policy which has produced some spectacular successes in the past years. Seoul has established diplomatic relations with all the Eastern European countries and several former Soviet republics, as well as with China; the only question remaining is how to open North Korea and establish a liaison office in Pyongyang.

Seoul's successes in Nordpolitik will prompt Pyongyang to begin making adjustments to the rapidly changing world and will facilitate the phenomenon of "cross-recognition" of the two Korean states by the major international powers. When cross-recognition of the two Koreas is achieved among the major powers concerned, peace and security in Northeast Asia will further be guaranteed and multilateral dialogue on regional issues will develop.

Secondly, with the emergence of East-West détente at the global

level, the reduction of the U.S. forces in Northeast Asia, particularly on the Korean peninsula, seems unavoidable. In accordance with the Nunn-Warner amendment to the Fiscal Year 1990 Defense Authorization Act, the United States has begun to draw down its ground troop presence and modify command structures to move from a leading to a supporting role for its forces in the deterrence of war on the Korean peninsula.[1] The military presence of the United States in the Northeast Asian region will eventually be transformed into principally a substantial air and naval presence.

Since the United States is a maritime power and the former Soviet Union is a great Eurasian power, great difficulties will remain in their efforts to reach any form of arms reduction agreement in Northeast Asia in the near future. However, the idea of establishing multilateral security cooperation will gather support as the region moves toward a new order. In fact, several states in the region have already proposed the establishment of a Conference on Security and Cooperation in Asia (CSCA) modeled after CSCE, and there is a growing need for a multilateral approach to security and cooperation in the region.

Thirdly, there is a growing economic interdependence and an emerging chain of regional economic communities. These economic linkages have led to an evolving approach to regional economic cooperation.

In Northeast Asia, Japan, the two parts of the Korean peninsula, the three northern provinces of China and the Far-Eastern coastal area of Russia are deliberating on the formation of the "northeast economic circle" (called "Japan-Sea-rim economic circle" by the Japanese). The Republic of Korea proposed that the West Sea coast on the peninsula and the Shandong and Liaodong peninsulas of China be formed as the "Yellow Sea economic circle." The proposal has received great attention. These "economic circles" are planned, comparatively speaking, to take into account the interests of the parties concerned, to implement the principles of mutual benefit and to give special consideration to the inherent ties geographically, economically and historically.

Fourthly, the admission of the two Koreas to the United Nations on September 17, 1991 marked the culmination of the changing international environment. North Korea's decision to join the United Nations, in particular, signified a major departure from its long-held position on the

issues and could signal other possible changes in the direction of North Korea's foreign policy. North Korea had consistently objected to simultaneous or separate membership by the two Koreas, contending that such an admission would perpetuate the division of Korea — even though East and West Germany and North and South Yemen were eventually unified despite their separate United Nations memberships.

The simultaneous entry of the two Koreas into the United Nations is an important symbol of the thawing of the Cold War on the Korean peninsula. The parallel membership of both Koreas could provide a new momentum for the normalization of relations and ultimate reunification of South and North Korea.

Finally and most importantly, there have been two developments on the Korean peninsula widely hailed by the South and the North as major progress in inter-Korean relations: one is the adoption of the "Agreement on Reconciliation, Non-Aggression and Exchanges and Cooperation between the South and the North" — appropriately known as the "Basic Agreement" in abbreviation — at the fifth round of the South-North High-Level Talks on December 13, 1991, and the other is the "Joint Declaration of the Denuclearization of the Korean Peninsula," agreed on the very last day of 1991.

The South-North Basic Agreement is, above all, the first official document governing basic inter-Korean relations consented to by the two Korean governments. Consisting of three major parts on reconciliation, non-aggression and exchange and cooperation, it spells out fundamental principles to be applied to the inter-Korean relations. Firstly, the two parties pledge to resolve political and military confrontation and achieve national reconciliation. They also agreed to establish a political subcommittee to discuss the means by which these aims will be reached and implemented. Secondly, the parties pledged not to use force against each other and to respect the current demarcation line. A military subcommittee will be established to discuss and implement steps to achieve military confidence-building measures and arms reduction. Finally, the agreement's provisions for mutual exchange and cooperation are no less significant. They call for economic, social and cultural exchange between the two Koreas; free inter-Korean travel, correspondence and contacts; and joint domestic and international undertakings. Once again, committees are to be established to oversee and implement the arrangements.

The Joint Denuclearization Declaration, which was adopted three weeks after the adoption of the Basic Agreement, has also been a remarkable achievement to establish a peace system between the two Koreas. In particular, it ensures a nuclear-free Korea. The denuclearization declaration stipulates, among other things, that neither side would test, manufacture, produce, possess, store, deploy, receive, or use nuclear weapons. It also prohibits nuclear reprocessing and uranium enrichment facilities, and a joint nuclear control commission is to be established to carry out inspection in order to verify that the Korean peninsula is nuclear-free. These two documents officially entered into force on February 19, 1992 at the sixth round of the High-Level Talks. Various subcommittees and commissions were subsequently established, and negotiations to finalize the additional protocols are currently under way.[2]

The entry into force of the two agreements manifests the opening of an era of peaceful coexistence between the two Koreas as illustrated in Figure 1. As an institutional and conceptual starting point for the inter-Korean system of cooperative relations, the agreements are expected to transform the present armistice regime into a solid peace structure on the peninsula. Moreover, the significance of the agreements is manyfold. Among other things, if they proceed as they are supposed to, the agreements will greatly contribute to the improvement of inter-Korean relations and lay a firm foundation for the process of peaceful unification of the peninsula. At a subregional level, the agreements will make the Northeast Asian area a safer and more peaceful place.

Despite these positive developments of the security environment in the region, there are many uncertainties which might cause regional instability. For instance, the tension on the divided Korean peninsula is still high because of North Korea's nuclear weapon program, its sudden withdrawal from the Nuclear Non-Proliferation regime in March 1993 and the territorial dispute between Japan and Russia has yet to be resolved. Moreover, there is a conspicuous trend toward a regional arms build-up in Northeast Asia. Wary of each other, China is expanding its navy and air force, and Japan is embarking on a long-term build-up of its regional military capability.[3] With such disturbing elements, more practical approaches to securing peace and stability need to be materialized.

Figure 1. Significance of the Inter-Korean Agreements: Steps Toward Unification

Confrontation Era	Peaceful Coexistence			Unification
	Stage of Reconciliation & Cooperation		South-North Commonwealth	
→→→→→→→→→→→→→→→→→→→→→→→→→→				
Armistice Agreement				
	South-North Basic Agreement		Charter of the Korean Commonwealth	Unified Constitution
	Additional Protocols			

Source: Dong-Won Lim, "Peace and Security on the Korean Peninsula: Seoul's Perspective," *Disarmament*, Vol. 15, No.3, Fall 1992, pp.55–65.

AVENUES TO CONFIDENCE AND DISARMAMENT: TOWARD A NEW ORDER

To move toward a new order in Northeast Asia, it is necessary for the regional states to enhance mutual confidence and expedite disarmament. But the question is how to achieve such an aim and who is going to exercise leadership for security and cooperation in this region.

There are two main schools of thought on this issue: in the absence of any multilateral alliance in Asia, one view maintains that the U.S. military presence should be maintained in Asia to provide peace and stability; another view suggests that a regional forum is necessary to tackle these problems as does CSCE in Europe. Harmonizing the two conflicting schools of thought, three approaches to enhancing confidence and disarmament in Northeast Asia can be identified.

Importance Of Bilateral Negotiation

Outstanding issues left over from the Cold War, including the divided Korean peninsula and other remaining subregional disputes, must first be settled to pave the way to a regional security arrangement in Northeast Asia. In this process, bilateral negotiation is crucial to building confidence between the parties in direct conflict. For instance, the key to securing peace on the Korean peninsula — and ultimately to stability and disarmament in Northeast Asia — is an active North-South Korea dialogue. For real progress to occur in the region, trust and confidence between the parties immediately concerned need to be materialized. This is the major reason why the Seoul government has vigorously pursued the inter-Korean normalization under the theme of "Koreanization of the Korean question."

Emphasizing the importance of bilateral negotiations between the two Koreas is not necessarily excluding the role of external powers in the region. In defining the role of major powers, three important points should be noted.

First of all, Seoul is very much interested in maintaining regional stability in Northeast Asia. A balance of power and interests among the four major powers surrounding the Korean peninsula is indispensable to peace and stability in Korea and the Northeast Asian region. Given Korea's frequent historical experience of being a victim in big power rivalries, Korean security depends on a stable regional environment emerging among China, Japan, Russia and the United States. The presence and forward deployment of U.S. troops in Korea, in particular, serves the role of balancing other powers as "an honest broker and the final guarantor of security" in the region.

Secondly, the four major powers in the region could support the South-North dialogue, help in the easing of tensions, facilitate discussion of common security concerns and possibly guarantee outcomes negotiated between the two Koreas. Types of external assurances that would support bilateral agreements between the two Koreas may

include, for instance, refraining from involvement in any offensive actions and avoiding circumvention of the agreed Seoul-Pyongyang arrangement.[4]

Thirdly, economic exchanges and cooperation between North Korea and great powers (particularly, the United States and Japan) may be encouraged and promoted according to the progress made in political reconciliation and arms control on the Korean peninsula including the settlement of the nuclear issue. After North Korea's nuclear problem is resolved and, should the trend toward the development of economic cooperation and exchanges continue, increased economic interaction will eventually contribute to enhancing security and mutual confidence and promoting disarmament in the region.

A similar structure can be applied to other remaining regional disputes in Northeast Asia. In other words, the primary responsibility in the regional dispute lies with North and South Korea, Japan and Russia, and China and Taiwan. Without any progress in these bilateral negotiations, there is little that others can do other than encouraging them to work hard.

Subregional Forums For Economic Cooperation

The second possible approach to enhancing security, confidence and disarmament in Northeast Asia is subregional forums for economic cooperation. To reduce tensions and secure peace, it is important to promote political and economic dialogue on matters of mutual concern among the countries in the region. There is much merit in convening subregional forums to stimulate economic cooperation, which will eventually contribute to enhancing security, confidence and disarmament in the region.

In East Asia, as previously noted, there is a trend toward facilitating economic cooperation under the name of "Special Economic Zones," "Contiguous Economics Zones" or "Economic Circles."[5] Currently, several such zones are slowly being formed. For instance, the largest zone is found in greater China where Taiwan, Hong Kong and the Special Economic Zones (SEZs) or open areas in southern Guangdong and Fujian are rapidly growing with capital and technology from the

capitalist economies. Another zone is being formed in Southeast Asia which includes Singapore and the countries in the Indochinese peninsula.

A third zone is being explored in the area around the Korean peninsula among the Republic of Korea, northern China, North Korea, the Soviet Far East and Japan. Since 1988, trade and investment have increased between the Republic of Korea and Shandong. Recently, several proposals have been made to form economic cooperation zones around the Yellow Sea or the Sea of Japan. For example, the six nations in the region have shown serious interests in developing the Tumen River project as a multilateral endeavor through the United Nations Development Program. If this trend toward the development of special economic zones continues, economic complementarity will eventually contribute to enhancing security, confidence and disarmament in the region.

Strengthening Existing Arrangements

The third possible approach to enhancing confidence and securing peace and security in the region is to strengthen the existing agreements and institutions. For instance, Post-Ministerial Conferences (PMC) of the Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC) have substantial potential to evolve into a regional security arrangement, like CSCE in Europe. The experiences gained in political dialogues among countries sharing common political and economic values could contribute to creating a common perspective of the regional security environment.

There is already a revaluation of the CSCA concept among the regional states, and the necessity for multilateral security consultations is growing. Japan has proposed upgrading ASEAN's PMC to include more dialogue on political and security matters. South Korean Foreign Minister, at ASEAN's PMC in July 1992, stressed the necessity to develop regional consultation on common security in Asia and the Pacific where security has long been maintained largely by a "web of bilateral arrangements led by the United States."[6]

At this moment, it is premature to give ASEAN PMC or APEC any security content. Thus far they have been serving as forums to generate information on matters of common interests. However, as ASEAN's

PMC and APEC further expand to involve more structural forms of discussions and cooperation on security matters, they may well lead to a CSCE-style gathering in Asia.

CONCLUSION

Recent changes in the international environment, such as the end of the Cold War and the demise of communism in the former Soviet Union, have clearly provided an opportunity to secure peace and stability in Northeast Asia. In particular, the easing of the Cold War and improved relations among states are making the region more interdependent and integrated, both strategically and economically.

Northeast Asia, however, is challenged by the need to create a post-Cold War international order. In order to pave the way to a new regional security in Northeast Asia, the outstanding issues left over from the Cold War, the divided Korean peninsula, and other remaining sub-regional disputes, have to be settled first. Bilateral negotiation is crucial to building confidence between parties in direct conflict. By fostering bilateral negotiation between parties in direct conflict, political and economic dialogue on matters of mutual concern among the countries in the region could be promoted, leading to subregional and regional security arrangements.

NOTES

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Part II
The New International Order in Southeast Asia

5

The New International Order and Southeast Asian Security: Beijing's View

Herbert S. Yee

INTRODUCTION

The world witnessed the fall of the Berlin Wall and the unification of Germany, the disintegration of the former Soviet Union and the exit of communism from the Eastern European states in the first two years of the 1990s.[1] The unfolding events were generally heralded as marking the end of the Cold War era and the beginning of a new international order. A sense of optimism prevailed among world leaders and statesmen that a new era of international cooperation would bring peace and stability to global politics. To some observers, the new era marked the end of ideological and military confrontations between major powers.

The euphoria over the dazzling unfolding events, however, has not lasted long. The world is now faced with the disturbing aftermath of a disintegrated old world order. Ethnic conflicts and the rise of nationalism have plagued Eastern Europe and the former Soviet republics. A unified Germany has caused uneasiness and fear among some traditional European powers. Many world leaders do not feel comfortable in dealing with the United States, the only superpower left. The disintegration of the former Soviet empire has upset the previous strategic balance in international and regional politics. Southeast Asia in particular has been off-balanced by the power vacuum after the sudden decline of Russian influence and the scaled down U.S. military presence in the region. Some circles in the region regard China as a potential bully intent on filling the power vacuum.[2]

China's sheer size has cast a long shadow over Indochina and other Southeast Asian states. A backward, unstable and hostile China during

the chaos of the Cultural Revolution was feared by countries in the region as the possible base or source of military supplies for local insurgents; a modernizing, stable and relatively friendly China in the 1980s, on the other hand, was also feared and suspected of having long-term strategic intent to dominate the region. In short, a hostile China was to be condemned, a friendly China was also to be condemned. China's recent aggressive military maneuvers and forward policy over the Spratly Islands only deepened the Southeast Asian states' suspicion of Beijing's strategic intent in the region.[3] Indeed, China is to be fighting an uphill battle to shed the "China shadow" image.

How does China perceive the new international order and define its own role in Southeast Asian security in the new era? What obstacles and challenges do the Chinese leaders and foreign policy analysts see that will threaten regional security in the 1990s? This chapter[4] addresses, *inter alia*, the above questions. The source of information is based primarily on interviews with Chinese diplomats and foreign policy analysts in Beijing.[5] It is important to point out, however, notwithstanding the subtitle of this chapter, the Chinese foreign policy community[6] in Beijing does not speak with one voice on foreign affairs. Many policy analysts may agree on major official policies in principle, yet they disagree on specific implementations of policies.

THE CHINESE CONCEPT OF A NEW INTERNATIONAL ORDER

Chinese policy analysts conceptualize the world order into a "new international economic order" and a "new international political order," and each with different contents. The concept of a new international economic order was first mentioned by some Third World countries in the 1970s and was accepted and welcomed by Beijing. The concept of a new international political order, on the other hand, was first suggested by Deng Xiaoping in 1988 and was well-received by some countries. (In China, important foreign policies or policy concepts are often declared by top leaders.)

How to establish a new international political order? According to the official policy line, the new political order should be based on the principles of peaceful coexistence. The Chinese believe that all nations,

regardless of size, political or social systems and levels of economic development, should coexist peacefully and cooperate with each other in the spirit of national interests. Likewise, the Chinese believe that a new international economic order should also be based on the principles of peaceful coexistence. Every country, the Chinese assert, has its unique economic system and faces different problems in the process of economic development. Each country, therefore, should adopt economic policies most suitable to its specific national characteristics. All countries should promote economic exchanges and cooperation with each other and should not impose pressure on or intervene in other countries' domestic affairs. Any attempt to impose a particular economic system or model of development on another country, or to intervene in its economic policies, is an act of economic hegemonism. China supports efforts by developing nations and non-alignment movements to establish a new international economic order aimed at eliminating the disparity between the rich and the poor states.

Beijing points out, despite the disintegration of the old world order, hegemonism and power politics still prevail in global and regional politics. Interference in other countries' domestic politics and the use of military force in international and regional conflicts are common features of the current international order. Moreover, the Chinese believe, unreasonable and unequal economic relations between the developing and the developed industrial states have hampered the former's economic development. As a result, the gap between the rich and the poor states has widened in recent years. If this trend is not reversed, the Chinese warn, both the developing and developed states will suffer. How to help the Third World countries to develop their backward economies and to narrow the gap between the rich and the poor states, the Chinese stress, is the quintessential and most urgent problem to be addressed in the new international order. There is a consensus among Chinese diplomats and foreign policy analysts that the current international economic order should not and cannot be retained. Besides, the Chinese point out, the ending of the Cold War era has shifted the main contradiction of global politics from East-West political rivalry to North-North economic rivalry between Japan, the European Community and the United States.[7] To establish a new international economic order is thus the urgent need of a

new era.

In sum, in the new international order, the Chinese are primarily concerned with relationships, particularly economic relationships, between the developed and developing states. Despite the rhetoric, there is little doubt that China is genuinely concerned about its domestic economic development and its economic relations with other countries. Strategic and political calculations in China's foreign policies have played a secondary role in recent years especially after the disintegration of the former Soviet empire and the subsequently much reduced security threat from the north.

THE NEW INTERNATIONAL ORDER IN SOUTHEAST ASIA

While on the global level Beijing feels the more urgent need to establish a new economic order, it reverses this order of priority in the Southeast Asian region. There is a general consensus among the Chinese foreign policy community in Beijing that the top priority in the region is to establish a new international political order. By comparison, the need to establish a new economic order in the region is less urgent. The old political order in the region, the Chinese argue, was badly destroyed by superpower hegemonism and Vietnamese regional hegemonism in the seventies and eighties. By contrast, Association of Southeast Asian Nations (ASEAN) states have accomplished phenomenal economic growth since its inception in 1967. Economic inequality and the gap between the rich and the poor states are thus not as pronounced in the region.

But how to establish a new political order in Southeast Asia? The sudden collapse of the former Soviet empire and the Vietnamese withdrawal from Cambodia took China by surprise. In a short span of time, the two major factors (as perceived by the Chinese), namely superpower hegemonism and Vietnamese regional hegemonism, which greatly affected Beijing's strategic calculations in the region in the past, have dissipated. The Chinese policy analysts are still in the process of assessing the new, transitional political order. They have yet to conceptualize a new political order for the region. Specifically, what is the structural framework or power configuration of the new political order? How to maintain peace and security in the region? What roles, if any, should be

prescribed to major powers? Most Chinese policy analysts agree that the bipolar world has ended and that a multipolar world is evolving. A multicentered world, the Chinese believe, may bring with it more uncertainties, complexities and unpredictabilities.[8] A consensus in regard to specific features of a new political order in Southeast Asia has not yet emerged in Beijing's Chinese foreign policy community. Most policy analysts agree, however, that ASEAN should and would play an increasingly important role in the new regional political order.

In principle, Chinese policy analysts suggest, all major powers should withdraw from the region. Not only the United States and Russia, but also the future political major powers such as Japan, should abstain from involvement in regional conflicts. Some caution the Southeast Asian states to avoid involving Japan in regional, particularly, military affairs. They point out that Japan has in fact already expanded its political influence in the region. One analyst has cited Yasushi Akashi, the head of the United Nations peacekeeping mission in Cambodia, as an example of increasing Japanese political influence in the region. Some fear that Japan may combine its economic might with its new political influence to play a dominating role in the region.

Some Chinese policy analysts disagree. They suggest that major powers could play some positive roles contributing to peace and stability in the region. A sudden withdrawal, they argue, of major powers from the region would upset the existing political order and jeopardize peace and stability in the region. They believe that the regional powers, if left alone, might achieve some kind of political and military balance after a period of adjustment. Yet, none of them is strong enough to play a stabilizing role in the 1990s to replace that which major powers, especially the United States, used to play in the region.

THE DISINTEGRATION OF THE SOVIET UNION AND ITS IMPLICATIONS FOR SOUTHEAST ASIAN SECURITY

What political and military role will the Russians play in future Southeast Asian security? There is a general consensus among the Chinese foreign policy community that the disintegrated former Soviet empire will take at least ten years to recover from its current domestic economic chaos

and political turmoil. It will be at least ten years before Russia can regain its former major military power status. Moreover, even if Russia can recover sooner than expected, its strategic priority is not Southeast Asia. The Chinese analysts believe that the Russians will first attempt to control the former Soviet republics and then expand Russia's influence in Europe and Northeast Asia before returning to Southeast Asia. One may thus safely count Russia out of the major power competition in the region for the rest of the decade. Indeed, some Chinese analysts suggest that Russia might have difficulty in returning to Southeast Asia in the 21st century when a completely new configuration of powers in the region might not welcome the Russians.

In general, Chinese policy analysts hold a gloomy view of the present economic and political situation in the disintegrated former Soviet Union. Many blame the current chaos on the former Soviet Union's policy mistakes, especially the loss of control by the central government, its inefficient economic model and "Pax Russiana" policies toward national minorities. The Chinese believe that the Commonwealth of Independent States is only a transitional form of alliance between the former Soviet republics; it is doomed to fail. Indeed, the eventual complete disintegration of the former Soviet Union is the only and inevitable choice for the republics.

Some policy analysts in Beijing believe that complete disintegration of the former Soviet empire will help to speed up the recovery of Russia. Russia no longer has to subsidize or assist economic development of relatively backward republics in Central Asia and can concentrate its efforts on modernizing its own industries and military forces. However, the rise of Russian nationalism, some Chinese fear, may become an element of instability in future global and regional politics.

DOMESTIC AND EXTERNAL THREATS TO SOUTHEAST ASIAN SECURITY

Chinese foreign policy analysts see two possible sources of threat to Southeast Asian security: the internal factor and the external factor. They are concerned about the rising Muslim influence in Indonesia and Malaysia and the possible ascendancy of the military in the Philippines,

Thailand and Indonesia. They are also worried that continuing economic backwardness and worsening domestic politics in some Southeast Asian states such as Burma and Cambodia might eventually lead to political instability and social chaos. Some Chinese policy analysts believe that domestic political situation within Southeast Asian states will become the crucial factor affecting regional stability in the 1990s when major power influences in the region decline.

The Chinese seem to have a remarkable grasp of events and trends in Southeast Asia. Their analysis of potential internal threat to regional security is not too far apart from that of Southeast Asian specialists. The Chinese see no imminent internal threat to regional security. Beijing predicts continuing economic prosperity and relative political stability among ASEAN states in the 1990s. They also predict increasing economic cooperation and exchange between ASEAN states and growing political influence and international status of ASEAN. National and regional resilience is regarded by Beijing as the bulwark against security threat to the region. The Chinese note the increasing joint military exercises between ASEAN states after Vietnam's invasion of Cambodia and the agenda priority given to security issues during the 1992 annual ASEAN ministerial meeting held in Manila. However, Beijing points out, the Southeast Asian states have to live with the fact that their destiny is to a large extent shaped by major powers having direct or indirect interests in the region.

