

In Search of a New Order in East Asia

To the memory of
Georgi Fjodorovitch Kim
and
Vladimir D. Tikhomirov

In Search of a New Order in East Asia

EDITED BY

Chong-Sik Lee



INSTITUTE OF EAST ASIAN STUDIES

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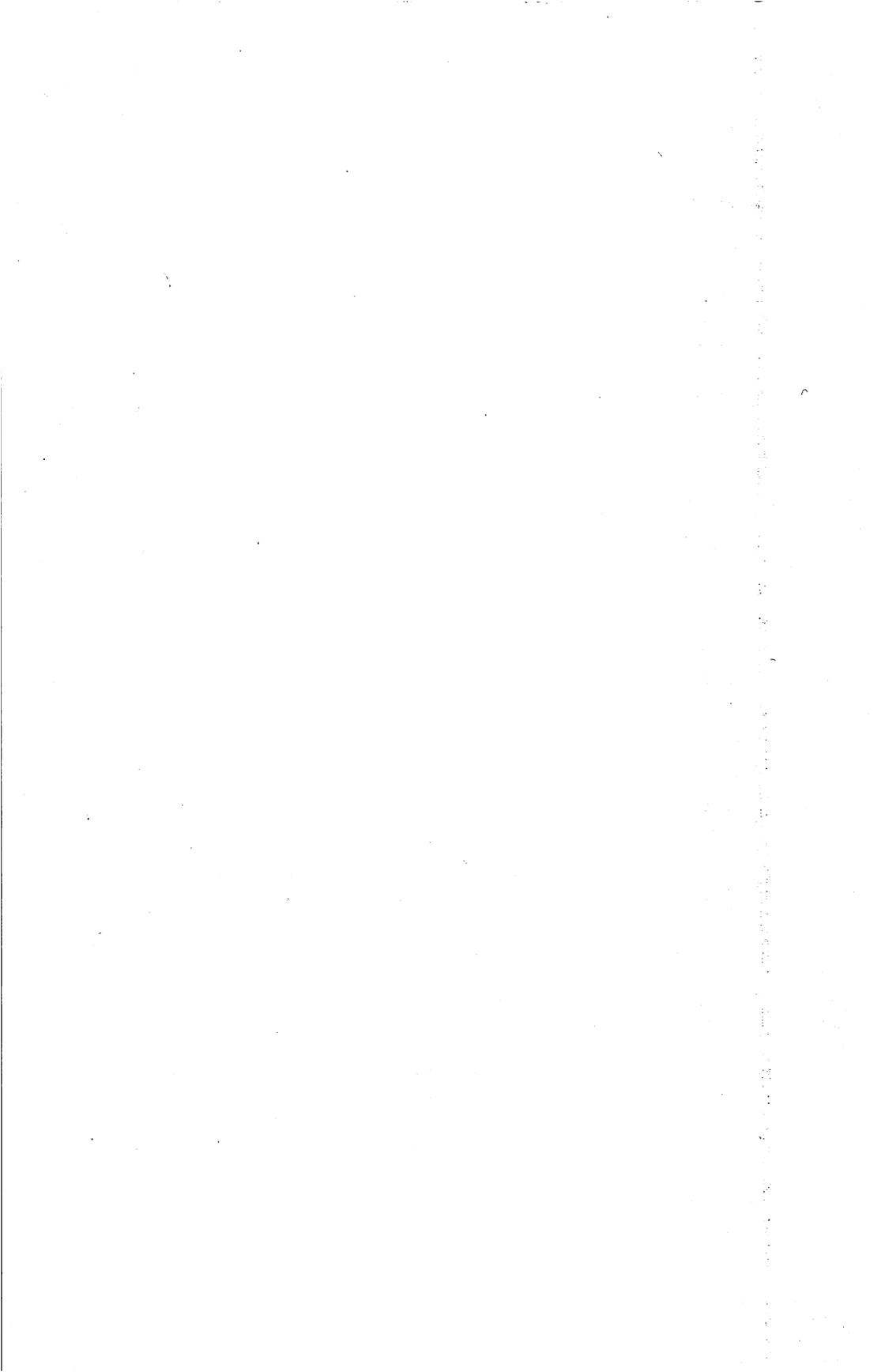
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Correspondence may be sent to:
Ms. Joanne Sandstrom, Managing Editor
Institute of East Asian Studies
University of California
Berkeley, California 94720

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Acknowledgments

The conference at which these papers here were delivered (“In Search of a New Order in East Asia,” Santa Barbara, California, February 1–3, 1990) was held in commemoration of the seventieth anniversary of the inauguration of *Dong-A Ilbo* (East Asia Daily). That paper was launched in 1920, when Korea was under Japanese rule. Since then, except between 1940 and 1945, when the colonial regime suppressed all nongovernmental Korean media, the paper continued to serve as the beacon and mouthpiece of the Korean people in spite of harsh circumstances. The very fact that the paper had survived the trials and tribulations for seventy years was a cause for celebration. But *Dong-A Ilbo* and the Korean people had much more to celebrate in 1990. Just two years before, the South Koreans had installed a democratic system of government after decades of authoritarian dictatorship and had successfully organized and conducted the International Olympics. The institution of democracy meant the lifting of government censorship and governmental interference that directly affected *Dong-A Ilbo*. Except for a year between 1960 and 1961, this was the first time that Korean newspapers were allowed complete freedom. This was certainly a cause for celebration. We join *Dong-A Ilbo* in its celebration and wish to thank Dr. Sang Man Kim, the honorary chairman, and Mr. Byung Kwan Kim, the president, respectively, of the Dong-A Ilbo Company, for the generous support provided for the conference. Mr. Jin Hyon Kim, who was then the Chief Editorial Writer of *Dong-A Ilbo*, served as the organizer of the conference.

I also wish to express my special thanks to Harry Kendall, who performed a yeoman’s task as coordinator of the conference on behalf of the Institute of East Asian Studies, University of California, Berkeley, which cosponsored the conference. His task demanded extraordinary patience because he had to deal with scholars of so many different countries. Jonathan Petty and many others at the institute also provided valuable service. The credit for seeing the volume

through editing and production goes to Joanne Sandstrom, managing editor of the institute.

Introduction

CHONG-SIK LEE

The changes Mikhail Gorbachev ushered into the world since he came into power in 1985 have been truly astonishing. The cold war has ended, the Communist bloc dissolved itself, and Germany united. The Soviet Union has been undergoing drastic transformations, and as this volume goes to press, President Gorbachev is attempting to redefine the nature of the relationship between Moscow and the various republics within the Soviet Union.

These changes were very poignant for those who participated in the Santa Barbara conference (In Search of a New Order in East Asia) in March 1990 particularly because they could look back to many similar occasions when the atmosphere and the topics of discussion were vastly different: they had to deal primarily with causes of and solutions to mounting conflicts. Now the scholars were called upon to look toward a future in which East-West tension has been minimized. There was no doubt that we were entering a new era in history.

The changes, of course, were not confined to formerly socialist countries or to international relations between Communist and non-Communist countries. Some of the countries that had been outside the Communist bloc also experienced political changes of great significance in part because of the thaw in international relations but also as a result of ongoing socioeconomic transformations. And, as the people in different countries became increasingly more assertive, politics in each country and the relationships among countries became more complicated. The complexity was compounded by the intensified economic, social, and political interaction among nations.

It was important, therefore, for scholars of various countries to identify the nature of the changes taking place, to assess the current situation, and to forecast the future. It was considered essential also that scholars of various countries exchange their ideas.

As the title of the conference suggests, the Santa Barbara conference was devoted to East Asia, particularly the Northeast Asia region. Selected scholars

from China, Japan, Korea, Mongolia, the Soviet Union, and the United States were invited to present papers and participate in discussions. It was understood, of course, that invited scholars represented no one other than themselves and that their views might not be representative of the views of their fellow citizens, let alone their government. Scholars from both North Korea and South Korea were invited, but we regret that the North Koreans found it inconvenient to accept the invitation.

Because the pace of change accelerated subsequent to the Santa Barbara meetings, it was necessary to revise most of the papers. The papers presented here, then, are revised versions of those presented at the conference. In a few cases, the authors chose to rewrite their papers completely. We are grateful indeed to all the authors for their repeated generosity with their time and effort.

Northeast Asia as a Unit of Analysis

Why treat Northeast Asia as a single unit for analysis? In what ways does the situation in that region differ from that in Europe? Duck-Woo Nam presented a most cogent answer to the first question. In addition to geographic proximity, it is a region where, except for the Soviet Union, all countries or economies fall within the Sinic or Confucian cultural sphere; both major Communist powers are represented, along with their ally North Korea; the area has experienced active, long-term, and massive involvement of the United States and the Soviet Union in addition to the regional powers; and it is the only subregion in the world that has not yet established a multinational framework of political or economic cooperation such as the Association of Southeast Asian Nations (ASEAN).