Beijing follows closely the development of strategic situations in the Asia-Pacific region. The United States, some Chinese policy analysts point out, has long regarded the Western and Southern Pacific as its domestic lake. Its supreme navy presence in the region had never been challenged until the 1970s when the Soviet navy began to catch up. Beijing is fully aware that the cornerstone of Washington's strategic policy in the Asia-Pacific region is its military alliances with Japan and Korea. One of the major strategic concerns of the U.S. navy in the Western Pacific is to assure free traffic in the sealanes vital to Japan and Korea. The American Subic Bay naval and Clark airforce bases in the Philippines had served the American strategic objectives well in the past. The Chinese welcome Singapore's initiatives to provide port facilities to U.S. warships. Despite the official policy rhetoric, Beijing accepts and

welcomes U.S. military presence in the region as a stabilizing force. Interestingly, this view is shared by ASEAN states though for different reasons. The Chinese want the Americans to stay in the region as a counter-balance against the Russian and Japanese influence. The ASEAN states, on the other hand, welcome U.S. military presence in the Asia-Pacific region as a balance against Chinese and Russian influence.[9]

Even before the disintegration of the former Soviet Union, the Chinese saw no serious threat to Southeast Asian security from Soviet's southward drive. The Chinese policy analysts noted that the Russians were never regarded as Asians by Southeast Asian states despite the Kremlin's claim to the contrary. Their military presence in the Asia-Pacific region was received with caution and alarm. The Russians' sometimes heavy-handed attitudes and unscrupulous spy activities were resented by Asian states. Compared to the United States, the Soviet's economic and political influence in the region was marginal. Its economic ties with non-Communist states in the region were insignificant. Russian goods were not welcome and Russian technology was treated as being far inferior to Western technology. In short, the former Soviet Union was treated as a distant global power with little legitimate interest in the region. There is no reason to expect the present Russian regime to be treated differently by the Southeast Asian states. Most Chinese policy analysts seem to be stunned by the rapid disintegration of the former Soviet empire and have overlooked the fact that Russia by its own right is a major military power and has lingering strategic interest in Vietnam and the region, as pointed out by some ASEAN observers.[10]

What worries Beijing most, however, is the possible emergence of Japan as a military superpower in the 21st century. The history-conscious Chinese firmly believe that economic power will inevitably lead to military power. It is only a matter of time, the Chinese believe, for Japan to become a major military power in the Asia-Pacific region. Compared to the United States and Russia, the Chinese note, Japan has much higher stakes to security in the region. Japan has become in recent years the leading investor and trading partner for most Asian nations. The sealanes through the international waters of the Western Pacific are vital to Japan's economy. Moreover, unlike the United States and Russia, Japan is an Asian state and accepted by its neighbors as such, notwithstanding

Japan's predilection to identifying its destiny with Western developed countries. Japan is generally regarded by Southeast Asian states to have legitimate interests in the region.

Some Chinese policy analysts believe Japan in the long run is the potential threat to Southeast Asian security. Japan is already the world's second largest economy. There shall be no problem for Japan to become a major political power in global politics in the near future, although Japan may have to wait until the 21st century to become a major military power. This view of potential Japanese military threat to the region is generally held by Chinese specialists in international relations. It is also shared by some observers in ASEAN states.[11]

Nonetheless, Chinese specialists in international political economy disagree, particularly those specializing in Japan's economy. They believe that Japan is primarily interested in economic expansion and Japan does not need to use military force to achieve its objectives. Unlike the past colonial era, the Chinese economists point out, when territorial conquest usually preceded foreign investment and market expansion, major economic powers in the present information era can dominate foreign markets through various economic means without resorting to the use of military force.[12]

Understandably, Chinese diplomats and foreign policy analysts are unanimous in denying any Chinese threat, either short-term or long-term, to regional security. They argue that China has to tackle many of its domestic problems and is simply not interested in economic or military expansion. China's policy priority in the foreseeable future is to concentrate its efforts on modernizing its backward economy. China's current major foreign policy objectives focus on strengthening economic and trading relations and cooperation with other countries and minimizing the role of ideology and politics in China's foreign affairs. China will try to stay away from regional conflicts even if invited to assume a role.

The Chinese analysts point out, unlike the 1950s and 1960s, when China openly assisted subversive activities within Southeast Asian states, Beijing now regards communist insurgents in the region as purely internal affairs of the countries concerned. In regard to overseas Chinese problems, China has long discarded its past ambivalent attitudes and does not recognize dual citizenship and will not interfere in other

countries' policies. In fact, China encourages Chinese residents in the region to integrate themselves into the local society and respect the local traditions and customs. One policy analyst has even suggested that, in order to avoid suspicions of Southeast Asian states, China should stop wooing overseas Chinese to invest in China.

CHINA'S SELF-DEFINED MAJOR POWER ROLE IN SOUTHEAST ASIAN SECURITY

Strategically speaking, Southeast Asia might weigh less in China's overall policy calculations than Northeast Asia or the Taiwan Straits. Nevertheless, the region is more important to China than it is to the United States or Russia. Only Japan might claim equal or more important strategic interests in the region. Like Japan, China is a Pacific rim country. The country has permanent strategic interests and territorial claims in the Western Pacific. Compared to Japan, however, China's economic ties with Southeast Asian states are insignificant. China's military presence in the region is suspected and feared while its political role is reluctantly acknowledged by Southeast Asian states. It is generally recognized by ASEAN states that without Beijing's cooperation there would be little hope for political settlement in Cambodia. On the balance, however, China's presence in the region is not welcome. How does China perceive its own political and military role in such a not too friendly environment?

Beijing is still in the process of formulating China's official foreign policy line in the new international order. A consensus on China's new role in Southeast Asian security is still absent within Beijing's Chinese foreign policy community. Some policy analysts suggest that China should grasp the opportunities provided by the transitional era (before a new international order is established) and stay out of regional conflicts, such as support for the Khmer Rouge which has done more harm than good to China's national interests and international image. To further reduce Southeast Asian states' suspicions of Chinese strategic intent in the Asia-Pacific region, China should maintain a low political and military profile in the region. What China should and can do, during the new international era, is to strengthen China's economic and trading

relations with Southeast Asian, particularly ASEAN states, and to increase Chinese investments in the region.

Some Chinese policy analysts, however, disagree. They believe that China can and should play some significant political and military roles in the region. After all, China is not an insignificant regional power. They share the view with other specialists that China will become a full-fledged major power and play a major power role in the region only after China has become fully modernized. Under the present circumstances, China's political influence in the region is limited. Yet China, they maintain, should not forsake its economic and strategic interests in the region. Indeed, China should play a more assertive role or a leadership role in the Asia-Pacific region.

Both views have supporters among top Chinese leaders and policy makers. This ambivalent Chinese foreign policy toward the region is best illustrated by China's handling of the disputes over the Spratly Islands and its relations with Vietnam. There are two contradicting views within the foreign policy community in regard to China's policy toward the disputed Spratly Islands. Some policy analysts are opposed to the use of military force in the Spratlys. The use of force to resolve disputes, they argue, would ruin China's efforts to establish a peaceful and friendly international image. Besides, the military option no longer exists after the normalization of Sino-Vietnamese relations. Some policy analysts, however, are in favor of "recovering" the islands claimed by China, by military force if necessary. They argue that if the present political environment does not favor the use of military force to resolve disputes, China should reserve the right to use force at a more appropriate time. However, both proponents of using peaceful or military means to resolving territorial disputes agree that China should not give up any territorial claims to the islands.

Many Chinese policy analysts point out that China, compared to other countries in the region, has the most credible and legitimate claims to the Spratly Islands. Besides, no Chinese leaders could survive politically the responsibility of giving up any Chinese territory. No Chinese leaders would therefore take the risk to negotiate or trade China's territories with other countries. To preserve China's future territorial claims by agreeing to temporarily shelve the sovereignty issues and to jointly

develop the natural resources in the area is thus the bottom-line of China's policy. Beijing first proposed the shelving of sovereignty issue to ASEAN states in 1990 and reiterated its willingness to negotiate with other claimants at the ASEAN foreign ministers' Manila meeting in July 1992.[13]

In general, the Chinese believe their recent military maneuvers in the Spratly Islands, including the establishment of "sovereignty posts" in some islands are justified. As one policy analyst has put it, "if other countries in the region, which have far less legitimate claims to the territories, do the same thing why not China?" Another policy analyst has suggested that China should try to sell the concept of "joint-development" to other countries in the region. He argues that once specific plans and projects for joint-development have been agreed between the states in the region the sovereignty issue will be automatically shelved. But no Chinese policy analyst knows exactly how to induce the countries in the region to jointly develop the natural resources in the Spratly Islands. No one is able to propose or has seriously thought of a workable joint-development scheme that will be acceptable to all states in the region.

Beijing's policy toward Hanoi also illustrates the lack of consensus among Chinese foreign policy analysts in a transitional international era. Some policy analysts maintain that Vietnam is one of the few socialist countries left with political and economic systems similar to China's. Beijing should therefore strengthen its political relations with Hanoi, although a return to the intimacy of the 1960s may neither be possible nor desirable.

However, the mainstream of thought among Beijing's foreign policy community tends to downgrade the socialist ties with Vietnam. Some note that Hanoi has already discarded its socialist ideology and is very practical and open in economic policymaking. In fact, some analysts point out that Vietnam has gone even further than China in opening its economy to foreign investment. They believe economic recovery in Vietnam will pick up momentum once the investment environment is improved. By then Vietnam's influence including its role in regional security will be vastly increased. To strengthen ideological ties with Vietnam, they argue, is meaningless in an era of practical diplomacy. Indeed, some analysts do not rule out the possibility that Vietnam will

eventually follow the steps of former Soviet republics and other Eastern European states and discard socialism all together. Sino-Vietnamese relations should therefore be based on the two countries' mutual geostrategic and national interests. Regardless of Hanoi's ideological outlook, China should strengthen its political and economic relations with its southern neighbor. Recent developments in Sino-Vietnamese relations such as exchange of visits at the ministerial level between Beijing and Hanoi indicate that Beijing's top policy makers have adopted this pragmatic and practical line of thinking in handling relations with Hanoi.

CONCLUSION

Chinese strategic analysts see no imminent external threat to Southeast Asian security. They believe both the United States and Russia are encountering serious domestic economic constraints inhibiting their respective military expansion plans. Moscow and Washington, the Chinese note, appear to be more concerned about long-term strategies to build up their comprehensive national capabilities. Many Chinese also believe that the likelihood of large-scale Japanese re-militarization which might cause disturbance to Southeast Asian security is remote. In short, despite the nagging Cambodian problem, Beijing predicts a relatively stable and peaceful Southeast Asia, free of foreign power interventions, in the 1990s.

Indeed, the Chinese predict that peaceful economic development will become the main trend in Southeast Asia in the present decade and beyond. A long period of stability and cooperation between states in the region is anticipated. Even if domestic turmoil takes place in some states in the region, such as Burma and the Philippines, the overall stability of the region will not be affected. To a large extent, the Chinese believe, the long-term stability of the region depends on two major factors: (1) a peaceful transition from military regimes to civilian governments in Southeast Asian states, such as Burma and Thailand; and (2) an increase in political cohesiveness, particularly in security and military cooperation, between ASEAN states.

Since the establishment of the People's Republic in 1949, China has

undergone several turnabouts in its foreign policy line. China adopted a "leaned-to-one-side" policy and was Moscow's close ally in the 1950s. It switched to a radical "anti-imperialist and anti-revisionist" revolutionary diplomacy in the 1960s. This was followed by an international "united front" (that included the United States) against Soviet expansion in the 1970s. And then in coordination with China's modernization drive and Open Door Policy, Beijing opted for an "independent" foreign policy line in the 1980s, keeping equal distance from Moscow and Washington.

When asked to describe the thrust of Chinese foreign policy in the 1990s in a few precise words, some Chinese policy analysts refer to the independent foreign policy line of the 1980s. Yet, when pressed to explain the independent foreign policy in the new era (for instance, independent from *whom*? The Americans or Russians?), few can give satisfactory answers. Some policy analysts, however, mention "pragmatic diplomacy" (*wu-shi-wei-zhao*).[14] For the first time, one analyst has pointed out, China's foreign policy orientation is not dictated by its relations with Moscow and Washington. The essence of practical diplomacy, he asserts, is to strengthen political, particularly economic relations, with *all* countries regardless of ideology or forms of political and economic systems. They cite China's establishment of diplomatic relations with Israel and South Korea and Beijing's withdrawal of support for the Khmer Rouge as examples of China's current practical diplomacy. The Chinese admit, however, that practical diplomacy must be backed up by a strong economy and a modern military force. Moreover, practical diplomacy also implies that China will act according to its strategic and national interests, including the use of military force if necessary, to regain what the Chinese regard as their legitimate claims.

As China's drive toward modernization gains momentum in the 1990s, its quest for international influence and prestige is likely to become an increasingly important factor in its policy calculations. Nonetheless, China will face insurmountable barriers in its attempt to play a significant political or military role in Southeast Asia. Despite China's geographical proximity to the region, it is generally regarded as an "outsider" by Southeast Asian states. Indeed, Beijing's efforts to open dialogue with the littoral states over the disputed Spratly Islands are suspected among states in the region as a ploy to buy time, "using the opening for dialogue to avoid revealing its real long-range intention of sole ownership and control of the South China Sea."[15] Beijing is stuck in a dilemma: its motives are suspected when China takes initiatives and cultivates closer relations with some states; it is simply ignored if China stays aloof and keeps a distance from regional affairs. The "China shadow" paranoia among some circles in Southeast Asia will continue to obstruct Beijing's efforts to improve relations with countries in the region.

NOTES

1. Daedalus, *Journal of the American Academy of Arts and Sciences*, devoted its spring 1992 issue, "The Exit from Communism," to the disintegration and aftermath of the former socialist states.
2. Rodney Tasker, "Facing up to Security," *Far Eastern Economic Review*, 6 August 1992, p.9.
3. In January 1974, a swift Chinese air and naval operation ousted the South Vietnamese garrison stationed in the Paracel Islands. The 1974 Chinese move marked the beginning of China's forward policy in the South China Sea. China made its second military move in the area in March 1988 when the Chinese took control of six islands in the Spratly group by sinking three Vietnamese transport ships. On February 25, 1992, China passed a law on its territorial waters claiming all the islets in the area. Three months later Beijing announced that it had signed a contract with a U.S. oil company, Crestone Energy Corporation, to explore oil in a block contiguous to an offshore Vietnamese oil field near the Spratly Islands. In June, Chinese troops set up a "sovereignty post" on a reef in the area claimed by Vietnam. It was reported that since 1988 China had occupied ten islets in the Spratlys, mostly at the expense of Vietnam. For an up-dated account of Chinese military moves in the South China Sea and responses from littoral states in the region, see *Far Eastern Economic Review*, 13 August 1992, pp.14–22.
4. An earlier version of this chapter was a paper presented at the international conference on "The New International Order and Asian Pacific Development," held at The Chinese University of Hong Kong on September 10–11, 1992.
5. The interviews were conducted by the author and his research assistant in Beijing during the period of July 25 to August 8, 1992. A total of thirty interviews were conducted. All were informal private conversations over the

lunch or dinner table. Strict confidentiality was promised to all interviewees. The interviewees included Chinese foreign policy analysts from major universities, research institutes and government policy units in Beijing, including several former Chinese diplomats previously stationed in Asian states.

6. The Chinese foreign policy community refers to Chinese diplomats, foreign policy analysts in government policy units and academics in major universities and research institutions.
7. This view of impending economic rivalry between Japan, the European Community and the United States is shared by some Western observers. See, for example, Lester Thurow, *Head to Head: The Economic Battle Among Japan, Europe, and America*, New York: William Morrow and Company, 1992.
8. Henry Kissinger, the former U.S. Secretary of State, also argues that the new international order will be "infinitely more complex than the Cold War." See his "Balance of Power Sustained," in Graham Allison and Gregory F. Treverton, eds., *Rethinking America's Security: Beyond Cold War to New World Order*, New York: W. W. Norton and Company, 1992, p.240.
9. Teik-soon Lau, "Pacific Rim Security Cooperation: ASEAN Perspective," in *Pacific Rim Security Cooperation* (conference proceedings), Seoul: Institute of Foreign Affairs and National Security, 1992, p.188.
10. "Treacherous Shoals," *Far Eastern Economic Review*, 6 August 1992, p.17.
11. Teik-soon Lau, op. cit., p.189.
12. Some Western observers seem to exaggerate the Chinese fear of Japanese re-militarization and project a possible arms race and military competition in Southeast Asia between the two Asian giants in the 21st century. See, for example, Robert S. Ross, "China's Strategic View of Southeast Asia: A Region in Transition," *Contemporary Southeast Asia*, Vol.21, No.2, September 1990, pp.111–116.
13. "The Regional Imperative," *Far Eastern Economic Review*, 13 August 1992, p.20.
14. Interestingly, Taiwan is also adopting a "pragmatic" or "flexible" diplomacy. A Taiwan scholar told the author that Beijing was not likely to use "*wu-shi-wei-zhao*" as China's official foreign policy line because it was adopted by Taipei.
15. "The Regional Imperative," *Far Eastern Economic Review*, 13 August 1992, p.20.

6

Southeast Asian Security in the New International Order

Anny Wong

INTRODUCTION

New strategic maneuvers in the Asia-Pacific region by the major powers have been prompted by the relaxation of tensions between the East and the West and have ushered in a new era in Southeast Asian security. The diminished U.S. military presence throughout the Asia-Pacific region and the removal of Soviet forces from Vietnam are signs of the end of superpower confrontation. The end of the Cold War, however, does not necessarily precipitate greater peace and stability in the Southeast Asian region. On the contrary, the region's powers contest to fill the power vacuum left by the superpowers. Competing interests among these countries — overshadowed and suppressed by Cold War politics — are surfacing and giving cause for concern as tensions heighten.

The relative calm of the Southeast Asian region and Asia as a whole in the 1980s has enabled the rapid economic development of these economies. These Southeast Asian economies are achieving greater vibrancy through the adoption of more open economic policies, attracting massive investments from the United States, Japan and the Newly Industrialized Economies (NIEs) of Hong Kong, Singapore, South Korea and Taiwan. These countries are also becoming more formidable regional political actors by speaking as a unified voice through Association of Southeast Asian Nations (ASEAN).

What is the new security environment in Southeast Asia to be in the new international order? Intra-regional competition is a major concern, involving sensitive issues including territorial disputes and military expansion. Furthermore, much distrust and suspicion persist among them

even after 25 years of interaction and cooperation through ASEAN, and similar sentiment is also found in their attitudes toward other regional powers.

Major powers in the region, namely the United States, Russia, Japan, China and a lesser power, Vietnam, are important actors in the Southeast Asian security environment. Their policies toward and interactions with ASEAN countries (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) are also affected by the changing security environment in the region following the conclusion of the East-West confrontation. This chapter shall investigate the issues, attitudes and policies of these national actors and their implications on Southeast Asian security in the new international order.

STRATEGIC IMPORTANCE OF SOUTHEAST ASIA TO THE ASIA-PACIFIC REGION

The sealanes of communication are the lifelines of Japan and other Northeast Asian economies. For instance, oil tankers carrying more than 70 percent of Japan's total oil imports from the Middle East sail through the straits of Malacca, Lombok and Sunda. Any interruption could have severe consequences for the Northeast Asian economies, as well as the Southeast Asian economies, namely Thailand and the Philippines, which depend on foreign oil imports for their survival. Peace and stability in the region are therefore crucial to the security and continuing economic development of the Asian region as a whole.

The region is booming economically. These Southeast Asian countries are endowed with an abundance of natural and mineral resources, including oil and liquefied natural gas (LNG) and have relatively cheap and skilled labor. These rapidly expanding economies are also a rich potential market for goods and services. In addition, the Southeast Asian region also serves an important role in the economic restructuring of the more advanced economies of the Asia-Pacific region that include the United States, Japan, Taiwan, South Korea, Singapore and Hong Kong. Due to the rising costs of production domestically and protectionism in their traditional markets, these more advanced economies are relocating many of their industries in Southeast Asia to take advantage of

the cheaper land, resources and labor available, as well as the opportunity to tap these markets.

With the peaceful settlement of the Cambodian conflict in sight under the auspices of the United Nations Transitional Authority in Cambodia (UNTAC) and the emergence of a reform-minded Vietnam, there is much optimism in the opening and development of the Indochinese economies as the next frontier of capitalist economic development in the Asia-Pacific region. The Southeast Asian countries, particularly Thailand and Singapore, have considerable interest and experience in this process.[1] There is already active border trade along the Thai borders with these Indochinese economies. Taiwan, Hong Kong, Japan and Singapore are the leading foreign investors in Vietnam, bringing into this capital-starved economy not only financial resources but also technology and international market links.

In over two decades of ASEAN's existence, its member states were held together by the common threats to their national security, specifically Soviet expansionism, Chinese-backed communist insurgencies and the Vietnamese threat. Lacking a political glue in the post-Cold War era, ASEAN is in search of a new raison d'être. Economic cooperation and gradually regional security coordination have become the new foci of ASEAN. These Southeast Asian states have to preserve their unity under ASEAN to reinforce their credibility and bargaining position in negotiations with the major regional powers — the United States, Russia, Japan and China — on regional security, political and economic matters.[2]

ASEAN is expanding its role to become a forum for regional security discussions, in addition to economic coordination. Its handling of the Spratly Islands issue in the July 1992 ministerial meeting in Manila helped to diffuse rising tensions over the disputed territory. Moreover, the Association's invitation of China, Russia and Vietnam as dialogue partners in this meeting was a pragmatic response to the changing regional security environment. The group's concept of regional security, in the words of Indonesian Foreign Minister Ali Alatas, is "to keep a balance of forces" among the United States, Russia, China and Japan.[3]

INTRA-ASEAN COMPETITION

ASEAN was formed in 1967 by the five Southeast Asian states of Malaysia, Thailand, Indonesia, the Philippines and Singapore (Brunei joined the organization in 1984) as a mechanism for policy coordination in security and economic matters due to the events in Indochina. All of them share a history of Western colonialism (except Thailand, which was never conquered by the Western colonial powers) and Japanese aggression. They are endowed with similar natural resources and are all export-oriented developing economies. This is, however, where their similarity ends. These countries, their peoples and their cultures are also products of their unique colonial experiences. Interactions among them, whether in political, economic or security cooperation, have never been particularly strong despite their geographic proximity. Their foreign policies are more intimately affected by their bilateral ties with their former colonial masters and present-day allies than their shared perceptions of threats and benefits. Competition among them for political leadership within the group and economic investment and aid from without is intense.

The following sub-sections will examine the main issues within and among ASEAN member nations that may be causes of instability in the Southeast Asian region.

Domestic Political And Economic Development

ASEAN economies are today among the most dynamic in the world, maintaining high rates of economic growth and making significant improvements in the standard of living of their peoples. This economic growth is dependent on the implementation of sound political and economic policies by their governments and the existence of a peaceful and stable internal and external environment. Economic development in turn stabilizes these countries by satisfying the economic needs of their population and discourages popular support for communist insurgencies and other movements that may challenge the governing political, economic and social orders.

Political development, on the whole, lags behind economic development in these Southeast Asian countries. Peaceful and democratic transfer of political power still has to fully take root in these countries. Political instabilities in the form of military coups (in the case of Thailand) and weak political leadership (in the case of the Philippines) have proven to threaten economic development by discouraging domestic and foreign investment. Enlightened dictatorships under able and charismatic leaders like Indonesia's Suharto and Singapore's Lee Kuan Yew have brought relative stability to these countries, facilitating their economic development; however, without genuine actualization of democratic political processes, domestic stability could suffer in the long run. Already there are calls for greater democracy in most of these countries. How the ruling elite chooses to respond to these popular demands could determine the future peace and prosperity of these countries individually and the region as a whole.

Territorial Disputes

Territorial dispute is one of the most sensitive issues that may trigger an outbreak of hostilities among the Southeast Asian countries. Countries in the Asia-Pacific region have generally displayed greater confidence in regional affairs since the end of the Cold War. This issue is particularly complex as it involves a multitude of nations over disputed territories that often fall within overlapping perimeters of sovereignty permitted under international law. Moreover, some of these territorial disputes also include contested claims by both the Beijing and Taipei regimes and each regards itself as the sole legitimate Chinese government, thus further complicating any attempts for settlement.

The contest over the Spratly Islands in the South China Sea is a good example and a major concern in regional stability. The Spratlys straddle strategic sealanes, through which 50 percent of Asia's oil and 80 percent of its strategic materials pass. Claimed in whole or in part by Brunei, China, Malaysia, the Philippines, Taiwan and Vietnam, the chain of tiny islands and atolls is believed to be rich in oil and natural gas. Regional security concerns over the area have heightened amid the reduction in military presence of the major powers as some of these countries are increasingly aggressive in enforcing their territorial claims.[4]

Recent Malaysian attempt to assert its territorial claim over the Spratlys has evoked strong reactions from other countries and some are moving ahead with their own means to assert their sovereignty. Malaysia has constructed a naval base and resort hotel on Layang Layang Island (in the Spratlys) to strengthen its territorial claim. The Malaysian navy uses the island as its main base for the district and has also stationed personnel on two other islands. A Malaysian naval source reported that there were about 50 Malaysian soldiers on the island, and the base commander readily admitted that the base was established "more for symbolic than military purposes."[5]

China also took direct actions to assert its territorial claim over the Spratlys. The National People's Congress declared China's legal claims to the Dongsha, Xisha (the Chinese name for the Paracels), Zhongsha and Nansha (the Spratly) Islands in the South China Sea in February 1992. The Philippine navy seized a Chinese boat in the area to which Malaysia lays claim in late March 1992, thus, further complicating the situation.[6] Although the boat was later returned, the contest for territorial sovereignty continues. China has positioned military personnel on some of the islands and atolls it lays claims to, and the Chinese naval presence in the area has become more common. Anxieties over possible outbreak of hostilities are heightened, and countries that do not possess sufficient military capabilities to assert their claims have sought other means to protect their own positions and to diffuse the situation.[7]

At the Bandung Conference in July 1991, participants, including member states of ASEAN, China and Vietnam, agreed to shelve the territorial dispute over the Spratlys and to promote joint development of the area's resources. Indonesia, the chief negotiator, proposed that another such meeting be held for discussion in 1992.[8]

The Spratlys was thus on the agenda of the July 21–22, 1992 meeting of ASEAN foreign ministers. Vietnam, invited as a dialogue partner, agreed to the 1976 Treaty of Amity and Cooperation at the meeting. This action is seen as a good omen for peace and stability in the region. The Treaty, to which Laos will also accede, binds the signatories to the principles of peaceful coexistence and peaceful settlement of disputes. Mutual respect and non-interference are also written into the accord. China did not accede to the Treaty but did not regard the Treaty as

incompatible with Chinese principles so there is hope that China may endorse it in the near future.[9]

Another main area of dispute is Sabah in East Malaysia between the Philippine and Malaysian governments. Each lays claim to the territory that is presently under Malaysian control. Since the Malaysian government has effectively governed this territory since the country's independence — and the British governed it during the colonial period — contesting claims by the Philippines are likely to be ineffectual in altering the present status.

As long as the contesting powers find reasons for cooperation and mutual benefit, they would not want to disrupt the peaceful and stable regional environment that has been conducive to their economic prosperity. One important factor that may change this would be the continuing expansion of military capabilities that affects the balance of power and exacerbates security anxieties.

Expanding Military Capabilities

Military expansion is another cause for concern. The easing of tensions in global politics is the reason for the reduced U.S. military presence in Europe and the Asia-Pacific region, but anxieties and mistrust among the Southeast Asian states themselves and toward other major powers in the region have induced greater military spending at a time of arms control and reduction elsewhere in the world. In the evolving new international order, these Southeast Asian countries, as well as China and Japan, find room for the expansion of their military forces. For instance, Singapore spends 6 percent of its GNP on defense annually. The country's 1992 defense budget of S$4.1 billion (US$2.5 billion) rose 11.6 percent over last year, or an increase of more than 40 percent from three years ago. So what is the peace dividend of the end of Cold War for the Southeast Asian region?[10]

Although most of the Southeast Asian armies do not possess adequate power to undertake massive strikes against neighboring states, much less the greater regional powers like the United States, China, Russia and Japan, they can incite regional instability in limited border military incursions and threaten safe and open passage through the

strategic sealanes of communication. These countries are not substantially enlarging their armies, but they are investing in advance military hardware and weapon systems that significantly enhance their deterrent capabilities and political leverage in the region.[11] Economic growth and prosperity in the past decade have helped to finance their military expansion.

The likelihood of a multilateral defense agreement among ASEAN states remains remote despite increased interaction and cooperation in training among the Southeast Asian states. For instance, Japan sends its troops to Taiwan and Brunei for joint military exercises and training, and Indonesia began joint air exercises with Singapore in 1991 over Indonesian territory.[12] The disparities in the size of their armies and other factors including mistrust and suspicions are the primary reasons for their inability to further security cooperation.

Indonesia maintains one of the largest armies in the region. The country signed an agreement with British Aerospace in June 1991 to buy Hawk trainer-fighters and multi-role aircraft fighters. Under the agreement, British Aerospace and Indonesia's state-owned Nusantara Aircraft Industry will cooperate in the production of the Hawk for the Indonesian air force.[13]

Though Hanoi cannot afford to invest substantially to upgrade and expand its tactical capabilities as its neighbors do, its military is still formidable in size and strength. It is also reinforced by decades of experience in tropical, guerilla warfare.

Brunei, Singapore and Malaysia, having comparatively smaller populations and armies, bolster their military capabilities by procuring advance weapons and early warning systems. Brunei also plans to purchase the Hawk trainer-fighters, while Singapore invests in the domestic production of an upgraded version of the U.S. A-4 Skyhawk. Over the past ten years, Singapore has increased the number of its aircraft fighters from 85 to 142 and now possesses the best strike capability in the Southeast Asian region.[14]

Malaysia has also signed a contract to purchase 28 Hawk fighters, as well as four Beech B-200t maritime patrol planes from the United States and two frigates from Britain, but Malaysia has deferred plans to acquire its first submarine. The 23 July 1992 issue of the *Far Eastern Economic Review* reported that Malaysia was close to concluding a deal for 30 MiG-29 fighters from Russia as a faster and cheaper way to strengthen its tactical capability in response to rising tensions in the South China Sea.[15]

The Thai army is formidable in size and strength, but the country and its military are perceived to have little political ambition beyond the Thai border. Therefore, the Thai military is not generally considered as a threatening menace by its neighbors, though Thailand too has been upgrading its military with more technologically sophisticated weapon systems.

Years of economic poverty has severely weakened the Philippine armed forces in strength and morale. The Philippines will have to invest more in its own defense after the withdrawal of the U.S. military presence from the country, but competing demands from the economic and social sectors will obstruct any significant increase in the defense budget. The Philippines' geographic distance from other Southeast Asian states aids to reduce the risks of conventional military attacks or overspills from neighboring states, but it is disadvantaged in asserting itself in some regional issues, such as territorial disputes. Furthermore, there is the danger of attacks by advanced weapons such as missiles, and naval blockades of key sealanes of communication remain.

Anxieties due to historical reasons and distrust also motivate military build-ups. For instance, Singapore, a tiny city-state of 2.6 million people, lives in constant fear of aggression from Malaysia and Indonesia, so the government places high priority on defense. Nonetheless, prolonged open military confrontation could overwhelm the Singaporean defense forces. Singapore would also suffer from naval blockades of the strategic sealanes and even from hostilities in the region that would not be aimed directly at Singapore. The island city-state is almost entirely dependent on foreign imports of energy, food and other commodities and any interruption can threaten its survival.

Increased Chinese, Indian and Japanese capability to project their military strength, especially in their naval tactical capabilities, as well as the possibility of a reunited Korea and a revitalized Vietnam, are also seen as a cause for increased individual military spending by ASEAN states and has been explicitly stated as such by the Singaporean Defense Minister, Yeo Ning Hong.[16]

Competition For Intra-Regional Political Leadership

Finally, competition for political leadership of ASEAN and the Southeast Asian region has intensified since the end of the Cold War. The region and many of its capable leaders were overshadowed by Cold War politics and superpower confrontation. The reduced dominance of the superpowers in the post-Cold War period permits renewed assertiveness by the region's leaders.

Furthermore, economic development, increasingly a measurement of national strength in the post-Cold War era, grants the leaders of these economically vibrant countries the credentials to speak out on many regional and international issues.[17] Another effect of the end of the Cold War and economic dynamism is that it has spurred a new wave of nationalism throughout the region, a new sense of national confidence and assertiveness in Southeast Asian affairs, as well as in the global concerns of developing nations.

Competition is most intense among Singapore's Prime Minister Goh Chok Tong, Malaysia's Prime Minister Mahathir and Indonesia's President Suharto. Albeit with little apparent outward sign of their differences, their ambition is obvious and is manifested in the past several years in the high-profile activities that each has engaged in to outshine the others to enhance his own and his country's prestige. These activities include their highly publicized official visits to Vietnam and the hosting of numerous regional and international conferences in their countries.

Though Goh does not have the stature of his predecessor, Lee Kuan Yew, now senior minister and still highly respected and no less outspoken, Goh's credential is due to his position as head of the most advanced and prosperous economy in Southeast Asia. Goh has proposed "strategic growth triangles" to bolster economic growth and cooperation within the region. In these ventures, Singapore is to serve as the banker and Indonesia and Malaysia are to supply land, resources and labor. Malaysia and Indonesia, as well as other ASEAN members, have endorsed this proposal and plans have been drafted to jointly develop specific areas such as Malaysia's Batam Island in the coming years.

Mahathir finds his credentials in his successful management of the Malaysian economy in the past decade, leading Malaysia ahead rapidly

to soon join the rank of NIEs. In recent years, he has become particularly vocal on development issues and has frequently upset his Southeast Asian counterparts, as well as the United States and Europe, with his anti-Western rhetoric. His controversial proposal in late 1990 for the East Asian Economic Grouping (EAEG) envisioned a membership that included the Northeast and Southeast Asian economies but excluded the United States and Australia. The United States immediately declared its objection. Besides concerns with negative reactions from the United States and Europe, all important trading partners, fellow ASEAN members did not endorse the proposal because they had been vexed by the absence of full consultation before Mahathir had publicly launched the EAEG concept. Japan, China and the NIEs, which maintained close economic relations with the United States, were also cautious not to offend their top trading partner and were thus equally reluctant to endorse the proposal.

After 25 years in power and realizing significant achievements in Indonesia's economic and social development, Suharto regards himself as the senior statesman in ASEAN. Unlike Mahathir, Suharto is more subtle and understated. Yet, unwilling to be eclipsed by these younger leaders, he has moved to establish himself as a global statesman by accepting the chair of the Non-Aligned Movement and hosted the organization's summit meeting in Jakarta in September 1992.[18]

This leadership competition among ASEAN states may not be as explosive as the territorial issue or as ominous as their military build-ups. Nonetheless, it is distressing as the success of regional cooperation and the peaceful solution of their differences, and ultimately the peace and stability of the region, depend on amicable relations among the leaders and peoples of ASEAN states. Their differences in personality and views of the world and the clash of styles in diplomacy could compromise ASEAN's potentials in the new global environment where opportunities abound to shape a new international order.

THE MAJOR POWERS AND SOUTHEAST ASIAN SECURITY

ASEAN invited the United States, Russia, Japan, China and Vietnam as dialogue partners in the July 1992 ASEAN ministerial meeting to discuss

various regional economic, political and security issues. This is reflective of the pragmatism that underlies ASEAN's foreign policy in the new international order. By involving these countries in discussions under ASEAN's agenda, these Southeast Asian countries can strengthen their status and leverage *vis-à-vis* these major powers. Moreover, with the breakdown of ideological confrontation in the post-Cold War era, the Southeast Asian countries find a new rationale for unity under ASEAN's banner to prevent exclusion from issues that may be dominated by the region's greater powers.

The United States: A Necessary Presence

The United States won the Cold War, some have declared, and it is time for the country to reduce its military presence overseas and refocus its attention and resources on domestic affairs, particularly to alleviate the country's economic problems. This suggestion is backed by reference to the new developments in Asia-Pacific politics in the post-Cold War era that includes a peaceful Cambodian settlement and a reduced North Korean and Vietnamese threat to Asian security.

The renewed sense of nationalist assertiveness among Southeast Asian countries has also made the maintenance of a large and permanent U.S. military presence in the region more difficult. The U.S. military presence in the Philippines is a case in point.

The Philippines was the most strategically situated forward base for the U.S. Pacific fleet in Southeast Asia. Maintenance facilities at Subic Naval Base were the most comprehensive and largest outside the United States. Relocation to nearby territories, such as the Marianas, would be too costly and would not offer similar advantages for forward deployment. Though the United States' final decision to remove its military bases from the country was prompted more by the danger of volcanic eruptions by Mount Pinatubo than demands from the Philippine government, there was steadily growing congressional and popular support in the Philippines to terminate the base agreements.

The United States, nonetheless, wants to maintain a military presence in the region to maintain its leverage in regional discussions. Some countries in the region — for instance Singapore — also wish to see a U.S. military presence as a balance to other major powers in the region, as well as the larger Southeast Asian powers.

Singapore has proffered logistics support and have given open invitation to the United States to set up a military base in the territory. The U.S. military forces also find logistics support in Thailand, Malaysia and Indonesia. The United States has an access pact with Thailand, and Malaysia has offered the Lumut shipyard, Indonesia, its Surabaya facility.[19] Although the U.S. presence is regarded as a stabilizing force in Southeast Asian security, many doubt whether Washington would commit American troops to intervene in bilateral conflicts within the region or to aid any single party in territorial disputes over a few islands and reefs in the South China Sea.

Russia: New Diplomacy In Southeast Asia

Russia is no longer viewed as an immediate threat to the region. The Soviet threat was manifested mainly through its military presence in Vietnam's Cam Ranh Bay and its support of the Communist regime in Hanoi. The former Soviet Union transformed the Cam Ranh Bay facilities left by the U.S. forces into a key center of its Pacific fleet. But as the Soviet economy floundered in the late 1980s, Moscow had to cut its armed forces in the Soviet Far East, Vietnam and Afghanistan. In response to domestic economic difficulties and the relaxed atmosphere in global politics, the former Soviet Union first reduced and then terminated aid to its Indochinese ally and announced the withdrawal of Soviet troops from the country.

Nonetheless, Moscow maintains keen interest in a military presence in Cam Ranh Bay for the new Russian republic. The Russian Foreign Minister, Andrei Kozyrev, as a special guest at the July meeting of ASEAN foreign ministers in Manila, formally sought continued access to the air and naval facilities formerly used by the Soviet military at Cam Ranh Bay in talks with Vietnamese Foreign Minister Nguyen Manh Cam. Cam Ranh Bay was the only warm-water port facility of the former Soviet Pacific fleet. Lacking any traditionally strong political or economic ties with the Southeast Asian countries, Russia could find itself excluded from the region. A military presence will, therefore, enable

Russian participation in regional affairs, particularly in regional security issues.

There are historical concerns about Russian expansionism. However, what kind of threat, if any, would Russia pose to the Southeast Asian region is being speculated about. Former Philippine Foreign Secretary Raul Manglapus said that "We [the ASEAN countries] might categorize these fears as fears of the unknown" at the ASEAN ministerial meeting.[20]

Japan: Friend Or Foe

Japan today is the second largest economy and has the highest per capita GNP in the world. It is the largest creditor nation and a top donor of development aid. Japan aims to enhance its international status to a level commensurate with its economic status. Consolidating and expanding its leverage in the Asia-Pacific region is a first step toward this goal. Japan has major stakes in the peace and stability of the Southeast Asian region.

The country has substantial investments in Southeast Asia. Since the oil crises of the mid-1970s, Japan has been actively promoting closer economic cooperation with the Southeast Asian states, particularly those with substantial endowments of oil and other energy resources. The region as a whole is the largest recipient of Japanese official development aid (with China being the largest single recipient).

The Japanese government and private enterprises have invested aggressively in the exploration and development of oil and other energy sources in the region, more recently in LNG in Indonesia and Malaysia.[21] Japanese enterprises have also transplanted many of their space- and labor-intensive industries to the Southeast Asian economies for easier access to raw materials and cheaper labor to maintain their competitiveness in the international marketplace and seek the opportunity to tap these rapidly growing consumer markets.

Japan is seen as the model of development by some Southeast Asian countries, e.g., Mahathir's "Look East Policy" in which he has openly called for emulation of the Japanese economic miracle. Japan is a top investor in and trading partner of all ASEAN countries, and economic relations between Thailand and Japan are expanding most rapidly.

Military coups in Thailand have hindered some Japanese investment projects, but long-term Japanese interest in the Thai economy is immense, and Thailand is seen as a window to the resource-rich Indochinese economies.

Japan has also used its economic muscles to aid the debilitated Philippine economy with special loans and development assistance to help the government of Corazon Aquino. Japan, with its economic strength and leverage in regional trading groups and financial institutions such as the Asian Development Bank, is expected to play a crucial role in the development of the Southeast Asian economies and the rehabilitation of the Indochinese economies.

There is little disagreement that the Southeast Asian countries all acknowledge Japan's importance to their development and the reality of growing Japanese leverage in regional affairs. Nevertheless, anxieties over Japanese intentions and resurgence of Japanese militarism continue to persist due to historical reasons. These Southeast Asian countries are wary of Japan's expanding military capabilities, particularly as the U.S. military presence diminishes. Singapore, for one, has admitted its anxieties and in response has offered the U.S. military berthing and landing rights.[22]

Thailand though appears to be the least worried about Japan's expanding military capabilities. Thailand's former Prime Minister Chatchai proposed to the visiting director of the Japan Self-Defense Forces a joint military exercise between the two countries. The proposal was cordially rejected as Japan was aware that such actions might worsen apprehension among Asian countries. Chatchai's proposal — unbeknown to and without prior consultation with other ASEAN states — was later much criticized by the other ASEAN member states.

Recent moves by Japan to bolster its military capabilities include the joint development of the FSX aircraft fighters with the United States, purchases of over-the-horizon radar systems, a proposed development and test manufacturing of a mid-range surface-to-air missiles (the Defense Agency decided to postpone this plan until after Fiscal Year 1993), and possession of nuclear capabilities.[23] Unilateral Japanese expansion of the perimeter of patrol to 1,000 nautical miles from Japan in the early 1980s stirred much consternation among some Southeast Asian

states. The Philippines and Indonesia were especially distressed as it brought Japan's naval force into their territorial waters.

Japan's determination to fortify its defense forces to back its diplomatic aspirations is exemplified by the approval of the Peacekeeping Operations (PKO) bill in the Japanese Diet in June 1992. After repeated attempts, the ruling Liberal Democratic Party finally pushed through the bill despite considerable domestic opposition from the public and opposition parties. Japan had earlier sent minesweepers to the Middle East during the Gulf Crisis, and 600 engineers from the Ground Self-Defense Forces joined the UNTAC mission to build roads in Cambodia in October 1992. This was the first overseas deployment of Japanese military personnel under the PKO bill. The Japanese government was obviously much elated by this opportunity. The Defense Agency even announced plans to hire civilian vessels to help transport personnel and materials to the war-torn nation — in addition to its own transport vehicles — before an official letter had been issued by the United Nations.

The PKO bill aroused much concern among all Asian countries that had been victims of Japanese aggression during World War II. However, whether the Southeast Asian nations like it or not, they can do little to convince Japan otherwise, and so in response they augment their own military capabilities and try to involve other major powers in regional security issues to check Japan's growing military potentials.

China: Anxieties Linger

Southeast Asian views of China are very much affected by their perception of the Chinese threat. Fear and suspicions of China among ASEAN states have been due largely to Beijing's support of indigenous communist movements in Southeast Asia in the 1960s. Relations between Beijing and Southeast Asian governments had gradually improved in the 1970s consequent of shifts in China's foreign policy and the regional security environment.

But recent Chinese moves have provoked charges that it is bullying its neighbors. China has launched 15 attacks since March 1991 on foreign boats and ships, including one on a 42,407-ton Japanese trawler

220 kilometers from the disputed Diaoyutai (or the Senkakus to the Japanese). In May 1992 a gunfight erupted when, by Hanoi's account, Chinese troops were caught moving boundary markers along the Friendship Pass on the China-Vietnam border. In early July 1992, Chinese troops reportedly planted a territorial marker on another isle claimed by Hanoi in the increasingly volatile Spratlys, and China authorized oil exploration in waters claimed by Vietnam. As mentioned earlier, China put into law in February 1992 its sovereignty claims over the Spratlys, the equally contentious Paracels and Diaoyutai. The legislation allowed the Chinese military to enforce Beijing's territorial claims.[24] China just completed a 1-kilometer runway in the Paracels and deployed military personnel in some of its claimed islands as a symbolic gesture to assert Chinese sovereignty.[25]

China is in a position to flex its muscles. China has the third largest submarine fleet in the world and is acquiring new and more advanced military hardware. Though military build-up ranks bottom among its Four Modernizations, the country is nevertheless spending more and displaying greater assertiveness.

The collapse of the Soviet Union has unleashed a sale of Soviet weapons at bargained prices. China is rumored to have negotiated for the purchase of Soviet SU-27 aircraft fighters, as well as a half-built Tbilisi-class aircraft carrier now in a Ukraine shipyard. This 60,000-ton carrier has ramps and catapults to launch MiG-29s, the top Russian fighter-bomber. With this carrier, China can project its air power 4,000 kilometers from its shores, reaching as far as Africa, Australia and the mid-Pacific.[26]

A U.S. State Department official reported in October 1992 that Russia was selling missile technology, missile launchers and other advance weapon systems to China. Other items on the sales account to China were plutonium-processing technology and S-310 missiles. In addition to worries of greater Chinese military power, there are also concerns of illegal and covert transfer of these technology and weapons to third parties. There is also evidence that China and Russia may jointly produce aircraft fighters and other weapon systems.[27]

Yet China would be foolish to jeopardize bilateral relations with the Southeast Asian states as the entire Asia-Pacific region moves toward

greater regional economic cooperation. The financial and diplomatic costs of any military confrontation are unacceptable at the present stage of China's economic development. Its diplomatic and military self-assertion should be primarily interpreted as a Chinese action to maintain its big power status, especially in light of Japan's increasing leverage and other strategic developments throughout the Asia-Pacific region.

The Vietnamese Threat: Minimization Through Cooperation

Southeast Asian countries today no longer regard Vietnam as an aggressive expansionist communist threat — a primary reason for the formation of ASEAN. Nonetheless, Vietnam can still be a threat to regional peace and stability as the country maintains one of the largest and most experienced armies in the region. Moreover, continuing concerns of Vietnam's strategic intentions in Indochina remain. The future peace and prosperity of the Indochinese economies depend on a peace-loving and reform-minded Vietnamese regime.

Since the mid-1980s, Hanoi has introduced drastic economic reforms to revitalize the Vietnamese economy. The country is rich in resources and has vast potentials for economic development. Japan, the NIEs and the Southeast Asian countries are all eager to be involved in this process to realize the enormous profits they expect from this new frontier of economic development. There are already substantial private investments from Singapore, and bilateral trade with Thailand is growing rapidly. Furthermore, Vietnam's economic development, in the view of ASEAN governments, is conducive to greater peace and stability in the region.

ASEAN, therefore, has taken the initiative to involve Hanoi in multilateral discussion on many regional security, political and economic issues. The Association also hopes to raise its regional status by positioning itself as the arbitrator between Hanoi and other governments. The recent invitation to Hanoi to participate in the ASEAN ministerial meeting won Vietnam's agreement to the Treaty of Amity and Cooperation, which is helpful to diffuse escalating tensions over conflicting claims to the Spratly Islands.[28] The Association is, however, reluctant to accept

Vietnam's request for membership, but it has indicated willingness to extend various privileges to Hanoi. The Southeast Asian governments are also individually moving to improve bilateral ties with Hanoi. Several heads of state and top government officials from the region have visited Hanoi in the past two years and concluded numerous bilateral trade and loan agreements to expand bilateral economic cooperation.

CONCLUSION

The new international order is still evolving. The end of the Cold War has contributed positively to reduce tensions and has given rise to new opportunities for cooperation among the Southeast Asian countries and between these and other powers in the region. On the other hand, the end of the Cold War has resulted in the creation of a power vacuum as the presence and leverage of the superpowers have been reduced. This power vacuum will not exist for long as the region's actors contest to fill it. Diplomatic and military assertiveness and the emergence of many differences that were suppressed or overshadowed by the exigencies of Cold War politics raise concern about increased tensions.

Territorial disputes are the most immediate and explosive threat to regional security, particularly the outbreak of hostilities between China and Vietnam. The United States and other major powers are unlikely to involve themselves in debates over a few islands, and ASEAN countries can only watch from the sideline or be drawn into it in defense of their own territorial claims. Continuing multilateral discussions are critical to prevent further aggravation of an already tense situation.

Peace and stability in the Southeast Asian region are crucial to the peace and stability of the whole Asia-Pacific region. The convergence of the multitude of national actors within the region, different in size and capabilities, each with its own distinctive political, economic and social system and national ambitions that often represent competing interests, complicates efforts for coordination and cooperation in security and other matters.

There is, nonetheless, much hope for optimism since these national actors have a consensus on maintaining peace and stability in the region.

The end of ideological confrontation has given way to dynamic pragmatism in the conduct of foreign policy. ASEAN, along with the United States, China and Japan, shall play a key role in determining peace and stability in the Southeast Asian region.