The second question—the characteristics of the situation in Northeast Asia—has been answered by many others. This region shares similarities with Europe in that there is a trend toward dialogue, détente, reconciliation, and cooperation. The countries in the region are also attempting to institute social reform, political readjustment, and economic development. But there are major differences. Alexei Arbatov from the Soviet Union flatly stated that the many positive aspects of the European experience are not applicable to the Asia-Pacific region. Large armed forces are involved in the “local” confrontations, and “it is not easy to find a country [in the region] that does not feel insecure in the actual or potential military-political encirclement by unfriendly states.” Byung-joon Ahn from South Korea, Seizaburo Sato of Japan, and Wu Zhan from the People’s Republic of China shared similar views. They noted that in East Asia, unlike in Europe, there is an asymmetry of power, and political uncertainty and regional conflicts prevail. As elsewhere, a tide of nationalism is rising among weaker powers in East Asia, and some of them are

enthusiastically expanding their arsenals while developed countries are reducing theirs. Also in contrast to developments in Europe, Asian Communists continue to adhere to Communist ideology. Sato stated that "the northwestern Pacific will continue to be one of the main theaters of U.S.–Soviet strategic competition. Overall, in strategic and political terms, East Asia is characterized by instability and uncertainty (potential if not actual).

Domestic developments in various countries will, of course, affect the future of international politics, and Robert Scalapino listed some of the most salient issues. He noted the generational change in leadership and the challenges it poses, including the necessity of balancing the need for stability with the "inexorable quest" for greater freedom and participation in the political process. He also noted the need of "stretching governance" by "liberating creative energies of the citizens." The need to build viable institutions beyond the nation-state level was his third concern.

The Need for Economic Cooperation

An important effect of the reduction of tension in the world has been the increased importance of a country's economy, and the situation in East Asia is no exception. It is only natural, perhaps, that the conference devoted much discussion to this subject and that there was a unanimity of opinion on the need for increased economic cooperation.

Dwight Perkins laid the ground for discussion by elucidating the factors that have driven East Asian economic growth over the past two or three decades and exploring the prospects for cooperation within the East Asian region and between that region and the rest of the world. While he was optimistic about the future growth of East Asian economies, he cautioned that efforts confined to the East Asian region alone will not be sufficient. He underscored the need for worldwide cooperation by saying that "if prosperity is to be sustained, it must be sustained everywhere in the industrialized world."

Duck-Woo Nam echoed the sentiment and, after presenting extensive data on the intensified intraregional trade and investment, offered his prescription for enhancing economic cooperation. He noted, in particular, the need for macroeconomic adjustment to correct trade imbalance and the need for industrial adjustments and division of labor. In his view, intensified international economic consultation and cooperation are essential.

A particular point that deserves to be mentioned in this connection is that the scholars for all the non-Communist countries shared the view expressed by their colleagues from China and the Soviet Union that socialist countries should be helped to participate more fully in the open international trading and financial systems. Nam urged the creation of a regional development bank in Northeast Asia not only to finance development projects in the region but also

to serve as a catalyst by transplanting elements of the market system (business organization, accounting, trade practices, etc.) to nonmarket economies. In this connection, we were highly enlightened by frank and realistic analysis and assessment of Soviet economic policies presented by V. A. Martynov. One of the points he made was that while the Soviet Union plans to invest heavily in the Far Eastern region, there can be no cardinal change in the commodity structure of exports from the Soviet Far East at least up to the year 2000. The Soviet Union, he indicated, hopes to pay for the increased imports by increasing its output of fuels and raw materials such as timber, coal, oil, nonferrous and ferrous metals, and building materials. Nam urged that a much greater amount of Japanese and U.S. investment should find its way to Asian developing countries, including China and the Soviet Union.

The scholars also discussed the present and future problems associated with trade and other economic activities in the region. Okita Saburo, among others, stressed the region's very high dependence on the U.S. market as a major concern. In addition to the obvious need for the United States to take macroeconomic measures to decrease its budget deficit and increase savings, panelists also noted the need to stabilize and improve Latin American economies; such expansion would also benefit the U.S. trade balance.¹ While Japan has been increasing its imports from various economies in the region, the panelists also noted that there was a clear need for intensified efforts.

Wu Zhan from China also expressed other concerns. He feared that the struggle between "domination and counterdomination in economic activities may become very acute"; economic hegemonism may turn up in covert form; protectionism in trade may lead to frictions; and the gap between the North and the South may be widened.

Strategic Confrontation

Unlike the discussion on economy, the two papers on military strategy presented by Alexei Arbatov of the Soviet Union and Ronald Hays of the United States reflected the divergent views of the two major powers. In Arbatov's view, "Counterdeployments of the war fleets is central to the strategic situation and the balance of forces between the USSR on the one hand and the U.S.-Japanese alliance on the other." He noted further that "for the Soviet Union the race in naval forces is the most unfavorable sphere of the military competition with the United States." Hays noted, conversely, that

¹ Japan committed \$3 billion in 1990 for future investment projects in Mexico. During the second half of the same year, Mexico posted a 5.6 percent annual growth rate. *Business Week*, June 3, 1991, p. 20.

“while the threat level has significantly declined, the quantitative measurements for military hardware and people remain at an unfavorable ratio of two to one” against the United States. As is well known, the United States is superior in naval forces in the Pacific while the Soviet Union is superior in land and air forces. The situation was obviously too complicated for immediate resolution. While Arbatov argued for political diffusion of “the intricate knot of military confrontation in the western part of the Pacific Ocean,” Hays stated that “military force structure change should not attempt to match political change. In an authoritarian society change, either good or bad for our security, can occur instantaneously.” Sato’s prognosis of the strategic confrontation is also worth noting in this context.

Korea

While two papers were devoted exclusively to Korea, other participants in the conference referred frequently to the “explosive situation” on the Korean peninsula. Arbatov noted, for example, that the concentration of troops and weapons per square area and even by many gross quantitative parameters is higher on the Korean peninsula than the Soviet and Chinese deployments along their common border.” Gennady Chufrin explained the new Soviet policy toward Korea, placing Soviet policy toward the Korean peninsula in the broader context of Soviet foreign policy. While Soviet and Chinese scholars were in agreement with other participants in stating that only bilateral North-South talks could resolve the Korean problem, they supported the North Korean position regarding U.S. forces and nuclear weapons in South Korea. This attitude was shared by the Mongolian ambassador Gendengiin Nayamdoo.

The two papers on North–South Korean relations examined the policy dilemmas, options, and strategies of North and South Korea. Han Sungjoo noted that a change in the superpowers’ perception of each other affected their views concerning the strategic value of Korea. The resulting changes in their Korea policy presented North Korea with a tough choice and South Korea a dilemma. Neither of Pyongyang’s choices is a palatable one in that opening the country to the outside world may foment political challenge to the regime while continued isolation would cause it to lag further behind South Korea. South Korea’s dilemma is that it has to maintain a strong military posture while other trends point to deemphasizing the military. He concluded his essay on a pessimistic note because he finds that “mutual willingness and cooperation” is lacking. Conversely, Chong-Sik Lee, analyzing the recent changes in North–South Korean relations that led to the premiers’ talks of late 1990, forecast that the dialogue will continue although no major breakthrough is likely in the immediate future.

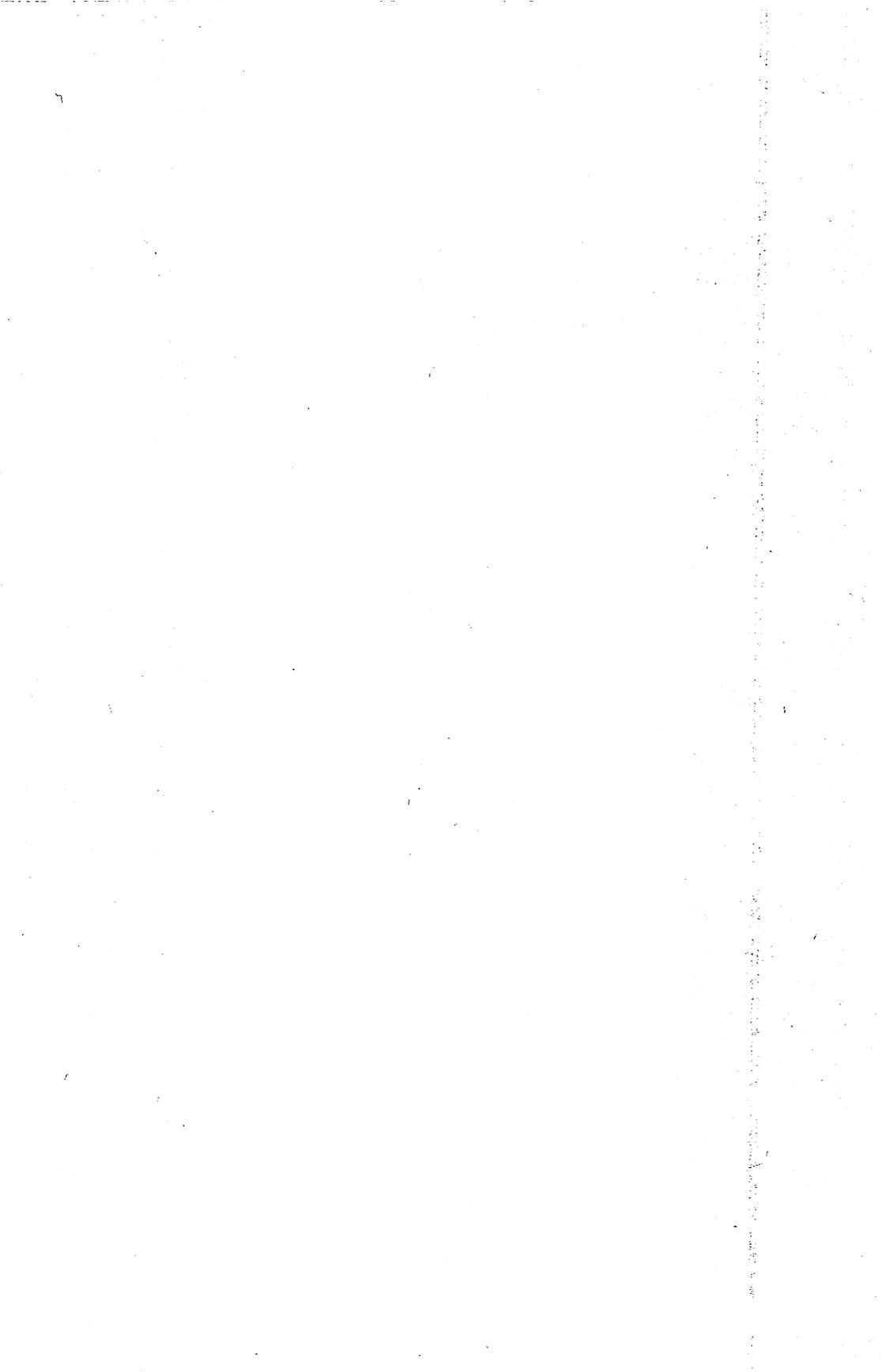
In September, 1991, as we were ready to go to press, both Koreas were admitted to the United Nations. This represented a major reversal of North Korean policy in that Pyongyang had long opposed the idea of the two Korean governments joining the United Nations as separate entities. Instead, North Korea had insisted that the two Koreas join the United Nations as a single "Koryo Democratic Confederation." In the past, North Korea could count on China and the Soviet Union to block South Korea's application, but obviously, the allies decided to recognize the reality of the Korean peninsula rather than support North Korea's position.