NOTES

1. An Indonesian private company, PT Astra Petronusa, signed an oil exploration agreement with the Vietnamese state-owned oil company, Petrovietnam, to search for offshore oil deposits. The 25-year contract to explore Block 4–3 off Vietnam's southern coast is thus far one of the largest and most significant joint ventures between the two countries.
2. Maria Luz Y. Baguioro, "ASEAN Moves to Cool Spratlys Dispute," *Nikkei Weekly*, 25 July 1992, p.32.
3. *Ibid.*
4. Alex Dacanay and Maria Luz Y. Baguioro, "ASEAN Reasserts Need for Concord," *Nikkei Weekly*, 1 August 1992, p.24.
5. Malaysia occupied these islands in 1983. At that time, these islands were merely a coral reef with a few rocks protruding above the sea, but Malaysia dredged up sand from the adjoining shallow water, and also shipped some in from Borneo Island, expanding the island into one of the area's largest. Malaysia plans to further develop Layang Layang into a prime resort area and to market diving tours in these islands in Japan. See Makoto Ohashi, "Malaysia Develops Disputed Spratly Isle," *Nikkei Weekly*, 30 May 1992, p.31.
6. *Ibid.*
7. Nayan Chanda, "Treacherous Shoals," *Far Eastern Economic Review*, 13 August 1992, pp.14–17.
8. See Makoto Ohashi, "Malaysia Develops Disputed Spratly Isle," *Nikkei Weekly*, 30 May 1992, p.31.
9. See Maria Luz Y. Baguioro, "ASEAN Moves to Cool Spratlys Dispute," *Nikkei Weekly*, 25 July 1992, p.32.
10. See Minerva A. Lau, "Singapore Calls on Region to Build Up Defenses," *Nikkei Weekly*, 13 June 1992, p.23.
11. A more recent trend in air defense build-up shows a slight shift to the procurement of a larger number but less expensive weapons including Russia's MiG-29 and British Aerospace's Hawk fighters in response to the situation in the South China Sea. See Michael Vatikiotis, "Hawk Spreads Its Wings," *Far Eastern Economic Review*, 25 July 1991, p.11.
12. See Maria Luz Y. Baguioro, "ASEAN Moves to Cool Spratlys Dispute," *Nikkei Weekly*, 25 July 1992, p.32.
13. The initial contract for the Hawk fighter-trainers was halved to 24 due to budgetary restraints. See Michael Vatikiotis, "Hawk Spreads Its Wings," *Far Eastern Economic Review*, 25 July 1991, p.11.
14. *Ibid.*
15. In October 1992, the Malaysian government asked the Parliament to approve a large increase of 1.08 billion ringgit (US$432 million) in defense spending for the 1992 budget, of which 985 million ringgit (US$395 million) would be used to buy vessels, aircrafts and army equipment. If the Parliament approves, defense spending will increase by two-thirds from the 1.5 billion ringgit (US$600 million) initially approved for 1992. See Michael Vatikiotis, "The Russian Option," *Far Eastern Economic Review*, 23 July 1992, p.11.
16. Minerva A. Lau, "Singapore Calls on Region to Build Up Defenses," *Nikkei Weekly*, 13 June 1992, p.23.
17. Among ASEAN Countries, Singapore is the most advanced technologically, but Malaysia is catching up rapidly; and Indonesia and Thailand are resource-rich, and their geographic location gives them a voice on many strategic issues. The Philippines and Brunei do not qualify as strong competitors in this race as the former is absorbed by its domestic political and economic problems, and the latter is too small to have a significant voice on most issues. Though Thailand has played a prominent role in the Cambodian settlement, domestic political strife in the past two years has practically kept the leadership from assuming a more active role in regional affairs. The Thai leadership may resume a more vigorous role in ASEAN, but its ambition is more focused on the Indochinese region as the countries to capitalize on its location as a window to Indochina.
18. Suharto's national policies in population control and achievement of self-sufficiency in rice have won him awards from the United Nations. See Michael Vatikiotis, "Clash of Style," *Far Eastern Economic Review*, 20 August 1992, p.19; and "The Mahathir Paradox," *Far Eastern Economic Review*, 20 August 1992, pp.16–18.
19. "Worries about China," *Asiaweek*, 7 August 1992, p.24.
20. See Maria Luz Y. Baguioro, "Russian Intent on Keeping Cam Ranh Bay Naval Base," *Nikkei Weekly*, 1 August 1992, p.24
21. Takehiro Fukuda, "Japan Becomes Major LNG Player," *Nikkei Weekly*, 22 August 1992, p.1.

22. See Maria Luz Y. Baguioro, "Cold War's End Leaves ASEAN in Fear of Unknown," *Nikkei Weekly*, 25 July 1992, p.32.
23. "Missile-development Plan Put Off by Defense Agency," *Nikkei Weekly*, 22 August 1992, p.2.
24. "Worries about China," *Asiaweek*, 7 August 1992, p.20.
25. See Nayan Chanda, "Treacherous Shoals," *Far Eastern Economic Review*, 13 August 1992, pp.14–17.
26. "Worries about China," *Asiaweek*, 7 August 1992, p.20.
27. *Shijie Ribao (World Daily)*, 18 October 1992, p.1.
28. Maria Luz Y. Baguioro, "ASEAN Moves to Cool Spratlys Dispute," *Nikkei Weekly*, 25 July 1992, p.32.

Part III
The Prospect of Economic Cooperation in the Asia-Pacific Region

7

Japan and Regional Cooperation in the Asia-Pacific Region

Tsutomu Kikuchi

INTRODUCTION

Japan, like other countries, is in the midst of a role transition in these rapidly changing world circumstances. The coming decade is likely to see more extensive changes in Japan's foreign policy than at any time since World War II.

In November 1989, the first ministerial meeting of Asia-Pacific Economic Cooperation (APEC) was held in Canberra, Australia. It was said that, by establishing this high-level meeting, Asia-Pacific cooperation was entering a new stage of development. The Asia-Pacific region has been characterized by its diversity of race, religion, language and tradition. However, Asia-Pacific cooperation established on the basis of heterogeneity, not homogeneity, may have a historical significance in the field of regional cooperation.[1]

Japan, as was shown in the initiative taken by the late Prime Minister Masayoshi Ohira in the 1970s, had been one of the prominent supporters of Pacific economic cooperation. Ohira had proposed to cultivate cooperation in the Asia-Pacific region among these Asia-Pacific countries with their different cultural and historical backgrounds and different stages of economic development. This Japanese foreign policy had also originated from Japan's long-held "dream" of integrating basic diplomatic principles. First of all, it was "to establish harmonious relations with developed liberal-democratic countries, especially with the United States." Secondly, it was "to live as an Asian country and to establish friendly and cooperative relations with other Asian countries."

This chapter touches upon Japan's policies toward regional

cooperation in the Asia-Pacific region. First, I will trace Japan's policies and attitudes toward Asia, especially toward Southeast Asia. Secondly, I will examine Japan's policies toward the Asia-Pacific region in a time of drastic changes in the international circumstances of the Asia-Pacific region. From the late 1960s to the early 1970s Japan had experienced the dramatic changes taking place in the Asia-Pacific region. In the process of considering Japan's response to these changes, Japan had looked for new ways of cooperation with the countries of Asia-Pacific region. In this context, this chapter examines Japan's increasing awareness of the active role it should play, one that is commensurate with its status as the largest economic power next to the United States, to maintain regional and international stability in the 1990s. Finally, I will touch upon the prospect of regional cooperation with a security dimension and the role of Japan.

Progress in Pacific cooperation is expected to have a positive impact on the solution of economic and trade-related disputes among the Asia-Pacific countries and to make a greater contribution to the global solution of these disputes through regional resolutions. At the same time, in the long run, Pacific cooperation is expected to provide a new type of regional cooperation recognizing and respecting each country's cultural independence and political self-determination. Pacific cooperation is, as Ohira had in mind, quite a new concept befitting the age of the global community. Proposing Pacific cooperation was one of the few diplomatic initiatives that Japan had taken in the post-war period.[2]

JAPAN'S POST-WAR FOREIGN RELATIONS

Basic Objectives Of Japan's Post-War Diplomacy

Japan's Ministry of Foreign Affairs presented three basic objectives of Japanese diplomacy in its first published *Diplomatic Bluebook* in September 1957: Firstly, emphasis on the role of the United Nations; secondly, establishment of harmonious relationships with developed liberal-democratic countries; and thirdly, living as an Asian country. These have been kept until now as the basic objectives of Japan's

diplomacy. In this sense, the first *Diplomatic Bluebook* showed a very clear understanding of Japan's future direction.[3]

Since its independence in 1952, as symbolized in the Japan-U.S. Security Treaty, Japan's relations with the United States have constituted a pillar of its foreign policy. At the same time, in the early post-war period, Japan had to strengthen its diplomacy with other developed Western countries to correct discriminatory trade measures taken by them against imports from Japan, such as the application of Article 35 of the General Agreement on Tariffs and Trade (GATT). To gain equal status in international trade, the Japanese government rigorously requested the governments concerned to change their trade practices toward Japan. Thus, it was quite important and urgent to strengthen its so-called "economic diplomacy."[4]

Problems in Asia received great attention in this context. Economically, Japan had complementary relations with other Asian countries. These Asian countries had huge amounts of natural resources but had not fully developed their economic potentials. Japan, through the transfer of its technology and capital, could contribute to their development and further economic exchanges with them. Finally, Japan, having lost its traditional Chinese market and resources, had to look for new areas for its economic survival.

Thus, Japan emphasized the importance of promoting economic cooperation with Asian countries in close cooperation with other developed industrialized nations, especially with the United States. We can see here one of the original forms of Japan's approach to Asian development; that is, to support development in cooperation with other industrialized nations.[5]

This increasing Japanese awareness of playing a constructive role for Asian development in cooperation with other developed countries reflected Japan's growing confidence in its international status. Japan normalized diplomatic relations with the Soviet Union and joined the United Nations in 1956. These developments gave the Japanese people and government a feeling that Japan had attained "the status of a member of the international community."[6]

Although Japan tried to promote its relations with Asian neighbors, "Japan's return to Asia" did not proceed smoothly. The legacy of the last

war strongly constrained Japan's return to Asia. Asian neighbors were skeptical of Japan's intention and behavior.

Japan had shown remarkable economic growth since the late 1950s. The country accepted Article 8 of the International Monetary Fund Charter in April 1964 and became a member of the Organization for Economic Cooperation and Development (OECD). Moreover, through successful negotiations, Japan entered into full GATT relationships with all the major advanced countries. For Japan, these meant that Japan had gained international status as an advanced nation — a goal which Japan had consistently sought in its post-war economic diplomacy.

Just when Japan obtained equal status in international commercial exchange, Asia, especially Southeast Asia, showed a distinct tendency toward regional cooperation. Serious disputes between Indonesia and Malaysia had come to an end. This was followed by the re-opening of diplomatic relations between the Philippines and Malaysia, and Indonesia's recognition of Singapore, resulting in a general normalization of relations among the countries of this region.

The change of political leadership in Indonesia symbolized the change in the process of nation-building in newly independent countries. Southeast Asian countries had, since their independence after the war, placed the highest value on the maintenance of independence under charismatic leaders. With the passage of time, however, they gradually came to recognize the importance of national social and economic development through interaction with other countries. Based upon this common concern, there emerged among Southeast Asian countries a growing trend toward seeking solutions to common problems through regional cooperation.

These new policies and strategies adopted by national leaders coincided with Japan's basic approach toward the region. Thus, the Japanese government expanded its economic cooperation programs to this region. The then Japanese Foreign Minister Shiina suggested making 1966 the first year of strengthening Japan's economic cooperation with Asia.[7]

Japan's first attempt was to set up the Ministerial Conference for the Economic Development of Southeast Asia, through which Japan intended to promote mutual understanding among senior political leaders of the various problems facing Southeast Asia, and to encourage them to

create a feeling of community among the countries concerned. Japan hosted the first meeting in 1966.[8]

Japan also took the initiative in giving birth to the Asian Development Bank (ADB), which was formally established in 1966. ADB was established as a symbol of Japan's foreign policy stance of establishing new relations with the rest of Asia, while departing from the traditional posture of alienating itself from Asia and turning toward Europe. Other Asian nations responded with contradictory feelings of expectation and apprehension about Japan's motives.[9]

The Asia and Pacific Council (ASPAC) was also assumed to be a vehicle to promote cooperation in the Asia-Pacific region. ASPAC was the first organization composed of a wide range of members from the Asia-Pacific region. The organization undertook a number of regional cooperation activities, especially in the field of economic cooperation.[10]

Increasing Interest In The "Asia-Pacific" Region

With membership in the exclusive "club of developed countries," Japan cast a new light on Asian developments in the late 1960s. Japan became a member of OECD's Development Assistance Committee (DAC) and significantly expanded its development assistance to the Asian countries.

One of the characteristics of Japan's increasing interest in regional affairs was its reference to the "Asia-Pacific" region; not restricting it only to "Asia." For instance, Foreign Minister Takeo Miki proposed in a speech in 1967 to support economic development through joint efforts by the developed countries. In Miki's speech, "Asia" encompassed developing countries in the South on the one hand, and "the Pacific" developed countries in the North, on the other hand. He mentioned that the peace and prosperity of the Pacific would not be achieved without those of Asia. In his view, countries in both Asia and the Pacific shared a common destiny. A similar concept of Asia and the Pacific may be found in the idea of the Asia-Pacific Organization proposed by then Minister of the Economic Planning Agency, Kiichi Miyazawa, which was modeled on the American "alliance for progress."[11]

These concepts of promoting Asian development through joint efforts by the developed nations in the North, especially Japan and the

United States, were in a sense an extension of an idea of the early 1950s of Asian development through close Japan-U.S. relations. At the same time, there was a recognition of the need to consolidate Asia-Pacific unity in the face of the emerging trend toward regional integration in Europe. In addition, the indigenous movement toward regional cooperation emerging in Southeast Asia manifested itself in the formation of the Association of Southeast Asian Nations (ASEAN). Thus, based upon the interactions of these two trends there emerged a concept of a more comprehensive Asia-Pacific regional cooperation.

Entering the 1970s, the Japanese political leaders frequently referred to Asia-Pacific cooperation and "the age of the Pacific" in their speeches. We find three types of categorization in this regard.[12]

The first emphasized the importance of U.S.-Japan cooperation to promote peace and stability of the Asia-Pacific region. The Sato administration which took power in late 1964 was a case in point. While regional cooperation in Asia for economic development had to be based on, first of all, efforts made by nations of the region themselves, the prospect of cooperation was not necessarily bright if activities were taken by the developing countries alone. Thus, Sato, welcoming the emerging trend to regional cooperation, appealed for cooperation of the developed countries such as Australia, New Zealand, the United States and Canada which had vital interest in the region. For Sato, it was of prime importance to establish cooperative relations among the developed countries in order to support the nation-building process of the developing countries. Sato was skeptical of the prospect of regional cooperation supported by the developing countries alone. Support from the outside major developed countries was indispensable to cooperation.

Viewed from the standpoint of U.S.-Japan relations, this meant some kind of division of responsibilities between them. Sato mentioned his idea in his speech delivered in Washington in November 1969 as follows:

> "Since the United States plays the central role in preserving global peace and also holds greater responsibility for the security of Asia, I believe that it is Japan rather than the United States that should take the leading role in such fields as economic and technical assistance for the purpose of the nation-building efforts of the Asian countries."[13]

The second is a concept related to major power relationships, which was reflected in then Prime Minister Miki's statement in 1975, in which he stressed the cultivation and maintenance of relationships of friendship and cooperation with the United States, China and the Soviet Union to sustain the stability of this region.[14]

The third was the concept of emphasizing more comprehensive Asia-Pacific regional cooperation. It originated from the regional cooperation activities of the 1960s which was mostly supported by academics and business leaders. Ohira was a chief architect in the political circle. He stressed the importance of cultivating cooperative relationships among the countries in this region, including the region's developed countries.[15]

Behind these concepts advocated by Japanese political leaders existed a common belief on Japan's rise to a major power. There remained a self-image of Japan as a forerunner among the Asian nations toward modernization that could be traced back to Japanese self-definition in the Meiji era.

JAPAN'S RESPONSE TO CHANGES IN THE INTERNATIONAL ENVIRONMENT

Drastic Changes In International Relations In The Asia-Pacific Region

What caused Japanese political leaders to pay more attention to Asia-Pacific cooperation in the 1970s? Certainly Japan's economic relations with the rest of Asia had constantly expanded, while concurrently political, economic and cultural relations with other advanced nations of the region had been established and deepened. Asia-Pacific cooperation was based upon this reality. Pacific cooperation proposals as policy options did not, however, simply follow deepening interdependence but were the manifestation of clear political will.[16]

From the long-term perspective, there was a strong feeling that Japan would realize its long-held aspiration of accommodating its policies of promoting its relations both with the other advanced nations

in the West and the developing nations in Asia. At the same time, however, drastic changes in the international environment since the late 1960s prompted Japan to look for new ways to promote Asia-Pacific regional cooperation.[17]

The 1970s witnessed dramatic changes in international relations in Asia, especially in major power relations, as shown in Nixon's visit to China in 1972. Needless to say, China stood at the center of these changes in Asia. Therefore, Japan devoted itself to improving relations with China during this period.

Encouraged by the changes in U.S. foreign policy, Japan rushed into normalizing its relations with the government of mainland China. These dramatic changes of major power relations certainly opened a new stage of development for regional stability. At the same time, however, they caused grave anxieties on the part of smaller countries because of the possibility these changes might force the existing security system to deteriorate. Moreover, a series of events showed to the Asian countries that the major powers might sacrifice smaller nations in the name of reducing tensions in the region.[18]

Japan formulated a new regional policy to respond to the changes in international relations of the Asia-Pacific region. There were, however, some serious problems between Japan and the other countries in the region, Southeast Asia in particular, and they needed quick solutions. Criticisms of Japan had increased in parts of Asia over the rapid growth of Japan's enormous economic presence in these countries. Large-scale anti-Japanese demonstrations during then Prime Minister Kakuei Tanaka's visits to Bangkok and Jakarta in 1974 reflected the emerging antipathy against Japan in Southeast Asia. These anti-Japanese demonstrations caused Japan to consider seriously proper attitudes toward Southeast Asia.

Saigon fell in May 1975, and Vietnam was unified under communist rule. A large communist country thereby emerged in the center of Southeast Asia. ASEAN countries watched with grave concern the emergence of the unified Vietnam. What worried the ASEAN countries was Vietnam's possible support of communist and other anti-government movements in their own countries. To protect themselves from these threats, some of the ASEAN countries relied upon major powers through

military arrangements. History showed them that not only did such arrangements work poorly against these threats, but also that military arrangements with major outside powers prompted internal political divisions. There were no quick-fix solutions for the governments but to devote themselves to long-term social and economic development, thereby promoting political stability. Strengthening national resilience became national goals of the ASEAN countries.[19]

The end of the Vietnam War provided Japan with an opportunity to reconsider its regional policy. The Vietnam War, into which the United States committed a large amount of military force and capital, had constrained its own as well as Japan's diplomacy. The end of the war, however, created much room for Japan to take the diplomatic initiative.

"Fukuda Doctrine"

Japan's new stance toward regional cooperation was reflected in its appreciation of the development of ASEAN as a regional organization. Since the formation of ASEAN in 1967, Japan's attitude toward this organization had always been ambivalent. Japan had welcomed and supported this spontaneous movement on the part of Southeast Asia. However, as I have mentioned earlier, Japan had been skeptical of the prospect of regional cooperation supported by developing countries alone. Consequently, Japan tried to promote regional cooperation at its own initiative, in close cooperation with the United States.

In reconsidering its Asian policy, it was an encouraging trend that the ASEAN countries demonstrated their efforts to strengthen relations among themselves. Also, in order to maintain regional stability, they expressed their coordinated views as the will of all member countries and presented concrete policies as a regional organization. Their emphasis on social and economic development as a means of strengthening national resilience also coincided with Japan's basic approach.[20]

Impressed with the role of ASEAN as a stabilizing force in Southeast Asian regional politics, Japan considered its relations with ASEAN to be the foundation of Japan's policy toward the region, instead of other organizations such as ASPAC and the Ministerial Conference on the Development of Southeast Asia. Two new policies emerged: one was

the so-called "Fukuda Doctrine" and the other, the idea of "Asia-Pacific Cooperation."

Among Japan's initiatives toward Southeast Asia, particularly noteworthy was the speech delivered by Prime Minister Takeo Fukuda in Manila in August 1977 at the end of his tour to the Southeast Asian countries. In his speech, Fukuda made clear the following principles concerning Japan's basic attitudes toward Southeast Asia, quickly labelled the "Fukuda Doctrine": (1) Japan rejected the role of a military power; (2) Japan would do its best to consolidate the relationships of mutual confidence and trust based on "heart-to-heart" understanding with the nations of Southeast Asia; (3) Japan would cooperate positively with ASEAN while aiming to foster relationships based on mutual understanding with the rest of Southeast Asia.[21]

A government official deeply involved in formulating the "Fukuda Doctrine" explained Japan's motive as follows. The fall of Saigon had shaken the "Pax Americana." The unified Vietnam might tilt toward the Soviet bloc and, as a result, Soviet influence might be strengthened in the region. Moreover, the increase of Soviet influence would inevitably hasten China's advance into the region. This region might thereby face a power struggle between the two communist powers. This was undesirable not only for Southeast Asia but also for Japan. To avoid this situation, Japan thought that it should make an effort to make Vietnam coexist with its neighbors.[22]

The "Fukuda Doctrine" was quite rare in post-war Japanese diplomacy in the sense that Japan had clearly expressed its intention to play an active political role in the reduction of tensions in the Asia-Pacific region. This active approach toward regional politics also reflected Japan's concern over the withdrawal of U.S. military presence from the region. Japan's willingness to share responsibilities for regional stability was expected to contribute to holding back the U.S. tendency to "dwindle away from Asia."

Thus, since the mid-1970s, it had become a pressing task for Japan to maintain U.S. commitment to the security of Asia, especially to the defense of Japan. Japan and the United States agreed to the "principles of Japan-U.S. defense cooperation" in 1977. The introduction of "host nation support" in 1978, allocating funds for the social welfare of

Japanese workers in U.S. bases in Japan, was also assumed to contribute to maintaining the U.S. military presence in Asia.[23]

The Concept Of Asia-Pacific Cooperation

Relations between Japan and the Oceanian countries had developed rapidly in the 1960s and 1970s, especially in commercial trade. Economic complementarity had encouraged a rapid expansion in trade between them, in particular between Japan and Australia.

Both countries tried to expand mutual relations beyond economic exchanges. The dialogues between both governments expanded rapidly. Scholars and business leaders of both countries, through activities at such forums as Pacific Basin Economic Cooperation (PBEC) and Pacific Trade and Development Conference (PAFTAD), also contributed significantly to promote understanding of the importance of economic cooperation in the Pacific region. The Basic Treaty of Friendship and Cooperation, concluded in 1976, symbolized not only the deepening of bilateral relationships but also their growing awareness of the need to play a constructive role in the Asia-Pacific region.

Closer relations with Australia provided Japan with an opportunity to view regional cooperation from a much broader geographical perspective — not restricted geographically to Asia — and to establish Japan's relations with the rest of Asia based on broader multilateral relations.[24]

Relations between Japan and China developed gradually following their diplomatic normalization in September 1972. After intensive negotiations over the "anti-hegemony" clause, the pending Japan-China Treaty of Peace and Friendship was finally signed in August 1978. Japan was willing to support China's modernization programs so that China's reform measures and Open Door Policy would firmly take root. Japan was convinced that the stability and development of China, combined with expanded cooperation with the industrialized democracies, would be the key to stability and development of the entire Asia-Pacific region.

The gradual development of Japan-China relations, coupled with deepening understanding between Japan and the countries of Southeast Asia and Oceania, gave then Prime Minister Ohira a new opportunity to take a diplomatic initiative. Abnormal relations between Japan and its big

neighbor had for a few decades severely constrained Japan's ability to make diplomatic overtures.

With this change, Japan could now have a fresh approach to international relations, along with an expectation of maintaining relatively stable relations with China. In addition, improved relations with other Asian and Oceanian countries, as well as the United States, enabled Japan to formulate a truly regional multilateral policy covering the entire Asia-Pacific region.

The ties among the Pacific countries had become strikingly closer with the remarkable progress in communications and transport technologies. Growing interdependence required progressively closer coordination of policy making to identify new economic opportunities and to resolve potential frictions and bottlenecks in the way of mutually beneficial trade. Thus, for the first time in history, all the prerequisites were ripe for the creation of a regional community in the Pacific, one that went beyond economic cooperation and had historical significance.

In addition, such regional cooperation was expected to serve a number of the following strategic objectives:

(a) to sustain U.S. economic presence, thereby preserving the strategic importance of the region to the United States; just like Fukuda, Ohira worried much about the possible withdrawal of the United States from Asia. Pacific cooperation was expected to encourage the United States to maintain interests in Asian affairs, thereby contributing to the maintenance of the U.S. presence in the region;

(b) to maintain harmonious relations between Japan and the United States, which was vital not only to the prosperity of Japan but also to the peace and stability of the region. The accumulation of a huge trade surplus with the United States had brought about unilateral U.S. economic measures to rectify the trade imbalance, an action that worried many other Asian economies because of the possible damages to their trade relations. Pacific cooperation was expected to contribute to the solution of these trade-related disputes in a much broader regional framework on a multilateral basis to strengthen the global economic system. (In the short run, Pacific cooperation could ensure that the continuing frictions in the U.S.-Japan trade relationship were solved in ways which did not cut across the interests of other economies in the region);

(c) to bring China (possibly also the Soviet Union) into a regional arrangement in which it could play a positive role. China had been isolated for a long time from exchanges with the market-economies of the region. This had been one of the major destabilizing factors for the region. Asia-Pacific cooperation was expected to place China in a multilateral framework of cooperation, thereby contributing to regional stability;

(d) to help set up a cooperative relationship between the industrialized countries and the developing countries of the region that could serve as a model for the rest of the world to solve the North-South problem.

In addition, Asia-Pacific cooperation was expected to widen and diversify Japan's diplomatic foundation. In the post-war period, Japan had not had any multilateral regional framework with its neighboring countries in which to develop its diplomacy. In real terms, only the U.S.-Japan bilateral relationship had served as a framework for Japan's post-war foreign relations in the Asia-Pacific region. Partly because of this structural weakness in regional frameworks, Japan had failed to accumulate enough diplomatic experience in this dynamically changing region. Further, it had constrained Japan's multilateral diplomatic overtures.

PECC AND ASIA-PACIFIC ECONOMIC COOPERATION

The PECC Process

Ohira, in his January 1980 visit to Australia, cautiously sounded his idea of Pacific cooperation to then Australian Prime Minister Malcom Fraser. Australia, searching for a new identity after the erosion of the British Commonwealth connection, reacted positively.

The challenge was, and remains, to develop a structure for

consultation which could accommodate great diversities. Vast differences in population, culture, historical background and stage of economic development were compounded by political factors including those factors related to the status of Taiwan and Hong Kong. These differences and complicated political factors meant that region-wide economic cooperation could not be built on formal intergovernmental structures. Something imaginative was needed to commence the process.

Accordingly, the building blocks of Asia-Pacific economic cooperation were constructed carefully and informally. Conferences and various consultative processes involving academics and businessmen paved the way for the initiation of the Pacific Economic Cooperation Conference (PECC) in 1980. PECC had an innovative tripartite structure, drawing together businessmen, academics and officials who participated in their private capacity.[25]

Since its establishment in 1980, PECC has promoted regional economic cooperation through various task force activities in such fields as trade, investment, mineral and energy and fisheries. PECC, with full recognition of the region's diversities, has given great emphasis to selecting specific areas of mutual interest and building consensus among the parties concerned. The group has emphasized "what is feasible" rather than "what is desirable." In addition, PECC has encouraged informal communication among members, thereby avoiding rigid management that comes with institutionalization. Summing up, the PECC process has reflected intense efforts to create a new type of cooperative framework based upon the diversities in this region, in which processes of dialogue and communication for cooperation have been more important than its organizational structure(s).[26]

This has differed from other regional frameworks, such as the EC, where organizational structures and formalized decision-making procedures have been given greater importance than the processes. Moreover, the nature of PECC as a non-governmental organization has enabled easier involvement by the smaller developing countries in the regional cooperation activities without formal commitment to them.[27]

PECC has also pioneered the way for policy-oriented economic consultation in the region whereby have been included both China and Taiwan and, since 1991, Hong Kong. A very important benefit of the

work of PECC has been to foster strong, broadly-based support in the Asia-Pacific region for open and outward-looking rather than defensive form of cooperation. More generally, PECC has created the confidence that, despite the region's great diversities, there is scope for effective cooperation which can accommodate all regional interests.

Increasing The Role Of ASEAN

In developing Asia-Pacific regional cooperation, we should note the roles that subregional organizations have played. Among a number of regional organizations, the development of ASEAN has had great significance in developing broader regional cooperation.

ASEAN was formed to stabilize the region through the solidarity of the member nations when the Vietnam War entered its most intense stage of fighting. Accordingly, ASEAN's regionalism was defensive in character. There remained a common perception that smaller developing countries had to unite to keep out undue intervention by foreign powers in their politics, economy and even culture. In addition, they had to unify themselves to strengthen their voice in interactions with the outside world. This same phenomenon was true of the emerging regionalism of the South Pacific. Fears of military, political, or cultural intervention by a superpower, as well as convictions that the smaller countries of the region could hope to escape excessive influence or even domination only by banding together to promote their common interests were strong factors motivating the Asia-Pacific nations to develop an unprecedented degree of regional cooperation and institutionalization in the face of great obstacles and continuing differences.[28]

Thus, until the mid-1970s, regionalism in the Asia-Pacific subregions was more inward-looking, placing the highest priority on the strengthening of unity among the members, and showing reluctance to strengthen their ties with outside powers. Therefore, the open regionalism advocated by Ohira and his study group, characterized by its strong orientation to globalism, was assumed to have a negative impact on the development of sub-regional organizations, even if Ohira emphasized respect for existing organizations.

Moreover, although the door was open to all countries in the region,

PECC was initially comprised only of market-oriented economies. In the context of a Pacific region politically charged by the Sino-Soviet conflict, political and military tension in Indochina, the possibility of the end of Soviet-U.S. détente with the Soviet invasion of Afghanistan and, as a consequence, the possible flare-up of a new Cold War, any grouping of the size and significance of more than ten market-oriented economies was bound to have political implications.

ASEAN countries still possessed certain anxieties in their dealings with the major powers. Yet, they were gradually becoming more outward-looking with the deepening of interdependence and the growing sense of self-confidence due to the skillful management of their relations with major powers. Introduction of the ASEAN Post-Ministerial Conference (PMC) scheme in 1975 reflected this change of attitude. Direct contact with the major powers through the ASEAN PMC scheme also gave new international dimensions to the regionalism emerging in Southeast Asia and linked it more closely to the international system. With their remarkable economic growth in the past decades and accumulated experiences of regional economic cooperation activities through PECC and other forums, ASEAN countries were actively involved in Pacific cooperation processes. This cleared the way for official mechanisms like the Asia-Pacific Economic Cooperation (APEC).[29]

APEC And Pacific Economic Cooperation

Against this background, foreign and economic ministers representing twelve regional economies gathered in Canberra in November 1989 for the first high-level meeting of APEC. Despite the vast diversities of the constituencies they represented, they were able to agree readily on the guiding principles of the new process. Central to these principles was that APEC be outward-looking, rather than directed toward forming a trading bloc. The process would be based upon building consensus on a gradually broadening range of economic issues, taking into account the region's diversities and ensuring that due weight was given to the views of all participants. APEC would not develop into a formal negotiating process allowing some to force their views on others. APEC was to complement existing regional organizations such as ASEAN and PECC;

participation was to be open-ended, assessed on the basis of strength of economic linkages with current participants. APEC was assumed to be an informal process of consultation, rather than a new formal intergovernmental institution.[30]

Japan strongly supported the strengthening of APEC as well as PECC. The country was urged to play an active role to promote regional peace and stability. In this context, APEC could provide a conventional regional framework within which Japan could move more smoothly toward a position of shared policy leadership with the United States in the long run and aid to buttress and extend the GATT-based trade regime.

In the course of the coming decade, Asia-Pacific regionalism will certainly advance regardless of the organizational structure it takes. Fully two-thirds of Asia-Pacific trade today is intraregional. This fact makes closer cooperation indispensable, and APEC is in the center of this process. A rigid mechanism for cooperation would be counterproductive because of the region's diversities and the dynamic changes in the region's international environment. Asia-Pacific economic cooperation should proceed in a pragmatic and informal way.

In this connection, a greater danger arises if some participants seek to transform APEC from a consultative consensus-building effort into a negotiation format. Increase in case-by-case communication among parties concerned seems to offer a better prospect. The process should be a gradual and evolutionary one in which each step is taken only after the appropriate conditions have been created, and this demands strong patience of all the parties.

Due to the region's diversities and the rapid changes in the regional environment, flexible diplomatic dealings are needed to promote regional cooperation. In this context, we need to pay more attention to the role to be played by non-governmental organizations such as PECC, PAFTAD and PBEC. These organizations will provide not only fresh insights, but also useful informal forums for discussion. They will also strengthen the APEC process for Asia-Pacific cooperation which should be operated within multilayered organizational frameworks in the coming decade. Our task is to formulate an organizational model to integrate these organizations and proceed toward greater cooperation with flexibility and informality.

Development of the Asian countries through regional cooperation has been and will be extremely important to Japan. Japan has been the only industrialized nation in Asia in the past century. This unique position has induced a sense of mission for Japan to do something for Asia. Needless to say, it is nothing new for a country to possess some sense of mission. Such sentiments have often encouraged countries to play constructive roles for peace and stability of the world. Excessive sense of mission, however, has often resulted in tragic consequences. Japan's behavior before 1945 was a case in point.

After the war, Japan began a nation-building effort based on the new peaceful constitution. Yet, *Diplomatic Bluebooks* published in the post-war period have shown clearly that there still lingers a strong sense of mission that reflects the pre-war Japanese views of the world, even if in a modified form.

In spite of its defeat, Japan recovered quickly and became an economic giant. Since most of the Asian countries were in depressed conditions, a sense of mission emerged again. A sense of mission itself should not be denied, but this sense of mission, coupled with a grave gap in economic development between Japan the rest of Asia and the legacy of the war, introduced an element of "stress" or "uneasiness" in Japan's foreign policy. In fact, it was quite difficult for Japan to formulate its relations with the rest of Asia on an equal basis. Japan's relations with the rest of Asia became inevitably vertical, not horizontal, greatly constraining Japan's diplomacy. The development of the Asian countries, therefore, could "release" Japan from this undue stress and offer an opportunity to establish more equal and mutually beneficial relations between Japan and the rest of Asia.

THE SECURITY DIMENSION OF REGIONAL COOPERATION

Japan And Regional Security Cooperation

So far I have mentioned the evolutionary processes of the concept of Asia-Pacific cooperation, focusing mostly on the economic and political dimensions. What is the prospect of regional cooperation in a security

dimension in the coming decades? As I have mentioned at the beginning of this chapter, the nature of security issues in the Asia-Pacific region has changed appreciably in the last few years. For many Asian countries today the principal threat is internal, and economic or social in character. Even when the threat is external, it is likely to be the that of a neighbor, not of a distant power, and the quarrel is one with ancient roots.

The fact that Japan is moving rapidly to increase the political quotient in its foreign policy, especially in the Asia-Pacific region, is shown by various proposals of a political-strategic nature that have emanated from Tokyo in the recent past. The willingness to serve as host to discussions among the Khmer factions; increased service as middleman, dispensing information and occasionally advice on such delicate matters as North-South Korean relations, U.S.-China relations after the Tiananmen Incident, and U.S.-Vietnam relations over the MIA issue; and the use of travel by the Japanese Prime Minister and Foreign Minister to demonstrate Japan's interest and involvement — all testify to a decision toward greater activism. The time when Japan's diplomacy rested almost exclusively upon economics and took a low profile on political-strategic issues appears to be coming to an end. The test is already underway to see whether Japan's skills in advancing political and security ideas are both practical and innovative, then capable of operating bilaterally and multilaterally in such a manner as to gain support for them.

In addition, Japan has been expanding its activities in peacekeeping and regional consultations. These Japanese active involvement in security affairs would have been unthinkable in earlier years. The dispatch of minesweepers to the Gulf area, moreover, represents the first concrete step to involve the Self-Defense Forces in the international arena.

Deep suspicion of Japanese military resurgence remains in parts of Asia, notably in China and both Koreas. In Southeast Asia, however, there appears to have been some change toward accepting a Japanese role, including a military role, in peacekeeping, especially if it takes place under the United Nations banner. Cambodia could be the first test of such a policy.

Conflicts and tensions are also alive in the Asia-Pacific region. The principal sources of friction are the remaining cases of divided states in

East Asia, namely, the two Koreas and China-Taiwan; the Russo-Japanese contest over the Northern Territories; the unresolved territorial disputes in the South China Sea; and the continuing uncertainties that surround the Cambodian civil war.

It is doubtful whether a large, undifferentiated multilateral approach to any of these issues would be constructive. Rather, as Professor Robert Scalapino of the University of California, Berkeley, pointed out, the proper approach is one of employing "concentric arcs."[31]

In the case of Cambodia, the first arc has ultimately been the four factions. Bringing the Khmer factions together, however, has depended in considerable measure upon a second arc, namely, China and Vietnam. Without their willingness to compromise, the intertwined domestic-regional conflict might have continued indefinitely. This arc in turn, while influenced by domestic concerns of these two countries, has also been provided with incentives by the third and fourth arcs — in the first instance, the ASEAN members and subsequently, Japan and the permanent members of the United Nations Security Council apart from China. In the final phases, various international organizations including the United Nations, have been brought in to play crucial roles.

With respect to the problem of the Korean peninsula, a similar approach has evolved. The first arc is clearly composed of South and North Korea. But their more positive interaction, still subject to uncertainties, has been greatly abetted by the recent policies of a second arc comprising the four large states long involved with Korea — the United States, Russia, China and Japan. Beyond this lies the possibility of involvement of international organizations. Indeed, the United Nations Development Program (UNDP) has already played some role in connection with the exploration of the Tumen River project.

The "Building Blocks" Approach To Regional Security

With regard to approaches to the question of Asia-Pacific security, there are various proposals such as a multinational arms control or pan-Asia/Pacific security regime modeled on the Conference on Security and Cooperation in Europe (CSCE). Taking into account of the rapidly changing, increasingly complex and more uncertain regional security

environment, these comprehensive approaches will not work for the moment and are therefore premature. There is no single approach to regional cooperation. It may be possible to consolidate certain institutions, amalgamating their functions in the long term. At this moment, however, the premium should be upon making certain that all key issues are encompassed in various regularized dialogues and policy making structures, with lower level organs feeding into more comprehensive bodies. Furthermore, it is important to preserve flexibility and avoid rigid structures, and encourage multiplicity of approaches, even at the risk of duplication. In a transitional and uncertain era, we should not assume that we can present final programs or construct permanent institutions.

As one distinguished Australian scholar has pointed out, the most promising approach would be the establishment of "building blocks" or a multiplicity of subregional arrangements dealing with various security issues and involving varied membership, building on the wide range of bilateral and limited multilateral arrangements already in place and addressing the common security concerns already identified in the region. Many of these "building blocks" involve the qualitative enhancement of existing arrangements and practices, such as strengthening and expanding current bilateral mechanisms for cooperation with respect to defense and intelligence activities, or building upon extant institutions.[32]

In this context, to be noted is the fact that ASEAN leaders at the ASEAN Heads of Government Meeting held in January 1992 agreed that the organization should intensify its external dialogues in political and security matters by using the ASEAN PMC scheme. Japan, together with the United States, strongly supported ASEAN as demonstrated in the "Global Partnership Plan of Action" issued as a part of the "Tokyo Declaration" during Miyazawa's discussions with Bush in January 1992.

Behind this strong support by the two major powers to ASEAN-based security dialogue exists the common recognition of a process of political dialogue on matters of mutual concern, such as the questions related to the future direction of U.S. and Japan's policy in the region. Indeed, the question of whether the United States will withdraw from this region and how Japan will expand its political and, possibly, military role in this region are now the two major points of concern to many Asian countries.

Thus, for the United States and Japan to engage in a process of dialogue with these countries is critically important for the sake of mutual reassurance. A deep-rooted skepticism of the dominating influence of big powers, as well as bitter memories of past Japanese military expansionism, still persists in the minds of many Asian peoples. Consequently, the process of reassurance between the major industrialized powers, namely the United States and Japan, and the newly industrialized and other developing nations in this region is needed for the sake of regional stability, and more specifically to solidify the political basis for cooperation between them. In addition, this ASEAN-based dialogue will provide other Asia-Pacific countries the opportunity to voice directly and collectively their views on U.S.-Japan relations — still the most important bilateral relationship for the peace and stability of the region in the coming decades.

In Search Of Security Cooperation In Northeast Asia

Although Japan supports the ASEAN-based security dialogue as an initial step, it does not exclude the formation of other forums. Of particular importance to Japan in the coming years is how to formulate regional forums in Northeast Asia (or the Northwest Pacific). In the Asia-Pacific region, we have ASEAN in Southeast Asia, the South Pacific Forum in the South Pacific, and the South Asian Association for Regional Cooperation (SAARC) in South Asia, but none in Northeast Asia (or the Northwest Pacific).

The shadow of the Cold War and animosity deeply rooted in history have obstructed the formation of the subregional framework within which diplomacy should have been developed. The Cold War has ended in this region. Diplomatic relations have been normalized between South Korea and the Soviet Union (Russia) and China. Japan has started negotiations with North Korea on the establishment of diplomatic relations. Finally, substantial discussions between Japan and Russia over the disputed Northern Territories have also commenced. Animosity lingers among some segments in the countries concerned. Its dissolution depends on dialogue among the parties concerned to formulate a subregional framework, however difficult and complex the process.

Because of the complexity of the situation, there is no single approach to subregional cooperation. We should encourage a multiplicity of approaches. The existence of various types of political entities makes it important to preserve flexibility and avoid rigid structure; hence, the promotion of multilayered and soft regional cooperative frameworks in this region.

These multilayered regional cooperative frameworks, ultimately composed of the United States, Japan, Russia, China, South Korea, North Korea, Taiwan and Mongolia, will contribute to enhancing "transparency" and "openness," thereby preventing misunderstanding and unanticipated and unfortunate reactions. Further, they will serve as regional frameworks in which a smooth unification of the Koreas could be effected. They will moderate due concerns of the neighboring countries to the possible impact of unification on the regional balance of power. In addition, they will serve as a kind of "shock absorber" or "crisis management scheme" at the time of drastic power transformation which will possibly take place in North Korea in the coming decade (years?).

For Japan, the development of a self-reliant subregional scheme of cooperation is a favorable condition for Japan's constructive diplomacy. As I have mentioned earlier, the structural weakness of regional cooperation has been unfavorable to Japan's diplomacy.

It was of symbolic significance in this connection that then Prime Minister Toshiki Kaifu visited, for the first time in recent years as Japan's head of state, the three key states of Northeast Asia: South Korea, China and Mongolia. This unequivocally illustrated that Japan was already working at strengthening a soft regionalism that had emerged in this region. The Japanese Emperor's trip to China in late 1992, coupled with a possible visit to Seoul which is now on governmental agenda, seemed to serve to stimulate the development of the subregional cooperative framework.

CONCLUSION

Japan has been involving itself in the processes of promoting economic development and enhancing political stability in the Asia-Pacific region since the 1960s. Behind this active involvement in regional development

on the part of Japan, we can see a long-held "dream" to live harmoniously with both the developed liberal-democratic countries in the West and the developing countries in Asia. The deepening of interdependence in the Asia-Pacific region and Japan's rise on the global scene have given an opportunity to realize that dream, and Pacific cooperation is addressed to this task.

Politically and militarily, Japan has been keeping a low profile. However, since then Prime Minister Fukuda's visit to ASEAN countries in the wake of American withdrawal from Vietnam, Japan and the ASEAN countries have gradually been expanding grounds for policy coordination through growing bilateral relations as well as through the ASEAN PMC scheme. Furthermore, the improvement of Japan's self-defense capability within the framework of the Japan-U.S. Security Treaty has helped the United States allocate its military resources more effectively to other areas. More importantly, Japanese support for the presence of U.S. forces in Japan (sharing costs and providing facilities and land) has facilitated the U.S. military presence in the Western Pacific and the Indian Ocean. Needless to say, the presence of U.S. forces in this region has provided a stable security environment for the economic development of the countries of this region.

In the coming years, Japan will engage itself more positively in the process to enhance political stability and security in the Asia-Pacific region. As Asians come to hear of Japan's preparedness to play a larger political role in this region, anxieties about the possibility of Japan becoming a "military power" may increase. It is, therefore, important for Japan to continue to commit itself explicitly to the policy of not becoming a "military power." At the same time, it is more important for Japan to place itself in multilateral venues to communicate to countries worried about the future direction of Japanese foreign and defense policy. This must be an important part of Japan's participation in the process for regional political stability and security.

The "Tokyo Declaration" and the "Global Partnership Plan of Action" issued by Prime Minister Miyazawa and then U.S. President Bush show Japan and the United States are firmly committed to strengthening APEC as an essential framework for cooperation in the region. Further, they are committed to promoting political dialogue among the Asia-

Pacific countries through the ASEAN post-ministerial conference scheme. This commitment should be strengthened in the coming years. Creative diplomacy, however, does not exclude other policy options and the Pacific Ocean is now a testing ground for Japan's creative diplomacy.

NOTES

1. On the APEC process, see Andrew Elek, "Asia-Pacific Economic Cooperation (APEC)," *Southeast Asian Affairs 1991*, Singapore: Institute of Southeast Asian Studies, 1992, pp.33–48.
2. In writing this article, I owe very much to the pioneering works by Professor Akio Watanabe of the University of Tokyo, especially to his book entitled "*Azia-Taiheiyo no Kokusai Kankei to Nihon (International Relations of the Asia-Pacific and Japan)*, Tokyo: University of Tokyo Press, 1992.
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12. *Ibid.*, pp.108–111.
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30. Andrew Elek, op. cit.; Andrew Elek, "The Challenge of Asian-Pacific Economic Cooperation," *The Pacific Review*, Vol.4, No.4, pp.322–332.
31. On this part of the article, I owe very much to the works of Professor Robert Scalapino of the University of California, Berkeley, especially to his paper entitled "A Framework for Security Cooperation in Asia," presented to the Japan-US Symposium on "The Prospects of Security Cooperation in Asia," in Tokyo on June 9–10, 1992.
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8

Australian and New Zealand Perspectives on Asia-Pacific Development

Gerald Chan

"Asia is where our future lies."

Paul Keating,
Prime Minister of Australia, 1992.[1]

"Are we going to be part of Asia's future? ...If we are wise, the answer will be yes."

Jim Bolger,
Prime Minister of New Zealand, 1992.[2]

INTRODUCTION

One of the most important global changes today concerns the political economy of the Asia-Pacific region, especially that of East and Southeast Asia. Developments in this region affect not only the national policies of the countries within the region but also those outside it. In this context the responses of Australia and New Zealand to these changes are interesting in several respects: Firstly, both countries realize that their economic future lies with this region. However, there are differences as to the extent of this realization (or non-realization) both within these two countries and between them. Secondly, there exists a gap between rhetoric and practice as to the promotion of Asian awareness in them. Thirdly, the top leaders of these two countries argue that they are part of Asia, geographically and economically. But to what extent is this true? Why do they make such statements at this time and not earlier? How do

Asians in general view this new understanding on the part of Australia and New Zealand? Do Asians regard Australians and New Zealanders as Asians?

To put Australia and New Zealand together in one single analysis has its drawbacks as well as its strengths. The drawbacks are that the two countries are significantly different in many ways, as would be readily acknowledged by the majority of Australians and New Zealanders. They are different in the size of their territories and population, the structure of their parliamentary system, their views on republicanism, etc. The strengths are that to the Asians to the North, these two countries are sufficiently homogeneous in so many ways that they can be regarded as one. Most of their citizens come originally from Europe, farming being their main occupation. Both have a clean natural environment and plenty of space. Both are liberal democracies allied to the West and are members of the British Commonwealth. Their national flags look so alike that from afar, there is little way to tell which is which. Moreover, they are moving closer together under a scheme called Closer Economic Relations, first started in 1983.

Compared with the Asian land mass, Australia and New Zealand are sparsely populated. Their culture is mainly European, although there are efforts to promote multiculturalism in Australia. The Asian continent lies in the northern hemisphere whereas Australia and New Zealand are island states in the southern hemisphere.

The end of the Cold War and the ascendance of Asia as an economic powerhouse force Australia and New Zealand to rethink their positions in the world, to redefine their national interests, to re-examine their identities, and to seek new ties with Asia.

Relations between Asia on the one hand and Australia and New Zealand (ANZ) on the other are shaped by historical legacies, geographical conditions and political and economic imperatives. These four factors have exerted different degrees of influence at different periods of time. Whereas the first three figured prominently before and during World War II, contemporary Asia-ANZ relations have basically hinged on economic imperatives, at least from the ANZ perspectives. Trade, investment and cultural links are high on the agenda in the bilateral relations today.

In order to understand how the present situation has come about, let

us first review briefly the historical legacies of these two countries, their geographical conditions and the political imperatives. Then, we shall discuss in more details the economic imperatives, including aspects of trade, investment, tourism, immigration and the study of Asia. After that we shall assess the responses of ANZ to the Asian challenge and examine their policy options.

THE DECLINING FACTORS

ANZ perceptions of Asia were shaped mainly by their colonial linkage and years of loyalty to Great Britain. Even after independence, both Australia and New Zealand had negative views on Asia, out of fear of the Yellow Peril and the Red Menace. The fear of Japan in World War II led to the establishment in 1951 of ANZUS, a military alliance among Australia, New Zealand, and the United States. The fear of communist China led to their involvement in the Korean and Vietnam Wars. And the fear of the former Soviet Union led to their military and political alliance with the West, especially the United States. These fears still linger on, although their nature and intensity have changed substantially. Now it is the fear (but sometimes welcomed!) of Asian investment and immigration, on the one hand, and the fear of being left behind Asia's dynamic growth, on the other, that have complicated their strategic planning and policy calculations. There is, however, a change from "fear to friendship" in some quarters, notably in Australia-China relationship,[3] and a change from threat to regional cooperation, but the future trend remains unclear.[4]

It is a truism that geography tends to condition human activities and behavior. The physical distance between Great Britain and ANZ has played a significant part in shaping their mutual linkages. Everything being equal, it is natural for Britain to look toward continental Europe for greater support and interaction, economically, politically, and militarily. ANZ, on the other hand, look increasingly toward their immediate neighbors to the North mainly for economic reasons. The "tyranny of distance," to borrow the phrase popularized by Professor Geoffrey Blainey,[5] makes the maintenance of the colonial past increasingly difficult and undesirable.