It is doubtful, however, that the relationship between the two Koreas will change drastically as a result of the reversal. The North Korean announcement issued on the occasion of applying for U.N. membership in May 1991 included a strident denunciation of the South Korean decision to apply for separate membership in the U.N. which forced North Korea to follow. "The South Korean authorities are committing the never-to-be condoned treason to divide Korea into two parts through the U.N. arena by trying to force their way into the United Nations against the desire of the entire Korean nation for reunification,"² the announcement declared.

Thus, many problems remain to be solved as we enter a new era. We hope this volume will contribute to a better understanding of the complex new world and to establishing a cooperative new order in East Asia.

² Permanent Observer Mission to the United Nations, Democratic People's Republic of Korea, Press Release, no. 19, May 28, 1991, p. 2.

Part 1.
Political Relations in the
Pacific–Asian Region



1. A Regional Review

ROBERT A. SCALAPINO

As the world enters the last decade of the twentieth century, political relations often lag behind economic relations in the Pacific-Asian region, in contrast with developments in Europe. This is especially true in terms of relationships between the Leninist and non-Leninist states in Pacific Asia. Here, economic relations have jumped over ideological and political barriers. Trade and investment have advanced. Cultural relations have also improved, notably in fields such as sports and intellectual exchanges. By these means, a network of contacts has been established that promises well for the future. But political trends within Asia's Leninist societies are currently not conducive to improved relations of a political nature. On the contrary, with rare exceptions, the political lines separating states operating under different systems have tightened.

To appreciate this situation more fully, we must note the widening cleavage between the Leninist states of Europe and Asia. Not since late in the Khrushchev era has the division been so pronounced. In Europe, a profound upheaval is taking place, with basic Leninist principles—political as well as economic—being abandoned or transformed. Indeed, most of Eastern Europe can no longer be defined as Leninist; political pluralism is emerging in diverse forms. The Soviet Union, whose leader, Mikhail Gorbachev, initiated the transformation at home that made the wider changes possible, remains politically equivocal, but the USSR is profoundly altered, and even more far-reaching changes can be expected.

In contrast, such Leninist states as the People's Republic of China (PRC), the Democratic People's Republic of Korea (KPRK), and the Democratic Republic of Vietnam (DRV) are attempting to uphold traditional political lines. While dedicated to economic reforms in varying degrees and with varying results, they continue to stand guard over the political ramparts: this means a one-party dictatorship and the sanctity of Marxism-Leninism with its varying

Maoist, Kimist, Ho Chi Minhist modifications, each reflective of the strong nationalist tides that have long challenged Marxist cosmopolitanism.

Understandably, apprehension has steadily risen in each of these states over the developments in Europe. Many months ago, an oblique criticism of European Leninist states was fashioned, centering upon the charge that “Western imperialist nations,” having abandoned efforts at military hegemony, were now attempting to subvert socialism by means of “peaceful evolution.” This was clearly intended as a warning to comrades in Eastern Europe and the USSR. As the revolution intensified, the attacks became more direct, with charges that some East European leaders were traitors to socialism. Gorbachev has not been exempt from criticism. He has even been called, privately, “a madman.” It is significant, moreover, that China, North Korea, and Vietnam have adopted a unified position in these respects, notwithstanding the continuing dispute among them over the Cambodian issue. Only the Mongolian People’s Republic (MPR) has stood aloof. However, it is important to note that none of these states, not even the DPRK, wants to engage in an open ideological battle with Moscow. Hence, official ties are kept correct and public criticism of New Thinking is at most indirect.

Meanwhile, the political relationships of the non-Leninist states—states operating market economies—have grown complex in many instances, albeit for different reasons. The politics of interdependence is no less difficult than its economics. As nations are drawn together economically, their domestic policies and the attitudes that accompany those policies affect their partners with increasing intensity. In addition, when societies operate under parliamentary systems, all issues—foreign and domestic—are thrust into the public arena. Interest groups and the electorate at large become vital elements in the political process, influencing and, in some degree, narrowing the policy options available to politicians and bureaucrats. And when the mass media seize upon select issues for intensive, sustained, sensational treatment, political temperatures rise. Under these conditions, a nationalist response to the rising currents of interdependence can easily gain strength. Such a phenomenon is by no means confined to the so-called developing states or the newly industrialized economies (NIEs): it is equally apparent in such major industrial nations as the United States and Japan. Indeed, the intensifying interaction between nationalism and internationalism will constitute one of the great political dramas of the coming decades.

The tensions accompanying interdependence between and among the market economies are accentuated by changes in the international security environment. Once, a commonly perceived external threat served to bind many non-Leninist nations together. Both in Europe and in Asia, communism manifested expansionist tendencies, even after divisions appeared with the

Leninist world. Now, with profound changes under way within a majority of the Leninist nations, with tense relations between some of them, and above all, with the profound upheaval that is taking place in the Soviet Union, the threat has diminished, perhaps disappeared. In a few situations—the Korean peninsula is one of them—concern may be justifiable, but they are the exceptions. Even on the Korean peninsula, the risk of a 1950-style war seems very low. To an increasing number of people, there is no external enemy. Thus, states with competitive economies in the international marketplace, at varying stages of development and with varying structural characteristics, find it safer to quarrel.

As has already been implied, the basic political shift among the non-Leninist Asian states has been from authoritarian-pluralism to parliamentary democracy. The authoritarian-pluralist system—in its various forms—is characterized by restrictive politics. We find a dominant party system, limited civil rights, and controlled citizen participation; yet it is also a system allowing extensive pluralism in social and economic institutions. The private arena in both these sectors is substantial. In the past decade, economic success, major advances in education, and general social mobility have combined to support the transition of many such societies to parliamentary democracy.

Generally, the transition has been peaceful, but the adjustment between new political institutions and old political cultures cannot be made quickly or easily. For the new Asian democratic states, political institutions and behavioral patterns remain fragile, with a continuing premium upon leadership. It must be acknowledged that democratic systems of whatever vintage are by their nature less stable than efficient authoritarian regimes. Hence, for much of contemporary Asia, as the external security threat has diminished, the internal security threat has grown. How to combine stability and development is at least as substantial a challenge for democracies as for Leninist nations.

Northeast Asia

Within this setting, let me now explore political relations in the key subregions of Pacific Asia, commencing with Northeast Asia. It is here that the four major societies of the entire region come into the most intimate contact with each other. It is also here that the legacy of World War II is most strongly felt. There are, for instance, two divided states. I turn first to the U.S.-USSR relationship as it pertains to Asia, since trends with respect to these two nations will influence all other states.

U.S.-USSR Relations

The improvements in American-Soviet relations have so far centered upon the West, although their repercussions are global. The existing reality is that, while the USSR is a Eurasian nation with substantial interests and a major

physical presence in the Pacific-Asian region, its heartland lies west of the Urals, whether the measurement be economic, political, or strategic. In the recent past, Gorbachev and his associates have correctly assessed the importance of reducing tensions with Russia's great Asian neighbors, yet the immediate future of the Soviet Union hinges above all upon its relations with Europe—and, because of the existing security, political, and economic ties, with the United States via Europe. When Gorbachev speaks of a "common European house," he is speaking of the heightened benefits that Moscow would derive from a combination of drastically reduced military burdens and greatly augmented economic interaction in all forms between the advanced Western market economies and the faltering socialist societies, especially the USSR.