Don McKinnon, New Zealand's Deputy Prime Minister and Minister for External Relations and Trade, keeps reminding his fellow citizens that New Zealand is a geographical extension of Asia and is fast becoming a natural economic extension.[6] Apparently ANZ are making a virtue out of necessity. The "tyranny of distance" with respect to Britain may turn out to be a blessing for developing closer ties with Asia.

The nearest major cities in Southeast Asia are about 7,000 kilometers from New Zealand and some 2,000 kilometers from Australia.[7] This geographical distance and seclusion from the rest of the world gives ANZ a certain sense of security, but it also helps nurture their sense of self-sufficiency and conservatism. The relative lack of contact and communication with the outside world leads to their ignorance of events happening in neighboring Asia and elsewhere, considering the fact that the West has been the main, if not the sole, source of news supply for a long time. There is little opportunity to compare and little incentive to compete. As a result, their international economic positions have slipped gradually without raising too much alarm at home until a certain critical point is reached when both countries are caught ill-prepared for the necessary social and economic restructuring.

Now some of the elites in both countries have come to realize that their economic links with Asia are going to shape their future well-being. This realization, however, takes time to trickle down to the general public.

THE ECONOMIC IMPERATIVES

The dynamic economic growth of a large number of Asian countries, the increasing trade and investments between them and ANZ, and the relative decline of the economies of ANZ play a major role in changing the perceptions of ANZ toward Asia. All these Asian countries started off at the end of World War II impoverished, relatively backward and in dire need of national reconstruction as a result of the war or of colonization or both. Within a span of some forty years, they have become significant economic forces.

Japan is now an acknowledged economic superpower, tipped to surpass the United States in total economic output by the turn of this century. The Newly Industrialized Economies (NIEs) of South Korea, Taiwan, Hong Kong, and Singapore are no longer regarded as developing countries by the Organization for Economic Cooperation and Development (OECD) but as Asian dynamic economies. The per capita GNP of Hong Kong and Singapore have already surpassed that of New Zealand and are approaching that of Australia. By the year 2000 the per capita GNP of South Korea and Taiwan are likely to catch up with that of New Zealand.[8] The so-called new NIEs of Thailand, Indonesia and the Philippines are waiting in the wings. China, India and Vietnam are adopting market mechanisms to stimulate their economies. South China, including Guangdong and Fujian provinces close to Hong Kong and Taiwan respectively, are experiencing the fastest rate of growth in the world, some 25 percent in 1991.[9]

The Asian Development Bank asserts that the average growth rates for Asia (excluding Japan, New Zealand and Australia) will reach 6.5 percent in 1992 and 6.7 percent in 1993. These figures compare with worldwide growth projections of 1.8 percent and 3.1 percent respectively.[10]

The volume of intra-Asian trade now surpasses that of the trans-Pacific trade which, in turn, will soon become twice that of the trans-Atlantic trade.[11] If other parts of the world move toward greater protectionism, intra-Asian trade might be pushed to grow faster. Japan is the locomotive for such a development: most of its investments are directed toward countries within Asia. The flying-geese pattern of economic development in Asia — with Japan leading the flock, the NIEs forming the second tier, the new NIEs the third tier, and the rest either moving alongside or following behind — is developing into a division of labor that helps to sustain growth within the region. *International Business Week* estimates that Asia's total gross domestic product (GDP), excluding Japan's, will be around US$5.1 trillion by the year 2000, rivaling that of the European Community and almost equal to that of the United States.[12]

Australia and New Zealand, on the other hand, started off as two of the richest countries in the world immediately after World War II. Now they have slipped toward the bottom of the OECD countries, to the extent that they have acquired the label of NDCs (Newly Declining Countries)! Watching one's economic position deteriorating steadily against the

neighbors is something that requires serious soul-searching.

This soul-searching has prompted the government, the academics, and the business people to look for answers by sponsoring research and holding conferences on ANZ's relations with Asia. In Australia two reports were published with the sponsorship of its Department of Foreign Affairs and Trade. The first one, entitled "Australia and the Northeast Asian Ascendancy," was published in 1989 under the editorship of Professor Ross Garnaut of the Australian National University. The second report, a follow-up of the first, was published in early 1992 under the title "Australia and Northeast Asia in the 1990s: Accelerating Change." In New Zealand a similar report, though on a smaller scale, was published in 1989 by a number of researchers associated with the Victoria University of Wellington. It was entitled "Meeting the East Asia Challenge: Trends, Prospects and Policies." The New Zealand government organized a series of conferences in May 1992 called "Asia 2000" in Auckland, Christchurch, and Wellington which brought together mainly local businesses to identify the key issues involved and to devise strategies to strengthen commercial links with Asia.

Trade

Australia and New Zealand depend heavily on trade for their economic well-being. Trade between Asia and ANZ has been increasing substantially over the past decades. Every year ANZ's interdependence with Asia increases in proportion to the rest of the world. (See Tables 1 and 2.)

During 1989-1992 the cumulative growth rates of Australia's exports to Asian markets totalled 67 percent in value terms. The growth rates for the three most important markets were: 70 percent to Japan; 64 percent to Taiwan; and 138 percent to South Korea. It is estimated that by the year 2017, 85 percent of Australia's exports will go to Asia.[13]

At present, more than 60 percent of Australia's merchandise exports go to Asia. Australia exported US$42 billion worth of merchandise in 1991, 27.7 percent of which to Japan, 14.2 percent to Hong Kong, Taiwan and South Korea, 12.2 percent to ASEAN, moving ahead of 11.8 percent to Europe and 10.1 percent to the United States.[14]

Table 1

Direction of Australian Merchandise Exports
(percent of total)

	1984–85	1987–88	1990–91
Japan	26.9	26.0	27.5
ROK	3.9	4.3	6.2
Taiwan	2.8	3.4	3.7
Hong Kong	2.8	4.8	3.0
China	3.6	3.1	2.5
DPRK	0.0	0.2	0.1
Northeast Asia	40.0	41.8	43.1
ASEAN	7.5	7.3	12.0
New Zealand	5.2	5.3	4.9
U.S.	11.6	11.4	11.1
Canada	1.0	1.7	1.6
APEC Economies	65.3	67.3	72.6
EC12	13.1	15.7	12.1
EFTA	0.5	1.4	2.9
U.S.S.R.	2.8	1.5	0.8
South Asia	1.8	1.7	1.9
Middle East	6.3	3.6	2.8
Latin America	1.0	0.8	0.9

* APEC economies do not include the DPRK. The Middle East does not include Egypt.

Table 1 (Con't)

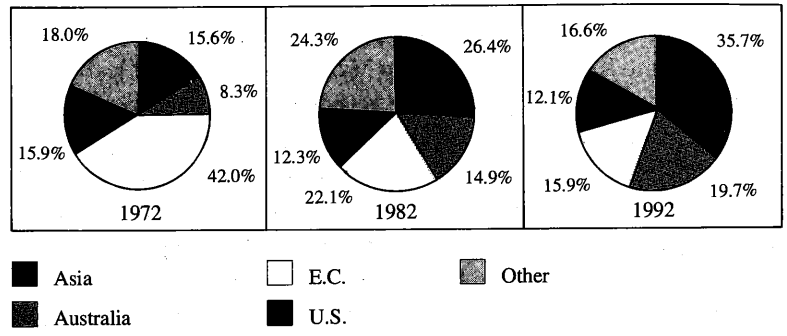
Australia's Exports of Goods to Northeast Asia
(value of merchandise exports and share)

	1984	1987	1990
Value, A$ million			
Japan	7,041.0	9,661.0	13,373.0
ROK	1,004.1	1,545.1	2,991.6
Taiwan	737.5	1,267.7	1,797.5
Hong Kong	790.2	1,427.0	1,307.1
China	871.2	1,526.0	1,290.5
Northeast Asia	10,444.0	15,426.8	20,759.7
All destinations	26,364.5	37,943.5	50,944.2
Share, percent			
Japan	26.7	25.5	26.3
ROK	3.8	4.1	5.9
Taiwan	2.8	3.3	3.5
Hong Kong	3.0	3.8	2.6
China	3.3	4.0	2.5
Northeast Aisa	39.6	40.7	40.7
All destinations	100.0	100.0	100.0

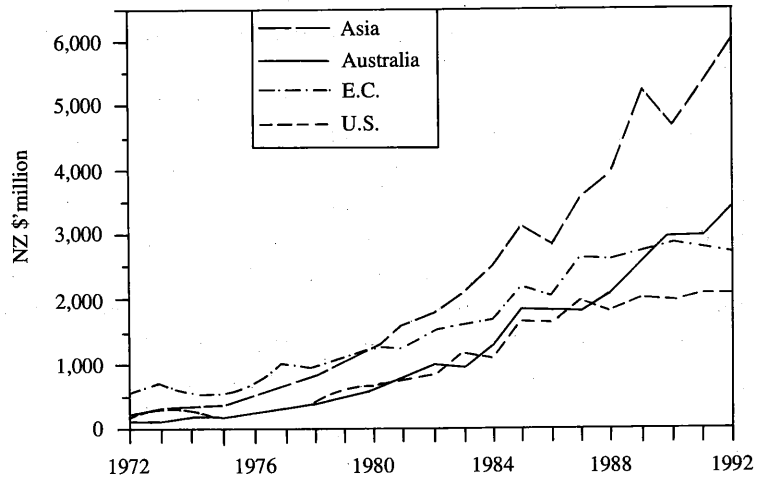
Source: *Australia and Northeast Asia in the 1990s: Accelerating Change*, Canberra: Australian Government Publishing Service, 1992.

Table 2

New Zealand Export Markets, 1972, 1982 and 1992



New Zealand Export Markets; 1972–92 (June Years)



Charts drawn on basis of trade figures provided in Key Statistics (Department of Statistics, monthly publication).

Source: Ramesh Thakur in *The Dominion*, Wellington, 30 June 1992, p.6.

In the case of New Zealand, the Asian market provides six of its top ten markets. The growth rates of trade with Asian countries far exceed those with Australia, the United States, Britain and Germany.[15] At present, 40 percent of New Zealand's NZ$17 billion in annual exports go to Asia.[16] Export figures of 1991 showed that New Zealand's exports to Asia were up 15.6 percent over the previous year. The increases were 33.4 percent to Korea; 52.6 percent to Malaysia; 34.6 percent to Taiwan, 13 percent to Hong Kong, 8 percent to Indonesia, 32.8 percent to Singapore and 52 percent to China.[17]

North Asia — Japan, South Korea, China, Taiwan and Hong Kong — is already New Zealand's single biggest export market, accounting for about a quarter of New Zealand's trade, and the percentage is growing steadily.[18] According to the New Zealand Trade Development Board, New Zealand's exports to this region could double to NZ$7.8 billion a year by 1995.[19]

As for individual countries, Japan is New Zealand's second largest export market, just slightly behind Australia. Two-way trade exceeded NZ$5 billion per year in 1989 and 1990.[20] New Zealand exported NZ$2.6 billion of produce to Japan and imported NZ$2.2 billion from Japan in 1991, the country's third largest source of imports.[21]

New Zealand's exports to South Korea jumped 40 percent in the year to June 1991, amounting to NZ$720 million, and are tipped to overtake Britain as New Zealand's fourth largest export destination.[22] South Korea may even become the third largest export market for New Zealand in the 21st century.[23] Asia's consumer population — people living in households with more than US$10,000 annual income at 1986 prices — is predicted to grow almost threefold to 110 million between 1986 and the year 2000.[24] This presents a great opportunity as well as a great challenge to ANZ in terms of trade and investment.

Investment

Both Australia and New Zealand are debtor countries. In September 1992, Australia's foreign debt stood at US$114 billion and New Zealand's at US$33.5 billion.[25] Nearly all the major dynamic Asian economies, with the exception of South Korea, are continuing to accumulate fiscal surpluses. Taiwan is a shining example: its US$90 billion reserve tops the world.[26]

ANZ are in the process of restructuring their economies. One of the aims is to attract foreign investments. They especially welcome those from Asia. Japan's direct investment in Asia is huge compared with other regions of the world; it is the largest Asian investor in ANZ. (See Table 3.)

Total direct investment in New Zealand is low compared with Australia: Australia attracted US$4,256 million between 1986 and 1989 while New Zealand attracted only US$101 million,[27] partly because New Zealand is geographically more distant from Asia than Australia[28] and partly because New Zealand has a much smaller domestic market. Some large investments in New Zealand in recent years have come from Singapore (NZ$1.6 billion in 1991)[29] and China, while Japanese investment is at present running at about US$500 million per annum.[30] Application for takeovers by Japanese companies rose from two in 1986 to forty-one in 1989, and applications from Japanese companies to start business in the country rose from thirteen in 1986 to forty-six in 1989.[31]

Tourism

Australia is commonly known as a place for sun, surf and space, while New Zealand is famous for its green, clean and beautiful scenery. Both are becoming tourist attractions for wealthy Asians. Gold Coast in Queensland, Australia, and Queenstown, a ski resort in New Zealand, are favorite destinations for Japanese tourists. (For details of tourism figures from Asia see Table 4.)

Tourism brought A$7.3 billion (US$5.53 billion) to Australia in Fiscal Year 1990–91. The tourism figure for 1991 represents a 7 percent increase over the previous year and compares with 1.5 percent growth worldwide. The Asia-Pacific region has been the strongest contributor to this growth. Arrivals from South Korea went up by 67.4 percent, from Taiwan by 37 percent, from Thailand by 26 percent and from Singapore, Hong Kong, the Philippines and New Zealand by 15 percent. Japan is still Australia's largest single source of tourists. The total number increased by 10 percent to almost 530,000, putting the Japanese share of the market at 19 percent. Second place is held by New Zealand, which

Table 3

Foreign Investment in Australia: Capital Transactions
A$ million

	1985–86	1986–87	1987–88	1988–89	1989–90
Direct					
Japan	1,133	640	1,921	2,793	1,551
ROK	-3	-1	1	11	61
Taiwan	2	1	9	38	25
Hong Kong	-10	-124	98	143	-298
China	111	-115	-51	2	28
Northeast Asia	1,233	401	1,978	2,987	1,367
All countries	3,608	4,743	8,155	11,687	6,680
Portfolio					
Japan	2,040	455	5,159	4,623	4,582
ROK	0	103	-114	-2	-16
Taiwan	2	293	-438	17	48
Hong Kong	-417	227	1,893	1,465	427
China	-23	85	-84	45	6
Northeast Asia	1,602	1,163	6,416	6,148	5,047
All countries	16,386	18,098	19,597	19,519	13,800
Total					
Japan	3,173	1,095	7,080	7,416	6,133
ROK	-3	102	-113	9	45
Taiwan	5	294	-428	55	73
Hong Kong	-427	103	1,991	1,608	129
China	89	-30	-135	47	34
Northeast Asia	2,837	1,564	8,395	9,135	6,414
Total	19,996	22,841	27,752	31,207	20,480

Source: ABS

Table 3 (Con't)

Foreign Direct Investment in NZ by Major Countries

	Australia	U.S.A.	U.K.	Japan	(NZ $million)[1] Germany
1982	85	NA	NA	41	NA
1983	75	-117	NA	16	NA
1984	225	-97	NA	26	9
1985	100	132	NA	46	2
1986	935	42	98	178	-4
1987	1,727	245	393	204	3
1988	1,331	137	1,325	178	14
1989	257	513	211	169	13
1990	2,454	3,348	NA	387	NA
Cumulative Total as of latest year	8,067 (as of Jun 1990)	5,258 (as of Dec 1990)	3,199[2] (as of Dec 1989)	1,549 (as of Mar 1991)	107 (as of Dec 1989)

1) Converted into NZ$ by average par value
2) Net asset book value

Source: *Australia and Northeast Asia in the 1990s; Accelerating Change*, Canberra: Australian Government Publishing Service, 1992 and Ebashi Masahiko, "New Zealand Links With Asia," Working paper 92/3, Wellington: New Zealand Institute of Economic Research, 1992.

Table 4

Australia: Short Term Arrivals ('000 visitors)

	1986	1987	1988	1989	1990
Japan	145.6	215.6	352.3	349.5	479.9
Korea	4.8	6.9	9.2	10.4	14.1
Taiwan	12.0	16.0	19.2	21.5	25.3
Hong Kong	33.5	42.7	49.4	54.1	54.5
China	6.2	10.9	18.0	29.1	23.7
Northeast Asia	202.1	292.1	448.1	464.6	597.5
All sources	1,429.4	1,784.9	2,249.3	2,080.3	2,214.9

* The Bureau does not provide separate data for short-term arrivals of residents of the ROK and the Democratic People's Republic of Korea.

provides 17 percent of visitors. The Australian Bureau of Statistics forecasts that the 2.37 million record total of visitors in 1991 will top 3.5 million by 1996 and will reach 4.84 million by 2000.[32]

In New Zealand a marked increase in the number of Asian tourists helped lift overall tourism figures for the year to February 1992. Korean tourist numbers rose by 115 percent to 8,000, Hong Kong, 25 percent to 19,700; Taiwan, 55 percent to 17,600; Singapore, 14 percent to 17,600; and Japan, 13 percent to 121,000. For non-Asians, Australian arrivals were 0.2 percent up to 342,000, German arrivals rose by 22 percent to 33,700 and British 5 percent to 92,000. American and Canadian arrivals were, however, falling by 5 and 11 percent respectively. Overall there was a 2.3 percent rise over the previous year to 989,278. The New Zealand Tourism Board has set a target of three million tourists by the year 2000.[33]

Table 4 (Con't)

East Asian Visitors (Short-term) to New Zealand

	1	2	3	4	5	6
Korea	2,666	21.70	22.5	0	0	6,000
Japan	95,457	19.40	21.0	124,800	145,600	204,618
China	2,997	43.20	NA	0	0	NA
Hong Kong	9,700	18.80	17.0	21,800	62,400	18,237
Taiwan	10,332	56.20	28.3	0	0	27,992
Philippines	2,639	33.00	15.5	0	0	4,695
Thailand	3,702	48.60	26.6	18,200	36,400	9,507
Malaysia	8,968	9.50	23.2	0	NA	20,658
Singapore	14,993	0.02	21.6	137,800	163,800	32,818
Indonesia	4,570	61.30	14.0	18,200	36,400	7,716
	156,024					332,241

Key:
1. Actual visitors in year ending March 1989.
2. Percentage increase over number of visitors in year ending March 1988.
3. Average annual growth rate 1980–1989.
4. Airline capacity on direct routes March 1989.
5. Projected airline capacity on direct routes on basis of current air service, agreements and known airline plans.
6. Visitor arrivals in 1993 projection on basis of annual growth rates 1980–1989.

Source: *Australia and Northeast Asia in the 1990s; Accelerating Change*, Canberra: Australian Government Publishing Service, 1992 and Alan Bollard, *et al, Meeting the East Asia Challenge: Trends, Prospects and Policies*, Wellington: Victoria University Press, 1989.

Immigration

Australia and New Zealand are favorite destinations for Asian migrants, apart from the United States and Canada. Asian immigrants to ANZ have been increasing steadily over the past few years. Although there are reservations among the labor force within both countries that Asian immigrants may take away their jobs, the general feeling toward qualified Asian migrants is one of welcome because of their ability to generate business activities and create jobs.

The most salient feature of Australia's immigration patterns over the past decade has been the dramatic switch from Europe as the source of new immigrants. In the September quarter of 1991, Hong Kong replaced Britain as the country's main source of immigrants. During that period 14.4 percent of migrants came from Hong Kong compared with 13.1 percent from Britain. Between Fiscal Years 1982 and 1990 the percentage of people coming from Northeast Asia to settle permanently in Australia rose from 4 percent to 19 percent and from Southern Asia from 3 percent to 8 percent. On the other hand, immigrants from Europe and the former Soviet Union dropped from 51 percent to 27 percent.

There has also been a significant trend in the types of immigrants coming from Asia and Europe. In the twelve-month period ending April 1992, most immigrants coming to Australia from Southeast and Northeast Asia have been professionals while those from Europe have tended to be artisans.[34]

Overall, about one-third of Australia's immigrants come from Asia.[35] In New Zealand, too, Asian countries make up five of the country's top six sources of general immigrants.[36]

Asian Studies

One of the long-term strategies to promote Asian awareness is through education. As far as Asian studies are concerned, Australia is well ahead of New Zealand in many respects, partly because Australia is more aware of its Asian presence and partly because of Australia's larger human and material resources. For example, all the major universities in Australia

have Asian studies and language programs. (There were thirty-one universities in Australia in 1991, according to the *Commonwealth Universities Yearbook*. This number is rising as more former Colleges of Advanced Education are accorded university status.) However, out of the seven universities in New Zealand, only one — Auckland University — offers Chinese language as a major, and another — Otago University — offers Japanese language as a major as of 1992.

Both countries lack a firm national policy on Asian language learning. In Australia, only Queensland, under Labor Premier Wayne Goss, has formulated a policy that all schools must offer an Asian language as an option.[37] Nancy Viviani, a professor of international relations at Griffith University, Queensland, gives two reasons for the lack of a nation-wide language policy: (a) the existence of bureaucratic resistance to change in the Australian Commonwealth and State departments and the problems of Commonwealth/State cooperation in this area; and (b) political competition between two groups of language advocates: those who favor European languages and those who favor Asian languages.[38]

Some 95,000 high school students in Australia were studying Japanese in early 1992.[39] New Zealand statistics shows that in 1991 out of a total of 416 high schools in the country, only two offered Indonesian with 151 students, four offered Chinese with 64 students, and 173 offered Japanese with 15,056 students.[40] Korean and Malaysian were not taught.[41]

CONCLUSION: POLICY OPTIONS

Economic competition has come to occupy the center stage in the post-Cold War era. Countries in the West, especially the United States and those in Europe, are eager to fight their way out of economic recession. Some of them may try to adopt short-term measures to tackle their economic problems. The setting up of trading regions, such as the North American Free Trade Area (NAFTA) and European integration, are good examples. These regions are designed to promote intra-regional trade, but they can also be used as barriers against outsiders. What does this type of economic regionalism leave ANZ?

One obvious option for ANZ is to integrate themselves progressively with the economies of the Asia-Pacific region. This requires the reorientation of their past linkage with Europe, the United Kingdom in particular, in order to pay more attention to Asia. The path of this reorientation is rough. How to reconcile the past with the present amongst various sectors of the community and close the gap between rhetoric and action in the promotion of Asian awareness, and how to adjust to the painful change of habits and life style? To ally themselves economically with Asia is without doubt the way forward. This is recognized by the government, the business community, and the academies. How far and how fast should the adjustment go, however, are open to debates among the proponents for change, especially in the present economic hard times.

Apart from the problems inherent in these two countries, what are the prospects the Asians will view or accept ANZ as Asian? Clearly the Aussies and Kiwis have a different ethnic background: they trace their roots to the West; and they ally themselves with the United States and Europe. Can they become Asian at the same time? These problems, however, may not stand in the way of meaningful cooperation between Oceanian countries and Asian countries. In any case, there is no fundamental conflict of interest between Asia and Oceania. Paul Keating is keen to develop further the Asia-Pacific Economic Cooperation (APEC) which brings together countries in East and Southeast Asia, the United States, Canada, Australia and New Zealand. This cooperation, initiated by his predecessor, Robert Hawke, a few years ago, has gone from strength to strength as participating countries realize the potential opportunities offered by this organization in facing the global economic realignment. In May 1992, Keating proposed that the heads of governments of these countries should meet and consult each other regularly once every two or three years on matters affecting their common interest. So far the United States, Japan and New Zealand have expressed a welcome to such a move.[42] The agreement to set up a permanent secretariat in Singapore is clearly an important step in this direction.

Apparently Keating is in favor of strengthening APEC because this organization includes the United States, as opposed to other Asian organizations such as the East Asian Economic Caucus (EAEC) proposed

by Malaysia, or ASEAN, or other East Asian groupings which tend to set a limit to U.S. participation. Australia still maintains a very strong link with the United States despite its Asian initiatives, for economic and strategic reasons. The United States is one of the most important trading partners and military ally of Australia. Besides, Australia has provided additional military facilities to the United States to make up for the loss of American bases in the Philippines. It needs the U.S. presence in the region as a stabilizing power.

This American link may help Australia join the NAFTA, which brings together the United States, Canada and Mexico. This is the second option for Australia and New Zealand to expand their economic linkage. However, it would be more difficult for New Zealand to join the NAFTA because of its row with the United States over the visit of nuclear ships which has rendered the ANZUS alliance ineffective.

The third option for ANZ is to promote free trade around the world as both countries, New Zealand in particular, depend much on their agricultural exports to many parts of the world. In fact, exports make up 29 percent of New Zealand's GDP, compared with 17 percent in Australia and 11 percent in Japan.[43] Obviously ANZ would like to see an early successful conclusion of the Uruguay Rounds of GATT talks. In this connection both Australia and New Zealand are trying to maintain a good relationship not only with the United States but also with Europe, their erstwhile major trading partners and potential competitors in the Asian market. Because of the ongoing integration in Europe there is a need for ANZ to maintain links, monitor changes and assess implications.

However, ANZ realize that they are only minor players in the global trading system. They, therefore, also look toward each other for greater mutual support and interdependence — there lies the fourth option. Since the signing of Closer Economic Relations Treaty in 1983, total trade between the two has more than doubled. Total two-way trade across the Tasman Sea increased by 14 percent from 1983 to 1990.[44] The balance of trade has improved significantly for New Zealand.

Other measures, such as an eventual common currency, the deregulation of aviation, shipping and telecommunication, a common standard for customs and other practices, are being discussed and are to be implemented in stages in the coming years.[45]

In the final analysis it pays for ANZ to develop a Japanese type of omni-directional or comprehensive security diplomacy in order to maximize their national interests. Different emphases on the four options outlined above would be required at different times and under different circumstances in order to strike a proper balance.

Of the four options, ANZ have little control or influence over the GATT talks since both of them are minor players in world trade, the joining of the NAFTA might send a wrong signal to their Asian neighbors about ANZ's intentions, and Closer Economic Relations Treaty have their limitations because of the relatively small ANZ market in terms of world trade. Therefore, in the foreseeable future, strengthening their Asian ties is the most sensible course of action to take for both countries.

NOTES

1. In his keynote speech to the Asia-Australia Institute on April 7, 1992. See *Australian Financial Review*, 10 April 1992, p.12.
2. Bolger's address on "New Zealand and Asia" at Massey University, New Zealand on August 19, 1992.
3. Edmund S.K. Fung and Colin Mackerras, *From Fear to Friendship: Australia's Policies Towards the People's Republic of China, 1966–1982*, London and St. Lucia, Queensland: University of Queensland Press, 1985.
4. Richard Kennaway, "The Wider Asian Pacific Context," in Richard Kennaway and John Henderson, eds., *Beyond New Zealand II: Foreign Policy into the 1990s*, Auckland: Longman Paul, 1991, p.54.
5. Geoffrey Blainey, *The Tyranny of Distance: How Distance Shaped Australia's History*, Melbourne: Sun Books, 1966.
6. Don McKinnon, "The Challenge of Asia," speech to the 9th New Zealand International Conference on Asian Studies at Waikato University on August 24, 1991; *National Business Review*, New Zealand, 29 May 1992, p.8.
7. Kennaway, op. cit., p.48.
8. *The Dominion*, 30 March 1992, p.11; 26 May 1992, p.6.
9. *Griffith Gazette*, Brisbane: Griffith University, Vol. 7, No. 5, 3 June 1992.
10. *National Business Review*, 8 May 1992, p.25.
11. *World Monitor*, December 1991, p.5.
12. *International Business Week*, 11 November 1991, p.19.
13. *Australian Financial Review*, 14 April 1992, p.15.
14. *Asiaweek*, 15 May 1992, p.15.

15. *New Zealand Herald*, Auckland, 29 May 1992, p.9; *National Business Review*, 29 May 1992, p.8.
16. *The Dominion Sunday Times*, 10 May 1992, p.18.
17. *The Dominion*, 29 October 1991, p.2.
18. John Wood, "New Zealand's Priorities in North Asia: A Government Perspective," a paper delivered in the Asian Studies Seminars at Victoria University of Wellington on July 11, 1991.
19. *Sing Tao Weekly*, (New Zealand), 7 March 1991, p.3.
20. John Wood, op. cit.
21. *The Dominion*, 11 February 1992, p.11.
22. *The Dominion*., 30 March 1992, p.11.
23. Kim Dong-ki, "Korea's Role in the Asia/Pacific," a speech delivered at Victoria University of Wellington on July 2, 1992.
24. *The Dominion*, 20 November 1991, p.15.
25. *Asiaweek*, 2 October 1992, p.12.
26. *The Dominion*, 7 October 1992, p.19.
27. *The Evening Post*, (Wellington), 2 May 1991, editorial.
28. *New Zealand Business*, March 1991, p.14.
29. Bolger, op. cit.
30. Don McKinnon's speech at Waikato University.
31. *New Zealand Business*, March 1991, p.17.
32. *Far Eastern Economic Review*, 9 April 1992, pp.44–45.
33. *The Dominion*, 21 April 1992, p.2. Professor Ebashi Mashiko, a visiting scholar at the New Zealand Institute of Economic Research, expressed doubts whether this target could be reached because of the lack of infrastructural support (his public lecture at Victoria University of Wellington on August 20, 1992).
34. *Far Eastern Economic Review*, 9 April 1992, p.34.
35. Nicolas Tarling, New Zealand Asian Studies Society presidential address, Waikato University on August 28, 1991.
36. Lockwood Smith in *New Zealand Herald*, 29 May 1992, p.9.
37. *Far Eastern Economic Review*, 9 April 1992, p.35.
38. *Griffith Gazette*, 6 May 1992, p.4.
39. Paul Keating in *Australian Financial Review*, 10 April 1992, p.12.
40. *Sing Tao Daily*, (New Zealand), 25 March 1992, p.1.
41. Lockwood Smith, op. cit.
42. *Australian Financial Review*, 10 April 1992, p.12; 5 May 1992, p.1.
43. Gerald Hensley, "New Zealand's Defence in the 1990s," *New Zealand International Review*, Vol. 17, No. 3, May/June 1992, p.5.

44. *The Dominion*, 9 July 1991, p.15.
45. For a report of recent developments, see *Time Magazine*, 14 September 1992, pp.18–23.

Part IV
The Development of Relations among Mainland China, Hong Kong and Taiwan

9

Politics of Trilateral Trade among Mainland China, Hong Kong and Taiwan

Milton D. Yeh

INTRODUCTION

In recent months, scholars and politicians from Taiwan, Hong Kong and mainland China have proposed to establish a South China Economic Zone. The proposal is based on the increasingly vigorous economic activities among Taiwan, Hong Kong and mainland China. This chapter will not follow the discussions on the prospects of a South China Economic Zone being realized, but rather it will explore the pattern of trade between Taiwan, Hong Kong, and the mainland. The first part of this chapter will summarize the relationship between Taiwan and Hong Kong in the past. Has their relationship been conducive to the formation of trilateral trade among these areas? If not, what are the political reasons which may account for this indirect trade?

TAIWAN AND HONG KONG

From the time in 1949, when the Nationalist government retreated from the Chinese mainland to Taiwan to 1980, Taiwan's policy objectives toward overseas Chinese communities, including Hong Kong, were as follows: (1) winning support in order to counter Beijing's united front efforts in overseas Chinese communities; (2) promoting the economic well-being of overseas Chinese and keeping these communities involved in the Taiwan's economic development; and, (3) preserving Chinese cultural values and traditions in these communities.

The Republic of China (ROC) has adopted various measures to form strategic alliances with overseas Chinese. Thousands of overseas

Chinese are invited to attend ROC's national celebrations and visit major construction projects each year, in order to help them better understand Taiwan's progress.[1] The ROC government has also helped consolidate overseas Chinese organizations and improve relations between overseas Chinese and their countries of residence.[2] In cultural and educational matters, the ROC government offers scholarships for overseas Chinese to receive their college education in Taiwan. It has also established Chinese schools and cultural facilities abroad to preserve and disseminate the Chinese language and culture.[3] Economically, the ROC government has had preferential regulations to absorb overseas Chinese economic growth since the 1950s.

The ROC government promulgated the "Regulations on Investment in the Republic of China by Overseas Chinese" in 1955 to encourage overseas Chinese investment in Taiwan. In terms of the subsequently revised regulations, overseas Chinese were granted preference in purchasing production facilities, procuring loans, making remittances, transferring personal assets, and assessing inheritance taxes.[4] This preferential treatment aimed at enhancing the economic development of the overseas Chinese. In these ways, the ROC policy toward Hong Kong has helped consolidate the legitimacy of its rule, while symbolically fighting the influence of the Chinese communists in overseas Chinese communities.[5]

There has been little empirical analysis of Taipei's efforts to win over the overseas Chinese and stabilize their communities and organizations. In the case of Hong Kong, however, the geographical proximity of Hong Kong to Taiwan has facilitated closer political, cultural and economic relations than with other overseas Chinese communities. While the ROC government offered cultural services for the Hong Kong people, businessmen from Hong Kong provided capital for Taiwan's economic development in its early years.

Table 1 shows that investment in Taiwan by Hong Kong Chinese from 1952 to 1989 was one-third of the total investment made by overseas Chinese. Table 2 indicates that a large proportion of overseas Chinese who visited Taiwan were from Hong Kong. The percentage of overseas Chinese visitors who were from Hong Kong was 70 percent from 1962 to 1988. Based on statistics from 1971 to 1988, over half of the overseas Chinese students studying in Taiwan who received ROC

Table 1. Investment in Taiwan by Hong Kong Chinese (1952–89)

Year	Investment by Hong Kong Chinese (US$)	Investment by Overseas Chinese (US$)	Percentage of the total (%)
1952 to 1988*	483,631,000	1,556,393,000	31
1989**	71,750,000	177,273,000	40

Sources: * *Chung-hua min-kuo ch'iao-wu t'ung-chi* (ROC statistics on Overseas Chinese Affairs), Taipei: Overseas Chinese Affairs Commission, Executive Yuan, April 1989, p.181.
** *Hua-ch'iao ching-chi nien-chien* (Yearbook of Overseas Chinese Economies), Taipei: General Liaison Office of the Trading Conference of Chinese Businessmen Throughout the World, 1989, p.835.

Table 2. Hong Kong Chinese Who Travelled to Taiwan for Education or Sightseeing Purposes, 1952–88

Item	Chinese from Hong Kong	Chinese from all over the world	Percentage of the total (%)
Finished College in Taiwan (1952–87)	17,234	49,253	35
Taiwan scholarship recipients (1954–88)	4,037	7,200	57
Educated through Chunghua Correspondence School (1956–87)	12,231	64,006	19
Sightseeing (1954–88)	8,207	31,447	26
Applicants for entry and exit visas (1962–88)	2,856,579	4,083,048	70

Source: *Chung-hua min-kuo ch'iao-wu t'ung-chi*, 1989, pp.127, 130, 154, 166 and 202.

scholarships came from Hong Kong. Also, of all the overseas Chinese in Taiwan for their college education, those from Hong Kong numbered 49,253, accounting for 35 percent of the total.

Contacts between Taiwan and Hong Kong have mainly been in the economic and cultural spheres. Nevertheless, the people of Taiwan and Hong Kong agree on the desirability of democracy and freedom. This consensus has helped the ROC government continue its policy toward Hong Kong since 1984, when the People's Republic of China (PRC) and Britain agreed on returning Hong Kong to Chinese sovereignty in 1997.

Many factors, however, have negatively influenced the effectiveness of the ROC policy toward Hong Kong. Budgetary constraints and other obstructions by Hong Kong authorities have created problems in Hong Kong for the Taipei government. ROC employees in Hong Kong are highly mobile but limits by the local authorities have hampered the appointment of new personnel. The fact that ROC does not have diplomatic relations with Britain has complicated contact with the authorities in Hong Kong. The lack of diplomatic ties has also resulted in difficulties in collecting information and in promoting the ROC policy toward Hong Kong.[6]

After July 1, 1997, Hong Kong will come formally under the rule of Beijing. If the Beijing authorities are still hostile toward both Taiwan and Hong Kong, bureaucrats from Hong Kong will even be more reluctant than they are now to establish contacts with Taipei. What then accounts for the increasing volume of trade between Taiwan and Hong Kong?

INDIRECT TRADE BETWEEN TAIWAN AND MAINLAND CHINA

The indirect trade policy of the ROC government is fundamentally based on the interests of Taiwan, not on those of Hong Kong. Hong Kong as an entrepôt is part of the ROC's policy toward mainland China, at least for the present time.

Not until 1985 was the ROC trade embargo against the PRC lifted. In 1978, the Beijing authorities proposed that Taiwan could trade with the mainland via Hong Kong or Macao. Technically, it was difficult for the Taipei authorities to ban exports to the mainland. During the late

1970s to the mid-1980s, the ROC government no longer obstructed the flow of Taiwanese products to the mainland. On July 4, 1985, the ROC government pronounced three basic principles of indirect trade with the PRC. They are (1) direct trade with the PRC is prohibited; (2) Taiwanese businessmen may not establish any kind of contacts with PRC organizations or personnel; and, (3) indirect trade will not be obstructed.[7] This ROC indirect trade policy with the mainland takes into account political considerations.

On January 1, 1979, immediately after Taipei and Washington broke off diplomatic ties, the Standing Committee of the PRC National People's Congress issued an open letter to its "Taiwanese compatriots," which called for direct mail, trade and shipping links between the two sides of the Taiwan Straits. The Taipei authorities decided not to follow up on this PRC proposal, a decision upheld until now. PRC insistence on territorial integrity as well as its firm stand on reserving the right to use military force to unify China persuaded the ROC to maintain its indirect trade policy.

Because the PRC has never ceased attempting to downgrade the ROC government to the status of a local authority, Taipei is more concerned than ever about its territorial security and the full exercise of jurisdiction over its territory. For Taiwan, direct trade with the mainland will necessitate direct navigation across the Straits, thereby, obscuring the territorial delimitation between Taiwan and mainland China. As long as the Taipei authorities perceive direct trade as a potential threat to its territorial security, Taiwan will maintain its indirect trade policy.

The principle of the ROC trade policy toward the mainland is to enhance the "influence effect" of its trade with the PRC and, at the same time, to minimize the "supply effect" of indirect trade with the PRC.[8]

The ROC government has focused on regulating imports from more than exports to the mainland. To benefit from importing from the PRC, the ROC government has deliberately chosen to import items that cannot be obtained elsewhere. Also, to minimize the damage that would be caused by a sudden cut-off of supplies by the PRC, the Taipei authorities have strictly regulated imports from the mainland. So far, while Taipei authorities have not yet set maximum limits for specific items imported from the mainland, they are considering establishing a premonitoring

Table 3. Taiwan's Total Trade Volume with Mainland China via Hong Kong (1970–1990) Unit: HK$ million

	Imports from China		Exports to China	
Year	Value	Annual grwoth rates (%)	Value	Annual growth rates (%)
1970	10.26	–	–	–
1971	14.41	40.4	–	–
1972	42.59	214.3	–	–
1973	85.39	88.5	–	–
1974	105.53	23.6	0.05	–
1975	129.39	22.6	0.07	40.0
1976	192.10	48.5	0.01	-85.7
1977	142.77	-25.6	0.15	1,500.0
1978	218.91	53.5	0.24	60.0
1979	279.17	27.5	106.52	442.8
1980	390.54	39.9	1,205.41	1,031.6
1981	426.60	9.2	2,182.31	81.0
1982	546.05	28.0	1,263.94	-42.1
1983	698.33	27.9	1,226.54	-3.0
1984	998.66	43.0	3,327.48	171.3
1985	904.03	-9.5	7,697.33	131.3
1986	1,124.95	24.4	6,328.42	-17.8
1987	2,253.70	100.3	8,566.89	51.2
1988	3,334.00	65.7	17,489.00	82.8
1989	4,578.00	22.6	22,593.00	29.2
1990	5,970.00	30.4	25,570.00	13.2

Source: *1990 Annual Review of Hong Kong External Trade, Hong Kong:* Hong Kong: Census and Statistics Department, 1991.

system to regulate the flow of imported goods from the mainland. According to the regulations issued by Taiwan's Ministry of Economic Affairs on May 4, 1990, Taiwanese manufacturers may import, via Hong Kong, 155 categories of materials from the mainland: mainly medicinal herbs, fish, fine feathers, antibiotics, minerals, cotton, and lumber.[9] Of the total value of imports from the mainland from 1980 through 1987, medicinal herbs made up about 43.67 percent. During the same period, fresh and frozen fish ranged from 0.05 percent to 20.28 percent, fine feathers from 0.361 percent to 5.763 percent, clay and fire-proof raw materials from 2.562 percent to 4.047 percent, and antibiotics from 0.333 percent to 3.298 percent of the total value.[10] These figures remained almost the same in 1989.[11]

Of Taiwan's total exports to the mainland, the average percentage of textiles fabrics exported between 1981 and 1987, was above 40 percent, whereas the types of consumer goods exported changed substantially during that time. From 1980 through 1983, the principal consumer goods exported from Taiwan to the mainland, via Hong Kong, included black-and-white T.V. sets, watches and clocks, bicycles, motorcycles, and umbrellas. These consumer goods on the average made up 10 percent of all Taiwanese exports to the mainland from 1980 to 1985. Since 1985, consumer goods exported from Taiwan to the mainland have consisted mostly of color T.V. sets, electronic components and parts for computers, electric heaters and air conditioners, photo-cathode valves and tubes, and fountain pens.[12]

For a decade, Taiwan has gained tangible benefits from its indirect trade policy. One is that many of the raw materials imported from the mainland are unavailable in Taiwan. Some of these items would be too costly to import from a third country or to produce in Taiwan. Also, from 1979 to 1989, Taiwan accumulated a trade surplus with mainland China totalling US$7.49 billion.[13]

Mainland economists are seeking economic solutions to deal with the Taiwan's trade surplus with the PRC. While the PRC government is more apt to apply administrative measures, some economists of the mainland recognize that Taiwan's trade surplus is mainly due to Taiwan's comparative trade advantages.[14] Other economists argue that, if the Beijing authorities took measures to encourage Taiwanese businessmen to

move their production sites from Taiwan to the mainland and to provide them with the raw materials needed, the total amount of raw materials indirectly exported to Taiwan would substantially be reduced.[15] Mainland officials, however, have frequently applied political, rather than practical, considerations in implementing their trade policy toward Taiwan.

Following the arguments made by Hirschman (and indeed Taiwan has gained an "influence effect" from its indirect trade policy with PRC), one can ask two questions to decide whether or not the PRC considers both its national welfare and national power in trade with Taiwan:[16] (1) Does the PRC have an interest in altering the terms of trade in Taiwan's favor? and (2) Does PRC set limits on its trade with Taiwan?

Probably because the PRC intended "to elicit the support of Taiwanese businessmen and, thereby, pave the way for the unification with the motherland,"[17] the Beijing authorities offered Taiwan favorable trade terms in the early 1980s. In June, 1980, the Commerce Ministry of the State Council issued a classified document titled: "Supplementary Rules on Purchasing Taiwanese Products." These rules specified that all products imported with a certificate of Taiwanese origin were tax exempt. All consumer goods which could be manufactured in Taiwan must be purchased from Taiwan, rather than from other nations. These regulations also offered a 20 percent discount for all goods which Taiwan purchased from the mainland. In the following year, several other nations that exported products to the mainland via Hong Kong falsely stamped their products with the certificate of Taiwanese origin in order to get the tax exemption. Because of the loss of tax revenues, PRC officials changed their minds and cancelled the tax-free rule for products imported from Taiwan. In the late 1980s, the Beijing authorities further prescribed strict regulations to monitor trade with Taiwan, although it did not yet set limits on the volume of trade with Taiwan.

On July 1, 1987, the Secretarial Office of the State Council issued a circular order requiring that all trade with Taiwan be licensed by the Ministry of Foreign Economic Relations and Trade (MOFERT). This order prescribed that 27 categories of raw materials exported to Taiwan had to be approved by MOFERT. They included soy beans, peanuts, crude oil, finished petroleum products, coal, cotton yarn, heavy water,

linen thread, tin ore, aluminum ingots, etc.[18] With regard to imports from Taiwan, the Beijing authorities set limits on the following consumer goods: nylon umbrellas, zippers, fountain pens, cosmetics, footwear, massage equipment, sporting goods, clothing, thermos bottles, calculators, lamps, hair-curlers, and watches. All other consumer goods had to be approved for import. Other non-licensed consumer goods such as cement, artificial leather, paper, and glue for woodworking had to be approved to be imported from Taiwan.[19] In addition, since 1987, the PRC government has also centralized administrative controls over the trade with Taiwan.

In the early 1980s, the "Office of Taiwanese Affairs" in each province and city had been responsible for ratifying imports from and exports to Taiwan. However, a circular order issued in 1987 required that all trade issues concerning Taiwan had to be managed by MOFERT only. This circular order further prohibited all governmental organizations, mass organizations and private entrepreneurs from establishing commercial firms to trade with Taiwan. These organizations, as well as individuals, were also not allowed to trade with Taiwan through foreigners. In December 1988, MOFERT of the PRC State Council established a division to handle the trade with Taiwan. The so-called "Division on Trade Relations with Taiwan" of MOFERT sent 25 officers to run commission offices in various locations. So far, about 100 trade firms equivalent to the ministerial or the provincial levels of the organization are in charge of all trade with Taiwan. These trading companies are also licensed and supervised by MOFERT.[20] It is not unusual for a socialist state like the PRC to centralize its power in directing economic activities. It is also not strange for the PRC to set up an organization and recruit personnel to be responsible for managing the trade with Taiwan. Probably because the PRC intends to protect its infant industries or to save its foreign reserves, the mainland government has limited the volume and types of consumer goods that can be imported from Taiwan. Items imported from Taiwan can be changed in accordance with PRC regulations solely at the government's discretion. As the PRC central government is also responsible for approving exports to Taiwan, it is understandable that Taiwan would be alarmed over the possibility of the supplies of raw materials from the mainland being suddenly cut off,

making the ROC more cautious about expanding its imports from the mainland.

So far the Beijing authorities have not ever cut off the supply of its exports to Taiwan; however, the PRC government has deliberately changed its limits on items coming from Taiwan. The changing nature of PRC trade policy with Taiwan has resulted in an indefinite and unstable trade structure.

The PRC initiative to reorganize its agency can be seen as an example of its governing habits and is not worth worrying about. Yet as the ROC perceives it, the centralization of organization explicitly means that the PRC leadership has a potential organizational resource. Beijing could use trade relations with Taiwan to combine the goals of welfare policy and national power policy. Given that the PRC has never ceased expressing its intention to transform economic transactions with Taiwan into political issues, the organizational resources available to the Beijing authorities have more than just economic purposes. In a "National Conference on the Work Toward Taiwan" in 1991, the Beijing authorities repeated this idea, pointing out that the promotion of close economic and trade relations with Taiwan will realize four goals: (1) overcoming Taiwan's "three no's policy" — no contact, no negotiation and no compromise; (2) countering the secessionist rhetoric of Taiwan's Independence Movement; (3) furthering the Four Modernizations and (4) moderating the negative effects of Western economic sanctions on China.[21] There is indeed the possibility that the Beijing authorities will centralize their efforts to promote trade with Taiwan. With a centralized organization, it is also possible that the PRC government would radically change the terms of trade in Taiwan's favor. Despite the rhetorical PRC initiatives in manipulating trade with Taiwan, it seems obvious that Beijing has not rejected the indirect trade pattern between Taiwan and the mainland. In the 1987 circular order, the Beijing authorities concluded that it was permissible for the mainlanders to deal in indirect trade with Taiwanese firms located in Hong Kong and Macao.[22] It is clear that due to political considerations, indirect trade via Hong Kong is accepted by both sides of the Straits. Hong Kong then benefits from indirect trade between Taiwan and the mainland. In fact, at the present time, Hong Kong earns more benefits from the Open Door Policy of the PRC than it does from the indirect trade sponsored by the ROC.

Since the 1980s, Hong Kong's economy has come to coexist and prosper along with the mainland's economy. In the early 1980s, Hong Kong had for the first time encountered severe U.S. protectionism. It had also faced serious competition from the highly efficient industries of Taiwan and South Korea, as well as from the low-cost industries of Thailand and Malaysia. These had caused an unprecedented economic downturn. Fortunately, owing to Beijing's adoption of the Open Door Policy, Hong Kong's position as an entrepôt was reestablished, thus accelerating the development of its service sectors, including banking, insurance, transportation, and storage. In 1988, the total value of Hong Kong's indirect trade surpassed that of its exports for the first time in the past three decades.[23] Attracted by Beijing's Open Door Policy, many Hong Kong manufacturers have moved their factories to southern China or signed contracts with mainland factories to process their own products. Currently, the total employment in manufacturing in Hong Kong is 850,000 people, but more than 2 million Chinese citizens are employed in Guangdong by joint ventures and outward processing plants established by Hong Kong firms. With the support of low-cost mainland workers, Hong Kong has been able to maintain a comparative advantage in the international market. In addition, with the establishment of the Open Door Policy, many tourists and business travellers have been going to the mainland via Hong Kong, increasing Hong Kong's income from tourism by more than threefold from 1975 to 1988. In short, Hong Kong's sustained economic prosperity since the beginning of the 1980s has depended mainly on the development of three increasingly interrelated sectors — diversified manufacturing, financial and business services and entrepôt services.[24]

Relatively speaking, Taiwan has been a new comer to the entrepôt of Hong Kong; since 1980, Taiwan's imports and exports via Hong Kong have been only a relatively small part of Hong Kong's indirect trade (see Table 4).