The benefits to be derived from such developments for Western Europe and the United States are also substantial, given their domestic needs. From these facts flow the advances being made in arms limitation negotiations. We are hopeful that there are more to follow. To be sure, the current scene has worrisome aspects. The very rapidity and sweep of the revolution in Eastern Europe brings to the fore sincere but untried leaders who have been handed a chaotic economic and political situation. Moreover, with the dominos falling, separatism now knocks at the door of the Soviet Union itself in the forms of Baltic demands for independence and ethnic conflicts elsewhere. Can Gorbachev and the policies to which he is slowly coming survive? If not, can another leader emerge—a leader of equal or greater capacity—to take the Soviet Union through this difficult, dangerous period? Or is the USSR destined to enter a phase of protracted chaos and confusion, with various republics splitting off? One can only hope that the thrust toward greater political freedom and a revitalized economic order will not be stifled by a combination of procrastination, miscalculations, and violence. Come what may, we are witnessing the weakening of the Eurasian heartland—not merely the Soviet Union but also inner China—along with the strengthening of the Eurasian peripheries, west and east. This trend, the precise reverse of geopolitics in the period immediately after World War II, is of profound significance.

Certainly, the Soviet Union is destined for the foreseeable future to look west, with its attention to the east directed primarily at threat reduction and secondarily at assistance in the development of its backward Siberian frontier. It is in this context that U.S.-USSR relations in Asia are to be understood. Sooner or later, the current arms reduction talks will take on further global connotations. The only questions are when and under what circumstances. The Soviet Union has long requested a regional security discussion in Asia; specifically, it desires naval reductions since the United States has qualitative if not quantitative superiority in this area. The United States has thus far been

resistant, primarily because, given its geopolitical position and its commitments, it must rest its military strength essentially on naval and air power, whereas the historic strength of the USSR has sprung from its massive power on the ground, although it has greatly augmented this in recent decades with major naval and air forces.

Both nations are likely in the future to sacrifice quantity for quality, and the United States, at least, will probably place greater emphasis upon rapid deployment forces to deal with the type of security issues most likely to occur. Commitments to Asian as well as European allies will be maintained, but the 1969 Guam Declaration spells out the broad perimeters of U.S. military support. Naturally, the short-to-medium-run strategic posture of the United States in Asia as elsewhere could be extensively affected by developments in other parts of the world, as the Gulf War so clearly underlined.

On the economic front, the efforts of the USSR to participate as a full-fledged member in Pacific-Asian regional organizations like the Pacific Economic Cooperation Conference (PECC) will continue, with the results depending upon progress within the Soviet Union in its program of economic reform and expansion. If interaction with the market economies of the region advances, the United States along with other Pacific-Asian states will probably support further Soviet involvement.

In sum, despite the USSR's alignment in some fashion with states viewed by the United States in the past as negative factors in the quest for peace—namely, North Korea and Vietnam—it is widely recognized that the USSR has made basic changes in its strategic as well as its economic and political policies. The dramatic shift by the Soviet Union to a “two Koreas” policy has significantly altered its posture with regard to Korean issues. Meanwhile, the United States appears to be en route a gradual change in its policy toward Vietnam and possibly toward North Korea as well. Thus, the basis for U.S.-Soviet cooperation in Asia as well as in Europe now exists, assuming present policies hold. With the chances of conflict very remote, the current issues relate to how extensively these two major nations can work together in resolving Asia's problems. The test lies ahead, but most signs are hopeful.

Sino-Soviet Relations

Let me turn next to the Sino-Soviet relationship. One of Gorbachev's signal accomplishments, as is widely recognized, has been the normalization of relations with the PRC. Correctly, this was given the highest priority in terms of their East Asian policies by Soviet leaders, and as events indicated, Moscow was prepared to make certain significant concessions to achieve the goal. Thus, military forces on the long Sino-Soviet border have been reduced; in addition, there are the withdrawal from Afghanistan and discussions with Vietnam

regarding its withdrawal from Cambodia. Trade and other forms of economic intercourse have increased, and cultural relations have been expanded.

Yet, as noted earlier, in political terms, the relationship is presently somewhat aloof, and it is likely to remain so unless one of the two countries changes course. Beyond this, while both nations have a large stake in normal, nonhostile relations, a combination of factors makes intimacy most unlikely. Two massive societies, living cheek by jowl with each other, with no buffer system separating them and radically different in cultural and development terms, can be drawn closely together only by a common enemy. The United States will not play that role again. Moreover, in a certain sense, Russia and China will be in competition for the assistance of the dynamic market economies, although the USSR will look primarily west, China principally east.

Soviet-Japanese Relations

The next step for the Soviet Union is improvement of relations with Japan. Such a step would not only facilitate Japanese economic intercourse with the USSR, it could also create conditions making less likely a major military acceleration by Japan. Beyond this, it could affect the U.S.-Japan security relationship. The key lies with the so-called four northern islands issue. Yet the Gorbachev visit to Tokyo demonstrated the very great difficulties in resolving this issue. Various steps will be taken or formulae advanced: partial demilitarization, Japanese access, joint exploitation of resources. But whether Japan will be satisfied with these measures when its demand remains the return of the islands to its sovereignty remains unclear. In any case, an issue once declared by the USSR irrevocably "settled" is again on the agenda. Perhaps a process leading to some accommodation will get under way, although a protracted stalemate cannot be ruled out.

If the normalization of Soviet-Japanese relations is to progress in the near future, the bulk of the concessions are likely to have to come from Moscow. Under present conditions, Japan's need of the Soviet Union is limited, and on the territorial issue, there is remarkable political unity within the country, including the Japanese Communist Party.

The U.S. and China

The problems faced by the United States in Northeast Asia stem from vastly more intensive interactions than those of the Soviet Union. Presently, U.S.-PRC political relations are troubled, and this discordance is affecting other aspects of the relationship.

Beginning in the early 1980s, the PRC proclaimed itself nonaligned, but in fact practiced tilted nonalignment. The tilt was toward the United States and

Japan, and the reasons were not difficult to understand. The two desiderata of virtually all nations are development and security. From what other sources could China obtain comparable trade, technological assistance, training, and loans? With whom besides the United States was it possible or convenient to establish a low-level security relationship?

From an early point, some Chinese leaders worried about the possibility of “spiritual pollution.” Yet they dreamed—and continue to dream—that in some fashion, the science and technology of the advanced industrial nations could be absorbed while “subversive” Western political ideas were kept out. In truth, this vision has spanned the entire twentieth century, propagated by successive generations of Chinese statesmen. And it has always proven wrong. Especially today, with the information revolution reaching its zenith, few people can be kept in isolation. Home-grown propaganda can be effective only if it is accompanied by policies perceived beneficial by most citizens. This is the greatest transformation taking place in Leninist societies: the legitimacy of government increasingly rests on performance rather than on faith. So it will be in China, present political efforts notwithstanding. Even as the PRC leaders use the pollution theory to charge that the United States is attempting to overthrow Chinese socialism through “peaceful evolution,” these same leaders urge American capital investment, trade, and tourism.

On the American side, the Bush administration and the Congress have taken somewhat separate courses. Congress, reflecting the widespread public anger at the June 4, 1989, massacre in Beijing, has sought to continue and even strengthen sanctions against China. The administration has sought to apply a more complex policy, combining signals of disapproval over Chinese violations of human rights with efforts to keep a variety of contacts operative during what it regards as a transitional period. In this conflict within the U.S. government, one sees the historical American dilemma: how to construct a foreign policy that combines morality and the national interest. It may be argued, of course, that certain American foreign policies have been immoral, others at least ambiguous. But in contrast to most Europeans and Asians, Americans have demanded that their foreign policy rest on moral foundations, at least as interpreted by them. It is also true that increasingly in recent years, issues like human rights have attained heightened status, both in the United States and internationally.

With the future course of events within China uncertain, it is difficult to forecast the trends in U.S.-PRC relations. The problems in China at present encompass both policies and leaders. It can be argued that it is a great mistake to treat that nation as if it were monolithic, given the many fissures within it. At present, numerous constituencies in China are pursuing various paths. The great Chinese revolution that began at the end of the nineteenth century is far

from running its course. Whatever the short-term political developments, the innate logic of a harmonious American-Chinese relationship cannot be faulted, and sooner or later the tilt is likely to be resumed. Meanwhile, the probable political evolution of China—like other Asian Leninist societies—will be toward an authoritarian-pluralist system rather than parliamentary, reflecting its cultural traditions and state of development. The struggle to determine the appropriate mix between centralization and decentralization and between command and market economies will continue. For a continental-mass society, an all-powerful center may be a weakness, not a strength. On the other hand, China has had extensive experience with warlordism. Can a middle ground be found?

No Pacific-Asian nation would benefit from a chaotic China. Nor can there be harmony within the region if China reverts to the type of angry, xenophobic withdrawal symbolized by the Boxer Rebellion and the Cultural Revolution. The responsibility for the basic policy decisions rests with the Chinese, and external policies can have only a peripheral influence. Yet those policies do matter, and hence, the present debate over China policy in the United States is significant. In turn, actions in China will have a powerful influence on the course of that debate, and it should be noted that with China seeking ever greater access to the American market, economic issues have joined the political ones currently on the table. Further, there has been growing disquiet in Washington with Beijing's military sales policies. Yet given the national interests of both nations, the struggle to improve U.S.-PRC relationships will continue.