CONCLUSION

The ROC government is mainly responsible for initiating the trilateral trade among Taiwan, Hong Kong and mainland China. The administrative

Table 4. Taiwan's Imports and Exports to Mainland China via Hong Kong and the Ratio to Hong Kong's Total Indirect Trade (1980–89) Unit: HK$ million

Year	Total value of Hong Kong's indirect trade	Indirect trade from Taiwan and percentage of the total*	Indirect trade to Taiwan and percentage of the total*
1980	30,072	2,134 (7.1%)	2,229 (7.4%)
1981	41,739	3,370 (8.1%)	2,420 (5.8%)
1982	44,353	2,500 (5.6%)	2,662 (6.0%)
1983	56,294	2,573 (4.6%)	3,454 (6.1%)
1984	83,504	5,111 (6.1%)	4,868 (5.8%)
1985	105,270	9,561 (9.1%)	4,325 (4.1%)
1986	122,546	8,681 (7.1%)	5,939 (4.8%)
1987	182,780	12,680 (6.9%)	9,685 (5.3%)
1988	275,405	21,208 (7.7%)	14,130 (5.1%)
1989	346,405	26,960 (7.8%)	16,478 (4.8%)
1990	413,999	30,283 (7.3%)	21,248 (5.1%)

* Percentages have been calculated by the author.

Source: *1990 Annual Digest of Statistics*, Hong Kong: Census and Statistics, 1991, p.98; *1991 Annual Digest of Statistics*, 1992, p.96.

obstacles built by the Hong Kong bureaucracy have slowed down the pace for both Taiwan and Hong Kong in establishing a fuller relationship with each other. Territorial security and other political considerations caused the ROC to choose Hong Kong in 1985 as a bridge to promote its indirect trade with the mainland. Since then, the Taipei authorities have indeed benefitted, mainly from the "influence effect" of its trade policy. Yet, the ROC has cautiously regulated imports from the mainland for the fear that the PRC might suddenly cut off the supply of its exports to Taiwan.

Probably due to economic reasons, the PRC government began to regulate its trade with Taiwan in 1987. From 1980 to 1986, the PRC government had probably wanted to elicit support from Taiwanese businesses, so Beijing had not at that time strictly regulated its trade with Taiwan. Since 1987, however, the Beijing authorities have begun taking a protectionist approach to restricting imports from Taiwan. Beijing is also screening its exports to Taiwan, even though they are mostly raw materials. The PRC's strict regulations over its trade flow with Taiwan may have led to an unstable and indefinite trade structure between them. In this regard, the "influence effect" Taiwan got from indirect trade has been reduced. On the other hand, the PRC process of screening its exports to Taiwan has caused the ROC to take a more cautious approach to purchasing products from the mainland. The ROC cannot trust that the PRC will not exploit the "supply effect" from its trade with Taiwan.

The indirect trade across the Straits, initiated mainly by the ROC, may bring benefits to Hong Kong. In fact, indirect trade across the Straits is insignificant compared to the total indirect trade of Hong Kong. So far Hong Kong has gained far more economic benefits from the PRC than from Taiwan. Accordingly, what sort of relationship between Taiwan and Hong Kong will develop in the future? Should this relationship between Taiwan and Hong Kong be conditioned by the economic transactions across the Taiwan Straits?

NOTES

1. Chiang Ching-kuo, "Directive Made at the Central Work Conference of the Kuomintang (1 September, 1977)," in *Chiang tsung-t'ung Ching-kuo hsien-sheng tui Hua-ch'iao yen-lun chi-yao (Collection of Speeches by President Chiang Ching-kuo on Overseas Chinese)*, Taipei: Overseas Chinese News Service, October 1983, p.64.
2. *Ibid.*, p.46.
3. *Ibid.*, p.63.
4. See "Regulations on Investment in the ROC by Overseas Chinese" revised on May 26, 1989. They can be found in *Yu-kuan Kang-Ao ch'iao-pao fa-ling hui-pien (Collections of Regulations on Affairs Concerning Chinese in Hong Kong and Macao)*, Group of the Executive Yuan, June 1989, pp.239-243.

5. In 1975, the then Premier, Chiang Ching-kuo, said that the number of overseas Chinese returning to the ROC in 1974 had been higher than in any previous year, and that about 80 percent of them came from countries that did not have diplomatic relations with the ROC. He was pleased to say that, despite the ROC's difficulties and hardships, overseas Chinese remained patriotic and warmly supportive of the ROC. Chiang Ching-kuo, "Directive Given after Having Been Briefed by the Overseas Chinese Affairs Commission," 24 June 1975, pp.45–46.
6. These comments are based on interviews with officials of the Mainland Affairs Commission, the Overseas Chinese Affairs Commission and the Government Information Office. Ma Ying-jeou also said that the absence of diplomatic relations with Britain had created difficulties for the ROC in promoting relations with Hong Kong. See Ma Ying-jeou, "It Is Ignorant to Neglect Hong Kong," *Yuan-chien Tsa-chih (Global Views Monthly)*, April 1991, p.100.
7. Chang Jorng-feng, "An Analysis on the Facts of the Entrepôt Trade via Hong Kong across the Straits," *Chung-kuo ta-lu yan-chiu (Mainland China Studies)*, Taipei, Vol. 31, No. 8, February 1989, pp.42–43.
8. Both concepts of "supply effect" and "influence effect" can be found in Albert O. Hirschman, *National Power and the Structure of Foreign Trade*, Berkeley: University of California Press, 1969, pp.19–20.
9. *Ta-lu t'ou-tzu yu ching-mao tzu-hsun (Information Monthly on Mainland Investment, Economy and Trade)*, Taipei, Ministry of Economic Affairs, 7 January 1991, pp.2–9.
10. Chang Jorng-feng, op. cit., p.37.
11. We Ai, "Development and Obstacles of Economic and Trade Relations across the Straits," a paper presented at the 11th Sino-Korean Conference, December 1990, p.9.
12. Chang Jorng-feng, op. cit., p.38.
13. Wei Ai, op. cit., p.5.
14. For instance, Chiang Hsiao-k'ung, "Some Thoughts on the Cooperation across the Straits," a paper presented at the Conference on the Relationships across the Straits in Beijing in January 1991, pp.10–12.
15. Lee Fei, "An Analysis on the Indirect Trade between the Two Sides of the Taiwan Straits," *Taiwan Yan-jiu cha-kan (Collection of Studies on Taiwan)*, Xiamen, 1, 1991, pp.8–9.
16. Hirschman, op. cit., pp.19–20.
17. *Guan-yu kai-zhan du-i mao-yi de zhan-shi gui-ding (Provisional Rules on Promoting Trade with Taiwan)*, Ministry of Foreign Economic Relations and Trade, 8 May 1979, Article 1.

18. "Summary of China Economic News," *Ching-chi tao-pao (Economic Reporter)*, No.30, 3 August 1987, p.33.
19. *Ibid.*
20. *Ta Kung Pao*, 5 April 1989, p.2.
21. *Ibid.*
22. "Summary of China Economic News," *Ching-chi tao-pao (Economic Reporter)*, No.30, 3 August 1987, p.33.
23. "Hong Kong's Economy: Retrospect and Prospect," *Hsiang Kang Wen Ti Yao Pao (Essentials of Hong Kong Affairs)*, No.100, Taipei: Institute of International Relations, 15 January 1989, p.5.
24. Stanford Research Institute, *Building Prosperity: A Five-Part Economic Strategy for Hong Kong's Future*, Hong Kong: The Hong Kong's Economic Survey Limited, September 1989, pp.8–9.

10

Asia-Pacific Economic Cooperation and the Mainland China-Hong Kong-Taiwan Economic Partnership

Tong-shun Liu

INTRODUCTION

What has enabled the Asia-Pacific economies to hold the spotlight is mainly their miraculous economic development and immense exports to the international market. Yet, what is more important is the increasing interdependence among the Asia-Pacific economies, which has grown at a faster pace. The share of intra-Asia-Pacific trade in the world trade value has increased from 17 percent in 1980 to 26 percent in 1988. Intraregional trade in the Asia-Pacific region now constitutes about 70 percent of the region's international trade.[1] Intraregional investment has also developed rapidly. While the United States and Japan remain the major investors, the Newly Industrialized Economies (NIEs) are now acting not only as absorbers of capital but as investors as well. The NIEs have made investment in the United States, but the majority of their overseas investment goes to the developing countries in the region, namely ASEAN (Association of Southeast Asian Nations) member countries and the People's Republic of China. Thanks to the expansion of Japan's domestic demand and the adjustment in the industrial structure of the NIEs, the region has seen active transfers of capital and technology since the late 1980s.

POLITICAL AND ECONOMIC PLURALITY IN THE REGION

One of the distinctive features of the Asia-Pacific region is the plurality in its politico-economic structure. The region consists of a wide variety of nations, ranging from the world's most powerful political and

economic giants to the poor and small developing countries that differ greatly in economic system and social background. Such divergence results inevitably in a number of contradictions and conflicts, which can be classified into the following three types:

(1) conflicts among the developed countries, primarily those between the United States and Japan and those between these two countries and the other developed countries in the region;
(2) conflicts between the developing countries and the developed countries, mainly the Asian NIEs and ASEAN countries, on the one hand, and the United States and Japan, on the other;
(3) conflicts among the developing countries.

Obviously, China, as a developing country, shares the conflicts of the second and third types. These three types of conflicts are different in nature and require different approaches. The fundamental solution would be to reform the old pattern of international relations and to establish a new international order. This is the key to the present North-South relations. However, it requires the willingness and efforts of all nations and is difficult to be realized in the foreseeable future. So far as the Asia-Pacific region is concerned, a good starting point is economic cooperation on the basis of equality and mutual benefit.

The plurality is reflected in the power structure in the Asia-Pacific region — asymmetry and overlapping in the structure of political, economic and military capabilities. The United States has strong political, economic and military capabilities, but, as a superpower, it has worldwide interests, not merely confined to the Asia-Pacific region. Japan is an economically powerful nation, and it is seeking to exert more political influence in regional and global affairs. There exists, in fact, a U.S.-Japan axis in the region, and fluctuations in U.S.-Japan relations are bound to have profound impact on the regional economic and political outlook.

Owing to bitter memories, Asia-Pacific countries object to any Japanese attempt to become a military power. China is an important party to Asia-Pacific affairs, but it is still rather economically weak. Since the disintegration of the Soviet Union, Russia has been preoccupied with its domestic difficulties and is, therefore, absent from the Asia-Pacific scene

at least in the short term. Although there is great uncertainty in the development of the situation in Russia, the country should be regarded as a potential giant in the region because it still has immense military capabilities and considerable political influence on world affairs. It is the U.S.-Japan-China relationship, and potentially the U.S.-Japan-China-Russia relationship, that will, to a great extent, shape the process of Asia-Pacific cooperation.

The existence of such a structure of plurality or heterogeneous political and economic entities does not weaken the dynamism of Asia-Pacific economic cooperation but only demonstrates the necessity of searching for a new and unique way of cooperation in the region.

DYNAMICS OF ASIA-PACIFIC ECONOMIC COOPERATION

The basic dynamism of Asia-Pacific economic cooperation lies in the fact that the wave of intensive capital accumulation has been spreading in the Asia-Pacific region. This process, which started in the developed countries, has fully covered the Asian NIES and is now spreading to the ASEAN countries. The apparent reason for China's reforms and Open Door Policy is that its economy could no longer rely solely on its domestic production and sales, but the more fundamental reason is that its economy has come to a stage which requires greater productivity to maximize available production input.

After World War II, the developed countries experienced a period of recovery and arrived at the stage of intensive capital accumulation in the 1950s. In contrast to earlier extensive capital accumulation, the economy does not depend on new sectors and territories for increased inputs of production; it improves productivity through scientific and technological innovations and achieves quick economic growth by means of expanding trade and investment and internationalizing production. Market share becomes the target of competition.

This has been the fundamental factor dominating the U.S.-European relations since the mid-1950s. In the meantime, the Japanese economy began to develop rapidly. From 1955 to 1968, the annual real growth rate of the Japanese economy was as high as 10.1 percent. Those hit most by Japan's exports were the Asian economies which were limited in market

size and natural resources. Since the late 1950s and early 1960s, Taiwan, South Korea and Singapore have switched to the strategy of export-oriented development. (It has been natural enough for Hong Kong, a free port, to adopt the export-oriented strategy.) Such a transformation has resulted predominantly from the needs rooted in the economies themselves while external factors have been no more than a catalyst. The export-oriented strategy has facilitated their economic take-off. But the other developing countries in the region are still at the stage of extensive accumulation and have adhered to the strategy of import-substitution.

Since the late 1960s, Indonesia, the Philippines, Malaysia and Thailand have shifted their strategy of development and have been developing with rather high growth rates. Asian NIEs are ready to graduate from the stratum of developing nations. Japan, at a new stage of economic development, has made adjustments in its structure of domestic demand. The United States is trading and investing more and more heavily in the Asia-Pacific region. China is increasingly entwined with the regional economy. Even the Indochinese countries are trying to catch up. The growing shared interests have proven to be a strong dynamism to Asia-Pacific economic cooperation. Meanwhile, the Asia-Pacific economy is a burgeoning one. Its elastic market size and the ever-expanding consumer demand add much to the momentum of regional economic cooperation.

ENDING OF COLD WAR AND ITS IMPACT ON THE REGION

During the Cold War, the two superpowers were engaged in an intense arms race to deter each other. World peace relied on the precarious balance of military capabilities, especially nuclear weapons. Military power and ideology were, therefore, the key elements on the international scene. In the mid-1980s, when Mikhail Gorbachev came to power, the Soviet Union made considerable adjustments in its foreign policy under the guidance of "New Thinking." This resulted in a series of summit meetings between the Soviet and U.S. presidents, leading eventually to U.S.-Soviet détente. The dramatic transformation of Eastern Europe and the disintegration of the Soviet Union marked the ending of the Cold War. Now East-West relations no longer exist in their original form.

Ideologies and military capabilities have relatively declined in importance while economic and technological issues have become the chief determinants of the competition among nations. It is no wonder then that many people openly debate the changes in the so-called "great game of states."

The Asia-Pacific region used to be one of the main arenas of the Cold War. In fact, it was the only region where the United States was directly involved in two hot wars in the Cold War era: the Korean War and the Vietnam War. Curiously enough, while Europe and many other parts of the world have been experiencing realignment and unrest after the end of the Cold War, the Asia-Pacific region has entered a period of relative stability. This might be attributed to the following features of the region:

(1) the division line between the "two Camps" were not as clear cut in this region as in Europe. Along with U.S.-Soviet confrontation, other regional and inter-state disputes and conflicts were already apparent. This has provided the nations in the region with the opportunity to tackle the problems in a realistic and suitable way — even the remaining problems of Cold War legacy. But in Europe, many problems and conflicts had been suppressed by the Cold War, which eventually led to an outburst;
(2) the developing countries in the region, most of which won full political independence soon after World War II, have learned from their own experience the crucial importance of economic development. They have especially become aware that economic growth can no longer be assured by producing for the domestic market;
(3) fast economic development and increasing interdependence have made the nations treasure peace and stability.

The world is adjusting to the new situations following the conclusion of the Cold War. For the Asia-Pacific region, policies of all the developing countries are becoming more flexible and practical. They are eager to expand cooperation with foreign countries and transnational corporations and are more willing to make compromises, albeit they are

very sensitive to any issue related to national sovereignty. This trend is bound to have a favorable effect on economic cooperation in a highly divergent region.

ACCELERATION OF ASIA-PACIFIC ECONOMIC COOPERATION

Although Asia-Pacific economic cooperation or the Pacific Economic Community had been discussed and advocated by Japanese scholars and businessmen as early as in the 1960s, there was little progress for almost two decades. The 1980s began with a number of activities to realize the dream, the Pacific Economic Cooperation Conference (PECC), an informal organization made up of representatives from governments, business and academia was formed in 1980. It was designed to discuss problems concerning regional economic growth and cooperation. In order to relieve ASEAN of its worries, the United States and Japan promised in 1985 to make ASEAN the precursor of the regional cooperation and to confine cooperation to economic, cultural and technological exchanges.

In the face of protectionism and integration of other regions, especially the European economic integration in 1992, the Asia-Pacific nations, which had been relying heavily on the free trade system, realized the necessity of accelerating their cooperation. The cabinet-level conference of the Asia-Pacific Economic Cooperation (APEC), formed in November 1989, signified the official participation of governments in the process. Although there is still a long way to go, one might expect that APEC would function as the framework and main forum of an open system of Asia-Pacific economic cooperation, consisting of several sub-regional economic rings based on geographic and economic denominators.

OPENING OF CHINA AND ASIA-PACIFIC ECONOMIC COOPERATION

In the late 1970s, China made significant adjustments in its policy and turned from autarky to the Open Door Policy. The Chinese economy has been developing at a high rate since then. Its economic ties with the

world, especially with the Asia-Pacific region, have been greatly enhanced. The total value of China's foreign trade represented as much as 31.1 percent of its GNP in 1990.[2] Such a large percentage of foreign trade against GNP clearly indicated China's determination to adhere to the Open Door Policy even after the turmoil of June 1989.

China's Open Door Policy has resulted in very close ties with the Asia-Pacific economy. Take 1989 for an example, China's trade value with the region was US$75.6 billion, representing 67.7 percent of its total external trade; loans from the region accounted for 54 percent of all external borrowings; and 85 percent of all foreign direct investment in China was from the Asia-Pacific countries.[3] The Asia-Pacific region is, therefore, indispensable to the economic construction of China.

China is a very important and positive element in the Asia-Pacific economy. Since China has been accepted as a member of PECC in 1986, it has been active in facilitating Asia-Pacific economic cooperation and has made valuable contributions. Regional integration and prosperity are practically impossible without the participation of China. It was once remarked that "whether or not the Asia-Pacific economies can march into the so-called 'Pacific Century' twelve years from now depends critically on the effective integration of the Chinese economy into the Asia-Pacific region."[4] In fact, China is increasingly involved in the regional economy and Asia-Pacific economic cooperation is gaining momentum. What is noteworthy, among other things, is that an economic partnership is quickly taking shape between the three parts of China: the mainland, Hong Kong and Taiwan.

EVOLUTION OF MAINLAND CHINA-HONG KONG-TAIWAN ECONOMIC PARTNERSHIP

After the Kuomingtang (KMT) retreated to Taiwan, the two sides of the Taiwan Straits remained enemies — the Communists vowed to "liberate Taiwan," while the KMT swore to "strike back to the mainland." The continual attacks and the antagonistic mood across the Straits cut off almost all the links between the mainland and Taiwan for about 30 years.

The situation was quite different for Hong Kong. As a British colony and a free port, it was able to secure some sort of neutral status. It

maintained limited economic links with the mainland while keeping exchanges of people and goods with Taiwan. But the leading trading partners of both Hong Kong and Taiwan were the United States and Japan.

The situation began to change in the late 1970s when mainland China decided to implement reforms and to open up to the outside world. Hong Kong became an important connection between mainland China and the outside world. As a result, the economic and trade relations between Hong Kong and the mainland developed very quickly. They soon became each other's largest trading partners. China-Hong Kong economic relations were further enhanced when China and the United Kingdom concluded the Sino-British Agreement on Hong Kong's reunification with China in 1997 under the principle of "one country, two systems." The mainland accounted for 34.9 percent of Hong Kong's imports and 19.3 percent of its exports in 1989.[5] Hong Kong was also the leading overseas investor in the mainland.

Meanwhile, Hong Kong-Taiwan trade developed rapidly as well. As direct business intercourse were forbidden by the Taiwan authorities, Hong Kong acted as the intermediary between mainland China and Taiwan. Trade between the mainland and Taiwan has been developing but has so far been conducted mostly through Hong Kong. According to Hong Kong customs statistics, the flow of goods from Taiwan to the mainland through Hong Kong was only US$21.47 million in 1979 but had rocketed to US$3,278.25 million in 1990. And in the same period, the mainland's flow of goods to Taiwan through Hong Kong had increased from US$56.29 million to US$765.36 million.[6] Indirect trade between the mainland and Taiwan reached a height of US$5.5 billion in 1991.[7]

Taiwan businessmen began investing in the mainland in the early 1980s; nevertheless, it did not grow very rapidly until after 1987 when the Taiwan authorities relaxed their foreign exchange control and later allowed Taiwan residents to visit their relatives in the mainland for "humanitarian reasons." Taiwanese investment in the mainland was US$1 billion in 1988, US$2.5 billion in 1989 and almost US$5 billion in 1990.[8]

Obviously, a mainland China-Hong Kong-Taiwan economic

partnership is in fact already in existence and is developing rapidly. It is consistent with the trend of economic cooperation in the Asia-Pacific region and has contributed to the economic development of the three parts of China. It may eventually lead to some form of "Chinese Commonwealth" as a result of their close interdependence.

RATIONALE OF THE MAINLAND CHINA-HONG KONG-TAIWAN ECONOMIC PARTNERSHIP

Hong Kong and Taiwan are both the NIEs. Their economies are sensitive to the fluctuations of the world market because of their small domestic market. Protectionism has, unfortunately, been gaining ground since the 1970s. In January 1989, the United States cancelled the favorable trading treatment of the Asian NIEs, thus making it more difficult for Hong Kong and Taiwan to compete in the U.S. market. Integration of the European market is underway, a development that will definitely contribute to greater protectionism. All these indicate that Hong Kong and Taiwan, which used to depend largely on the markets of the developed countries, will have to find new markets for their products. Mainland China has great market potentials and could act as an absorber of the industrial products of Hong Kong and Taiwan.

As the economies of Hong Kong and Taiwan grow into maturity, the cost of labor increases. Their labor-intensive industries have been less competitive in the world market. Therefore, they have to make adjustments and transformations in their economic and industrial structure: to opt for capital-intensive and high-tech industries and to transfer the labor-intensive industries to third economies. Meanwhile, a large sum of accumulated capital is seeking a way out. For the investors, the mainland is a suitable location for investment.

The mainland China-Hong Kong-Taiwan economic partnership is not a makeshift but is founded on these factors:

(1) the people belong to the same nation and, therefore, there is little difficulty in language, culture and social customs, etc.;
(2) their geographical proximity makes it very convenient to conduct business transactions with each other;

(3) there is considerable complementarity between Hong Kong and Taiwan on the one hand and the mainland on the other. The mainland has an immense market for machinery and other industrial products of Hong Kong and Taiwan and can supply raw materials and mineral resources in return. The relative low cost of labor and enormous market potentials make the mainland an ideal place of investment from Hong Kong and Taiwan.[9] According to a recent survey by some Taiwanese scholars, 85 percent of Taiwanese firms in the mainland are making profits or are planning to increase their investment.[10] Moreover, the mainland is advanced in certain fields of science and technology, meeting the needs of the other two parties;

(4) the coastal areas of the mainland, which have adopted similar developmental strategies of Hong Kong and Taiwan, are making fast progress. The growing economic congruity will facilitate better cooperation;

(5) now that the mainland, Hong Kong and Taiwan have all become members of APEC, they have a more concrete basis of cooperation; and

(6) close economic cooperation will be essential for the prosperity of Hong Kong after 1997.

CONCLUSION

After the Cold War, the relative stability of the Asia-Pacific region provides better ground for the strengthening of the regional economic cooperation. It would be preferable that the framework of APEC be the main channel of promoting and coordinating Asia-Pacific economic cooperation as a whole. But owing to the complexity of the socio-economic structure, substantial cooperation is more likely to take place at the sub-regional level.

The mainland China-Hong Kong-Taiwan economic partnership can be an important part of sub-regional cooperation. The three segments of China, if put together, have very powerful economic strength. With a combined volume of exports and imports comparable to that of Japan, their cooperation would have a favorable impact on Asia-Pacific economic cooperation. Moreover, their economic partnership, in contrast to economic blocs, would be open to all the countries in the region and the world, which would contribute to the development of the regional and the world economy.

Whether the mainland China-Hong Kong-Taiwan economic partnership is able to develop smoothly depends largely on politics. One of the greatest obstacles to closer relations across the Straits is the long-standing suspicion and distrust between China and Taiwan. But as economic issues become increasingly important in regional affairs, the policies of both sides tend to be more and more practical. Thus, it is unlikely that either Beijing or Taipei will ever cut off their economic links with the other. With the growth of economic exchanges, there will definitely be more shared interests and better mutual understanding, which may eventually lead to some form of "Chinese Commonwealth" in the end. Therefore, there will be ups and downs, but the future of the mainland China-Hong Kong-Taiwan economic partnership remains optimistic.

However, the key to Asia-Pacific economic cooperation as a whole rests on the settlement of the problems of conflicts and cooperation between the United States and Japan. China may have to carefully weigh the pros and cons of its relationship with Japan, an "economic animal," and an arrogant Uncle Sam that is not hesitant to advocate colorful "idealism" in its foreign policy toward China just because of the conclusion of the Cold War.

NOTES

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