The U.S. and Japan

The issues that dominate U.S.-Japanese relations at present are of a very different order from those pertaining to U.S. relations with the Soviet Union and China. Here two societies having different cultural traditions and different times of development are moving rapidly toward economic integration, and in such circumstances problems are certain to ensue. In the post-1945 period, Japan (and subsequently certain other East Asian countries) developed a strategy of neo-mercantilism combined with progressive export-orientation. In a variety of ways, the government provided a favorable climate for commerce and industry, meanwhile protecting agriculture, with these policies ensuring domestic tranquility. A vigorous private sector, building upon traditions of nearly a century, took optimal advantage of its opportunities.

This strategy was ideally suited to the times. There was a favorable ratio between raw material and finished product prices; peace and prosperity generally prevailed among the advanced industrial nations of the West; and above all, the American market, the principal target of Japanese goods, was

relatively open. This openness, combined with the American willingness to assume security burdens on behalf of Japan, was the greatest U.S. gift to Japan during these years.

The rest is a history well known. As signs accumulated of an unbalanced relationship, the United States repeatedly pressed for what it called a "level playing field." Pressure was followed by concession, generally too little and too late, to be followed by renewed pressure. Attention was focused sequentially on the removal of tariffs, currency reevaluation, and most recently, structural impediments. The situation now is that the United States and Japan have each presented the other with a list of grievances about the opposite side's domestic policies and practices. It is ironic that at a time when China is complaining about U.S. interference in its internal affairs, the United States and Japan are openly seeking alterations in each other's domestic operations, some of which involve significant cultural changes. The United States is being asked to handle its macroeconomic policies better, raise its savings ratio, improve its education system, and find means of increasing the competitiveness of its private sector. Japan is being requested to modernize its distribution system, carry out land reform to enable a more rapid broadening of the domestic market, stop collusive practices both within the private sector and between the private sector and government, and enforce fair trade laws more effectively.

Both sides have legitimate grievances. To plead, in response, uniqueness or to insist that the cultural changes being demanded are impossible to achieve will not suffice. Cultures do change, albeit not as rapidly as circumstances may require in this extraordinary age. The domestic policies of these two nations impact deeply and immediately upon the other, and the line between domestic and international issues is thoroughly blurred.

The political repercussions of the rising U.S.-Japan integration are now substantial. In each country, a small but vocal group of nationalists demands retaliation for abuses, real or imagined. A much larger group is concerned that American-Japanese relations will further deteriorate and that remedial actions on both sides will be insufficient. There are good reasons to believe that the years immediately ahead will be troubled.

Japan is moving into a new phase of democratization, with political changes of uncertain scope under way. The Liberal Democratic Party (LDP) has recently faced a more serious crisis than at any time since its emergence more than three decades ago. While LDP primacy seems assured for the near term at least, future LDP leadership is in doubt. Moreover, in the aftermath of the Recruit scandal and other problems, the reputation of parties and politicians in general is at low ebb. The situation in the United States, though different, has certain similarities. The United States has a divided government, with the

Congress dominated by the Democratic Party but the administration Republican. The contest between the president and the Congress over the making of foreign policy continues. As in Japan, cynicism and hostility to politics has grown. In addition, U.S. involvement in the Middle East has raised divisive issues of great significance. The American people, beset with internal problems, are quite possibly less internationalist at present than at any time since World War II. Only quick, relatively painless actions on the international stage—or those that revitalize the nationalist spirit—will obtain their support. And in the United States, populism as well as powerful special interest groups have long been key political elements.

Charges of unfairness, racism (on both sides), and incompetence will continue to be traded between the United States and Japan. But the magnitude of the relationship—not merely in its economic but in its cultural, political, and security dimensions—mandates that however troubled the marriage, there can be no divorce. As the process of integration with its attendant difficulties moves inexorably forward, the United States and Japan are engaged in a great experiment. And not only the Pacific-Asian region but the world depends in increasing measure upon the health of these two economies as well as on the resolution of their bilateral problems.

China and Japan

Among the major state relationships, it remains to examine briefly Sino-Japanese relations. Deng Xiaoping and other current leaders have sought to exempt Japan from the charge of “interfering in China’s internal affairs.” They are cognizant that in its foreign policies, Japan, while frequently deferring to American feelings, has generally refrained from placing human rights in a paramount position. China’s economic interaction with Japan, moreover, is of great importance to Beijing. Japanese loans to China have recommenced. Yet the decisions made by the Japanese private sector regarding the economic potentialities of the PRC, both short- and long-term, are critical. In the longer run, there is reason to believe that Japan will play a leading role here as elsewhere in Asia in advancing economic modernization. In the short run, however, there is considerable ambivalence in Japanese business circles about further investment at this point. Much will depend upon events immediately ahead.

Meanwhile, Chinese leaders continue to be wary over the rising power of Japan in Asia. Their recurrent warnings about “Japanese militarism,” historical revisionism, and arrogance suggest the tentativeness of the Sino-Japanese relationship. China needs Japan and at the same time resents that fact, harboring some fear of a resurgent neighbor. Japan wants a stable China, but has continuing doubts about China’s ability to put its own house in order.

Paradoxically, there are also concerns in Japan of China, as a twenty-first-century power, exercising "big nation chauvinism." The relationship will be at once enduring and delicate: important to the region as a whole, but falling far short of the concept of Pan-Asianism advanced in the early twentieth century.

The Divided States

Korea and the Potential for Danger. Northeast Asia is also where we find Pacific Asia's two divided states. In turning to these issues, I shall also deal with the states immediately involved. The Korean peninsula remains potentially the most dangerous problem in Asia. Under present conditions, the likelihood of a North-South conflict—as noted earlier—is slim, but it is difficult to predict, were there to be a breakdown of order in either North or South, the reaction of the other side. Is such a breakdown possible?

North Korea has many of the earmarks of Stalinism at its zenith: a powerful cult of personality, a strong security force, and an intensive cradle-to-grave indoctrination program. Everything is done as homage to the Great Leader and his son, the Dear Leader. For the average citizen a spartan lifestyle is cushioned by a very limited knowledge of the external world. Can such a system survive beyond the life of its founder? Almost certainly the answer is no, although the timing and process of change cannot be predicted. It is now clear, however, that Kim Il Sung himself has finally been forced by the pressure of internal and external events to accept and lead certain changes of importance. The decision to press for normalized relations with Japan is a striking change of position on the question of cross-recognition by the major states. The reluctant decision to accept admission to the United Nations along with South Korea is another notable shift. But whatever the course of domestic and foreign policies, it seems very likely that Kim Il Sung's successor, be it Kim Jong Il, as is now in process, or someone else, will not be able to depend upon charisma, but will be judged by performance.

Meanwhile, DPRK leaders have two profound worries. First, they are deeply alarmed by events in Eastern Europe and the Soviet Union; these events give pause to those advocating a greater opening to the external world. It is interesting that although North Korea remains heavily dependent upon the Soviet Union for military and economic assistance, it has recently turned to Beijing for solace in these days of political uncertainty. Second, North Korea's leaders are extremely concerned about the growing gap between their economic performance and that of South Korea. They know, moreover, that the combination of heavy military expenditures, autarkic economic policies, and a minuscule private sector constitute an unpromising set of policies. This second concern has created an interest in a cautious outward turning to the market

economies—soliciting foreign investment (thus far, obtained mainly from Japanese Koreans) and tourism.

Yet the greatest potential source of assistance—South Korea—is approached with great caution for political reasons. Pyongyang remains wary of visitations and economic intercourse between North and South because of the potential political fallout. It seeks early agreements relating to military and political matters: a reduction of military forces to 100,000 on both sides, the withdrawal of American military forces and equipment from the Republic of Korea (ROK), and the creation of a Confederation of Koryo. (The latter proposal is a variation of the “one country–two systems” formula first enunciated by the PRC; the South has countered with the proposal of a Korean commonwealth.)

To date, however, the start-and-stop negotiations on all matters between North and South have achieved scant results. Pyongyang appears to be ambivalent as to whether it wants to negotiate with or help to overthrow the Roh Tae Woo government in the South—and so it attempts a bit of both. The negotiations opened at the prime minister level are meaningful—at least in symbolic terms—since they connote the North’s recognition of the ROK government. So far, however, no substantive agreements have been reached, and the level of vitriol in the propaganda barrage aimed at the Seoul government has not diminished. The political pluralism of the South makes it a tempting target for united front policies on the part of the North. Until the South can demonstrate a sustained stability, this situation may continue. At the same time, the North has shown signs of wishing to improve relations with the United States as well as with Japan, and in the case of the United States, some broadening of contacts between intellectuals has recently occurred, along with low-level diplomatic contacts via the Beijing embassies. Moreover, the return of additional MIA remains has taken place, with a desire for liaison offices in the manner of Vietnam pressed. It remains to be seen how far and how fast such relations will go. Certainly, the United States will retain its commitments to the Republic of Korea, and the course of North-South relations will naturally influence U.S. policies toward Pyongyang.

In the South, meanwhile, a major experiment is under way: how to harness democracy with continued economic development. The problems have not been slight. Power struggles combined with student violence have resulted in recurrent waves of instability and a growth of public disillusionment with politics and politicians. Contradictory charges against the Roh government of weakness and repression are being leveled, and among a restless younger generation, a growing desire for fresh leadership across the political spectrum is being voiced. A slowdown in the economy—still running about 7 percent growth per annum—worries some. On balance, however, the Republic of

Korea is exhibiting remarkable economic dynamism as the 1990s get under way.

This fact has contributed mightily to the overall success of its *Nordpolitik*. Only a few years ago, no one could have imagined that a series of East European countries would grant formal recognition to the ROK and that both the PRC and the USSR would commence a two-Koreas policy. After the events of 1989, to be sure, the PRC drew back somewhat, finding in the North a political comrade worthy of renewed cultivation, but its recent agreement to exchange trade missions and to give the missions consular duties signals the trend toward an acceptance of the ROK in all but a formal diplomatic sense.

The impasse in North-South relations raises several practical and theoretical questions. As noted earlier, will fundamental changes await the passing of Kim Il Sung, or have such changes begun? Is serious debate/discussion going on even now in Pyongyang over the direction of policy, as fragmentary evidence suggests? Is the stability of the South a critical variable, as I have asserted? Can the major powers bridge current political divisions to reduce tension on the Korean peninsula and assist in North-South reconciliation?

Regarding reunification, there is a fundamental difference between the situations in the East and in the West. In East Germany, profound political changes led to reunification through structural fusion at a pace far more rapid than anyone had envisaged. In Asia, however, whether one is speaking of North-South Korea or China-Taiwan, the formula remains "one country-two systems," primarily because, far from moving toward each other, the two divided states of Asia are still moving apart politically. This diversion could be dramatically altered at some point. Until it is, the "one country-two systems" formula must suffice, but its chances of success are slim.

Taiwan's Phenomenal Advances. Turning to Taiwan, one witnesses another experiment in parliamentary democracy, born out of the phenomenal socioeconomic advances of recent years and the foresight of recent leaders. In its relations with China also, Taiwan has undertaken remarkable policy changes. Economic and cultural involvement with the Chinese mainland has increased geometrically in the recent past, and not even the events of June 1989 have seriously affected it. This is Chinese pragmatism in one of its most vivid illustrations.

There is no indication, however, that reunification between the PRC and Taiwan is likely in the foreseeable future. Moreover, the independence movement, while relatively small, is growing. One can hope that despite certain political countertrends currently in evidence, a *modus vivendi* has been established that can endure for the indefinite future—and perhaps at some point, despite the formidable problem of scale, China will become a part of the modern world politically as well as in other respects.

Mongolia—Reaching Out. Let me mention the Mongolian People's Republic before attempting some summary remarks on Northeast Asia. Mongolia has long looked to the Soviet Union as its only credible ally in the struggle to remain independent from China. Thus, recent events in the USSR have had a profound influence in Ulaanbaatar. Indeed, in accepting political pluralism and in seeking to move rapidly toward privatization and a market economy, the new young leaders of Mongolia have gone far beyond the USSR. Mongolia is reaching out, accepting economic assistance from Japan and securing political recognition from the United States. Through such developments, it is being rapidly drawn into the wider world.

Taking Northeast Asia as a whole, the most recent political trends have been divisive at the very time a soft regionalism is being built on an economic base pioneered and still led by Japan. The task ahead will be to reduce that paradox. To some extent, the call for separating economics and politics has been demonstrated to be possible. Yet, in the longer run, such a separation cannot endure, at least in the sense now being propagated. Ideas as well as goods will compete in every marketplace.

Southeast Asia

In Southeast Asia, the political trends have been more uniform in recent years, the important cases of Indochina and Burma excepted. Among the six nations comprising the Association of Southeast Asian Nations (ASEAN), if one omits Brunei as a princely municipality, all except Indonesia presently qualify in broad terms as parliamentary democracies. Yet in each of these states, some degree of fragility exists, testifying to the extraordinary difficulty involved in maintaining the necessary balance between stability and openness in a democratic polity. In Singapore and Malaysia, parliamentary institutions and relatively broad civil rights have survived sufficiently long to have influenced successive generations, from the young to the old. Yet in both societies, top leaders have displayed confrontational or authoritarian tendencies in recent times that seem likely to bequeath an ambiguous legacy. In truth, most governments in Asia remain "of men" as much as, or more than, "of law." Contrary to Western philosophers at the turn of the last century, government is still heavily dependent upon the charismatic, ideological, and intellectual qualities of leaders. Politics remains an art more than a science.

The Philippines

Nonetheless, in Singapore, Malaysia, the Philippines, and Thailand, political openness prevails for the present, and, Thailand excepted, civilian rule is now in operation. Only in the Philippines, where amateurish leadership exists and grave socioeconomic problems persist, is there a serious risk of continuing

civil conflict at present. And the Philippines serves as an indication of the probable nature of the most frequent security problems in the decades ahead. When an upheaval occurs with a given state, the immediate issue is whether and how other states will become involved. Almost immediately, the line between civil and international conflict can become obscured, with few effective international mechanisms available to end violence. The obvious answer, of course, is to find cures for the economic and social ills that have rendered the society susceptible to such violence. As noted earlier, however, whatever the assistance derived from external sources to these ends, the fundamental tasks lie with the indigenous society and its governors.

Indonesia

Indonesia, the largest and potentially most powerful state of the region, is also the one ASEAN member still authoritarian-pluralist in character, but there are signs that before this decade has ended, that society also will have entered a time of political experimentation with greater openness. The dominance of Java by virtue of population, the extraordinary diversities of subcultures and ethnic groups, and the longitudinal spread of the Indonesian islands all pose obstacles or hazards to parliamentarism. Yet political stirrings are present with Suharto's retirement a future testing point.

Even as the nations of southern Asia and the Pacific mark their first half-century of national independence, they must undertake a second type of political experiment—that with regionalism. In Southeast Asia, that means working with ASEAN; to the east, with the South Pacific Forum (SPF); to the west, with the South Asian Association for Regional Cooperation (SAARC). On a broader front, efforts recur to launch an all Pacific-Asian conference or commission of some type; for example, the Asia-Pacific Economic Conference (APEC) has emerged. Malaysia's Mahathir, moreover, has launched the idea of a nonwhite, all East Asian Economic Group (EAEG). Almost certainly, the decade ahead will be marked by the effort to strengthen regionalism, adding security and political components to the predominately economic objectives of the present. The challenge is formidable. Only a few decades ago, these states were colonial enclaves, existing beside each other yet half-foreign with their loyalties or at least their attention focused elsewhere. Profound cultural and ethnic differences still abound, and regionalism has to coexist with both bilateralism and a broader internationalism—in a period when we have only begun the effort to build institutions that can resolve issues and problems impossible to handle effectively at or below the nation-state level.

Vietnam and Cambodia

Existing largely outside these trends at present are the states of Indochina, and notably Vietnam, a state that has long proclaimed its right to certain priorities with respect to its immediate area. Vietnam is still at war, but the war today is with itself. An older generation of political leaders, which has known only conflict and spartanism, has undertaken, to lift its people out of an economic morass, but they are ill-equipped for the task, in training and in aptitude. Economic reforms have been lately undertaken, and some improvements against a very low base have occurred, but Vietnam remains one of the poorest countries in the world.

Earlier moves in the direction of greater political openness, however, have been stalled, with signs of a retreat as Hanoi's leaders evidence grave concern about events in Eastern Europe and the USSR—their chief sources of assistance in the past. To some extent, in Vietnam as elsewhere, economic activities are taking place across political boundaries, with countries from Singapore to Japan, and probably economics will eventually lead politics. For the present, however, Vietnam stands apart from the basic political trends characterizing its region.

Symbolic of the deadlock between Vietnam and its neighbors is the failure as yet to find an acceptable solution to the Cambodian issue. The impasse is principally over the composition of a future Cambodian government and, fundamentally, over the sharing of power internally and the balance of power externally. In the past at least, Hanoi has desired that the Hun Sen government it set up in Phnom Penh be accorded recognition, with Sihanouk appended to it as a subordinate element, thereby adding to its legitimacy. ASEAN, with the backing of the PRC and the United States, has long insisted upon a four-party coalition, including Khmer Rouge elements, and internationally supervised elections.

As of the early summer of 1991, however, some progress has been achieved. The Supreme National Council—a coalition of contesting Khmer factions—has commenced operations, and a cease-fire is supposedly in effect. Given the past history of Cambodia, however, one must be extremely cautious in any prediction. At a minimum, any solution promising long-term stability must be minimally satisfactory to both Vietnam and China. Hanoi is well aware that, sooner or later, it has to come to terms with the giant to the north if it wishes to avoid permanent militarization, poverty, and dependence upon some other external power. It has finally begun to face up to that fact. Meanwhile, its strong desire to obtain recognition from the United States and support from Japan indicates its interest in creating the multifaceted relationships beneficial to a small state in its geographical position.

Myanmar

Myanmar (Burma) is another nation living in the shadows of the past. Its once promising economy is a shambles. Its military rule is xenophobic and repressive, yet unable to unify the nation because of the inadequacy of its policies toward various ethnic and religious minorities. After the bloody suppression of student unrest in 1988, however, even the Burmese militarists found it prudent to hold competitive elections. To their surprise, they lost the elections in resounding fashion. Therefore, they have nullified them in effect by continuing military rule and jailing opponents. But they too have initiated certain economic policies that involve external aid and greater intercourse with the market economies. Whatever the trauma of the next few years, Myanmar at the beginning of the 1990s is most unlikely to be the Myanmar of the year 2000.

South Asia

To the west lies the great South Asian subcontinent and its adjacent island nations. Here, too, the broad thrust has been toward greater political openness, despite awesome social and economic problems. South Asia stands as a monument to the inadequacy of Marxist theory regarding the correlation between economic and political systems. No South Asian society had the supposed socioeconomic prerequisites for parliamentarism when that political system was adopted. The principal factor producing this political phenomenon was British tutelage. As an imperial power, Great Britain indoctrinated elites in many of its dependencies, and in this region the tutelage had a deep and lasting impact. To be sure, there were failures. In particular, Islamic states gravitated toward authoritarian, and often military, rule. Yet the reemergence of parliamentary government in Pakistan (however shaky) and a similar movement in Bangladesh owe much to the British model.

Upon first examination, one marvels at the survival of democracy in India, a nation so troubled by religious, ethnic, linguistic, and developmental problems. Rajiv Gandhi's assassination was but the latest jolt. Yet in this instance, as in the case of certain other continental-sized nations (including the United States), perhaps weakness at the center has not been without its virtues. The absence of a high level of centralization enables regional and local talents to flourish. True, this creates substantial differences in the rate of growth, but there is no evidence that rigorously centralized systems have provided successful uniformity of development, nor is uniformity an economically sound principle to pursue. In any case, the acceptance of parliamentary government in both India and Sri Lanka covers the widest political spectrum, from religious-centered parties to Communist parties, which are themselves divided. Hence, the system has survived all travails to date, although once again, the level of political instability in both societies—and notably India—is perilously high.

In a regional sense, we can discern two somewhat contradictory trends. On the one hand, India continues to seek dominance over the subcontinent and its adjacent waters. Its interventions in Sri Lanka and the Maldives, its “punishment” of Nepal, and its continuing controversies with Pakistan are but some of the recent examples, as is its development of a blue-water navy. India also opposes the involvement of any other major power in the region, except in the economic area. On the other hand, as noted earlier, SAARC represents an effort—still modest—to promote a regional instrument that may be serviceable in handling problems. SAARC’s future remains to be seen, but at a minimum it provides a venue for discourse.

Conclusion

In conclusion, I would like to set forth what I believe to be the most salient political issues for Pacific Asia in the period ahead. Much of the region is undergoing or will shortly undergo a generational change of leadership. As already indicated, the importance of leadership in contemporary Asian politics can scarcely be exaggerated. Soon, all of the first-generation revolutionaries (in the case of ex-colonial countries) or prewar leaders (in the case of Japan) will be gone. Can the new leaders exhibit that combination of public and technical skills necessary in this extraordinary age for the citizenry to be minimally satisfied?

Two great political issues lie ahead. The first, as suggested earlier, is how to balance the need for stability with the inexorable quest for greater freedom and participation in the political process. This task is not made easier by the dizzying pace of scientific-technological change nor by the almost immediate depiction of global events before the citizenry of nearly every nation via television, radio, and other means.

The traditional techniques of governance are, in many respects, being rendered passé, especially in authoritarian systems. Given the difficulties, it is perhaps not surprising that the reservoir of talented individuals who seek political leadership is more shallow than is desirable. In any case, if stability and openness are to be successfully integrated, the premium must be upon strengthening the institutional framework of government. Elsewhere, I have defined political institutionalization as the process whereby a political structure is made operational in accordance with stipulated rules and procedures, enabling regularized, hence predictable, patterns of political behavior, minimal trauma in power transfer, and a foundation for the effective development of policies as well as the application of justice. Successful political institutionalization enables a movement away from the high dependence upon personalized rule and also makes orderly, evolutionary change possible. It is the *sine qua non* of political progress in Asia.

A second major challenge lies in the stretching of governance. As indicated, when power is concentrated in centralized form in the nation-state, the diversities that derive from special local and regional circumstances are slighted: initiatives at these levels are stunted. The creative energies of the citizen can be liberated only when that citizen is caused to deal with issues—in the context with which he/she is most familiar. Nothing is more conservative than a massive state-imposed bureaucracy. It is the enemy of genuine progress in all systems, as both modern Leninist and non-Leninist societies have discovered.

At the same time, it is necessary to build viable institutions at larger than nation-state levels. Today, an increasingly smaller proportion of the issues pertaining to our economic well-being and security can be handled by the nation-state acting alone. The regional structures now emerging so unevenly and so haltingly are in most cases testimony to that fact. If they do not prove to be themselves exclusivist, they will represent a progressive step forward. At the same time, regionalism does not suffice and could stifle further advances. Organizations as diverse as the United Nations and the General Agreement on Tariffs and Trade (GATT) illustrate that we need certain institutions—in far stronger form than at present—to operate across all regions on behalf of all nations. This need will steadily increase as we begin to take more seriously such issues as environment, space, health, and developmental diversity.

One final caution: We should not expect a politically homogeneous world. In Asia, for example, while the broad trend is toward greater political openness, certain states are likely to maintain an authoritarian-pluralist structure for the indefinite future. Even among the states experimenting with parliamentary democracy, differing as they do in culture, scale, and economic development, various forms will be in evidence. Moreover, uninterrupted, lineal political trends are not to be expected. There will be many pauses and reverses.

Yet the current signs suggest that the political extremes the world witnessed early in the twentieth century are likely to disappear. It seems unlikely that totalitarianism—with the state and society made as synonymous as was humanly possible—can be resurrected, at least in major societies. The monopolization of power by one individual, as exemplified by Stalin, Hitler, and Mao, also seems to be impossible except in a few small enclaves, given the combination of economic complexity, the information explosion, and the ebb of ideology that characterizes our times. Yet we should not be too quick to write off the possibility of a charismatic leader or the appetite for a uniform structure of values. Indeed, it seems likely that in the next century the quest for all-encompassing values—whether through religion or in a secular form—will

intensify. It is especially in a revolutionary age such as ours that this need is most deeply felt.

Seen in total, this is at once the most exciting and the most promising age in the whole of human history. It remains for those privileged to live at this time to rise to the challenge.

2. A Japanese View

SEIZABURO SATO

The United States, the Soviet Union, Japan, and China each plays a decisive role in determining the pattern of international relations in the Pacific region. In analyzing their interrelationships, one must recognize that the U.S.-Japanese relationship is substantially different from the other bilateral relationships (i.e., the U.S.-Soviet, U.S.-Chinese, Japanese-Soviet, Japanese-Chinese and Sino-Soviet) and that those relationships also differ one from the other. Sharing in common the system and the values of liberal democracy and a market economy and inseparably bound together with economic ties and a number of cultural interactions, the United States and Japan share extensive military, economic, and political interests. That economic friction between the two countries exists only proves their deepening interdependence and ever-closer bilateral ties.

In contrast, the other bilateral relationships reflect much less interdependence and contain many more conflicting elements. The political and economic systems shared by the United States and Japan are fundamentally different from those of the Soviet Union and China. Even though both latter countries are grappling with their respective reform programs in search of a more open system, installing a market economy and democratizing their political systems will be an extremely difficult task. In fact, it would be unrealistic to assume that their systems in the foreseeable future will become essentially similar to those of the United States or Japan. For this reason, the relationship of interdependence and cooperation between the United States (or Japan) and the Soviet Union (or China) will long remain far more limited and insignificant than that which exists between the United States and Japan. Also, no matter how much East-West tensions may relax, the Soviet Union will for many years to come continue to be at least a latent military threat to the West, and China—while unlikely to become a military threat to the United States or Japan in the near future—cannot conceivably become the West's ally.

Second, these four countries are great powers each in its own right for differing reasons. Among them, the United States is the only country with global power and influence in military, political, and economic spheres. The power of the Soviet Union is primarily military, that of Japan predominantly economic; China, while it is not at all a global power either in the military or economic sense, exercises political influence because it possesses a quarter of the world's population spread across a vast expanse of land area and is endowed with a rich historical heritage.

At present, the world is witnessing the unfolding of breathtaking global changes unprecedented since the end of World War II. While those taking place in the Asia-Pacific region remain less dramatic (at least up to the time of this writing), than those occurring in Europe, international relations in the Asia-Pacific region cannot escape the impact of the global changes. Besides, all these four countries are global powers, if in different ways, and as such their Asia-Pacific policies are intimately related to their global policies. Therefore, I shall in the following pages analyze the important global trends and by so doing shed light on the convergence as well as divergence of the national interests of these four nations in the Asia-Pacific region.

International Relations

“International relations” comprises the complex interactions of a number of variant actors; some of these interactions are long-standing, some transient. At present, international relations are in flux; long-standing relationships are changing. The most salient of those relationships are discussed below.

Systemic Crises of the Communist States and a Domino toward Democracy

That the Marxist-Leninist variety of politico-economic systems does not function well has become obvious to everybody. The very leaders of the Soviet Union have become keenly aware, alarmed by the inflexibility and stagnation of their systems, of the need for a fundamental systemic reform directed toward more freedom and openness.

The countries of Eastern Europe are renouncing Communist regimes one after another. This democratic domino phenomenon occurred first in Eastern Europe because, of all the Communist-bloc countries, the East European nations have been the most profoundly affected by the ideas of freedom and democracy, in part because of their Western heritage and also because the Communist regimes in these countries were not indigenous but had been imposed and were being propped up by Soviet military power. In other words, communism remained in an adversarial relationship with nationalism in these countries and was never given a popular legitimacy. Therefore, as *perestroika* got under way in the Soviet Union and the Brezhnev Doctrine came to be

practically abandoned, the Communist regimes collapsed surprisingly quickly and easily. Serious efforts at political and economic reforms are also being made in the Soviet Union. “Liberalizing” and “vitalizing” these Communist systems, however, will be extremely difficult because the vast bureaucracies of both the Communist Party and the government will fight tenaciously for their entrenched privileges. In addition, a prolonged period of repression has perpetuated the passive popular attitude toward governmental authority and created popular distrust in government-sponsored reforms.

Economic problems have dimmed the allure of Marxism-Leninism as a model for economic development; thus, the ideological influence of the Soviet Union and China, two of the largest Communist nations, has been fatally weakened. Because of economic problems, the policies of the Soviet Union and China will have to remain directed toward internal goals for a considerable time. For these reasons, the influence of the USSR and the PRC on the outside world are likely to become more limited, cautious, and constrained from now on.

Development of the Network of Interdependence

The Western world, in which the nations share in common a liberal-democratic political system and a free-market economy, has basically maintained a free international trading regime under American leadership since the end of World War II, resulting in a significant deepening of the economic interdependence among the member nations. The recent information and telecommunications revolution, especially, as well as the extensive relaxation and abolition of government regulations has resulted in a tremendous upsurge of transborder economic activities, deepening these nations’ mutual exchange and penetration in all realms of life involving goods, services, information, and human exchange. This “revolution” heralded the arrival, as it were, of an era of “borderless economy.”

In this era of borderless economy, moreover, the walls separating nations are rendered both low and thin; thus, all countries’ domestic and foreign affairs are meshed and inseparably intertwined. Fiscal, monetary, and taxation policies, for instance, which have long been considered sacred turf of national sovereignty, have become internationally negotiable, making it impossible for a nation to pursue its own planning of not only its macroeconomic but also even its welfare policies without taking into account their possible international impact. In this sense, the era of borderless economy is also an era of borderless politics.

In transborder economic and cultural intercourse, enterprises and local governmental units, in addition to national governments, are playing an

important role. No matter how far such mutual penetration progresses, however, and how many more new actors come into play, each national government remains primarily responsible for the well-being of its people. And, as the process of interdependence progresses, the degree to which each nation's economy gets impacted by other nations' actions and inactions will correspondingly increase, unavoidably causing serious damage, especially in such sectors as have lost international competitiveness. Therefore, international economic frictions will certainly accompany the deepening of interdependence among nations.

Relaxation of East-West Tensions

In close relationship with the changes pointed out above is the relaxation of tensions between East and West. There was, of course, an earlier period of East-West tension relaxation at the beginning of the 1970s, which can be referred to as "Détente I." The present détente ("Détente II"), however, is much deeper-rooted as well as more widely spread. First, Détente II is tied in with the Soviet Union's dire need for economic vitalization. To put new life into the stagnated Soviet economy, the Soviets must decide on significant arms cuts and bring in advanced technologies and investment capital from the Western nations. And it is precisely for this reason that the Soviet Union strongly desires to relax tensions with the West. In comparison, Détente I was mainly prompted by the desire to put a halt to the Soviet-U.S. strategic nuclear arms race. In that period, therefore, the areas affected by tension relaxation other than the United States and the Soviet Union themselves remained limited to the areas considered to be of vital interest to the two superpowers, that is, Western Europe, Japan, and Eastern Europe. The relentless U.S.-Soviet race for a position of influence in the Third World was left unchecked. In fact, the premature death of Détente I in a mere several years was caused by the adherence of the Soviets to a policy of systematic penetration into the Third World as well as their unabated large-scale military build-up other than strategic nuclear arms. In the on-going process of Détente II, however, the Soviet Union is taking a more positive and cooperative position than in the past regarding arms reduction and regional conflicts in the Third World. No doubt there will continue to be regional strife in the Third World over such familiar issues as ethnicity, religion, and national borders. But so long as the Soviets' intervention can be averted by their self-restraint, it will be much easier than in the past to localize and contain these regional conflicts.

More important, however, is that the Soviet perception of the Western nations is changing from one of "belligerent and aggressive imperialist countries" destined to die to one of "advanced industrial nations" with vibrant national economies desirous of living in peace with the Soviet Union. Such a

shift in the Soviet perception is also a result of its realization that the Marxist-Leninist system is a blind alley and that the robust growth of the Western economies has been seriously reevaluated by the Soviets.

Pluralization of Economic Power

Throughout the 1970s and into the 1980s, a number of theses alleging the decline of the United States have been advanced by scholars and pundits both at home and abroad. True, the position of absolute military and economic supremacy the United States commanded at the end of World War II in relation to the entire world including the Soviet Union had been lost by the 1970s. But it would not be correct to interpret this “decline” within the framework of multipolarization or succession of power between hegemonic states.

First, the world today is still bipolar in the military sense in that both the United States and the Soviet Union continue to possess a far stronger military power in relation to all other countries of the world. Therefore, no third nation, either among the advanced Western nations or among the leading nations of the Third World including China and India, will emerge as an effective military challenger within the foreseeable future. Furthermore, U.S. military superiority has been even more strengthened as a result of the energetic arms build-up that started in the closing years of the Carter administration toward the end of the 1970s and the first half of the Reagan years in the early 1980s. One of the decisive factors pressuring the Soviets into a series of arms reduction negotiations beginning with the total abolition of intermediate-range nuclear forces is that the United States has regained a position of relative military superiority vis-à-vis the Soviet Union.

Second, there is no evidence that the relative weight of the United States in the world economy has suffered a new serious drop in recent years, even though one can indeed see a relative decline when one looks at the entire post-World War II decades and compares the periods before and after the mid-1960s. The point can be more amply made by noting that at the turn of the twentieth century the U.S. economy already accounted for a quarter of the entire world's, and this ratio has scarcely changed since. Instead of focusing on the extraordinary period immediately following World War II, more attention should be paid to the fundamental strength of the American economy, which has maintained its powerful strength for almost a full century. Similarly, there is no sight yet of decline of U.S. capability in technological innovation in comparison with other advanced countries outside Japan.

The real issue, however, is that a significant change has taken place in the relative economic positions of the United States and Japan in recent years. This change has been particularly conspicuous in both finance and manufacturing. Since 1985, the Japanese yen has appreciated almost 100 percent in relation to

the U.S. dollar. This alone means that Japan's financial prowess has grown twofold in dollar terms. Although the appreciation of the U.S. dollar in the first half of the 1980s resulted in the "hollowing out" of U.S. industries, no such result accompanied the sudden rise of the value of the yen. The Japanese economy, which successfully challenged the two oil crises of the 1970s, has once again managed to overcome the shock of the latest yen appreciation by strenuous efforts in technological and managerial innovations, further adding to the strength of Japan's industrial base. As a result, there has been a change almost tantamount to a reversal of positions between Japan and the United States in terms of both financial clout and industrial power.

Facing the new Japanese challenge, the United States has been attempting to respond with a renewed effort to restore its international economic competitiveness and at the same time counter the tide by asserting strict reciprocity. The principle of reciprocity applied in the strict sense by the United States goes beyond the principle of "national treatment" (reciprocity in the traditional sense), under which foreign firms are to be given the same rights and privileges domestic firms enjoy, and demands that other trading nations use American rules in their own domestic markets as well. Countries that would not comply would have their access to the U.S. market restricted. Section 301 of the Trade Act prescribes nothing short of this retaliatory approach. It should be noted that such retaliation can be used effectively only by a country such as the United States, which has an exceptionally large domestic market. And because of this, other countries in this age of interdependence can hardly find an effective countermeasure when the principle of reciprocity is thus strictly interpreted and applied. Indeed, this is a privilege enjoyed only by the strong nations with little vulnerability. And in entering into a free trade agreement with Canada, the United States has, by expanding its effective domestic market, cut down on its own weaknesses so as to further increase the effectiveness of its retaliatory actions.

In the face of the rising Japanese economic power and the American insistence on reciprocity and regionalism, the European Community (EC) nations are attempting to counter the challenge by strengthening their own position through areawide integration. It can be concluded that the loss of America's absolute economic superiority has opened the door to a new process of change in which the principle of free and nondiscriminatory trade, which characterized the post-World War II trading order, is being replaced by the principle of reciprocity and greater regionalism.

The principle of reciprocity and greater regionalism, however, is not necessarily synonymous with protectionism. Its pressures can open up the markets of countries that restrict the market access by others. In the meantime, the mutual escalation of retaliatory actions is likely to escalate the protectionist

tendencies already existing among the economic superpowers. The greatest damage, however, is likely to fall upon such economically minor players as would be left without effective retaliatory means and also denied the opportunity to participate in greater regionalism. Therefore, both reciprocity and greater regionalism are liable to bring about the expansion of the present disparity and the worsening of confrontation between North and South. Further, if the principle of reciprocity should go beyond seeking equal market access and begin demanding the equalization of each others' actual quantitative market share, the system of free trade will be thrown out the window, opening the way to a world of managed trade.

Decline of Power Politics

In spite of all these perilous elements, the present trend toward reciprocity and regionalism appears to have little danger of precipitating into something akin to the formation of the economic blocs of the 1930s. The network of interdependence and interpenetration has already bound together the advanced Western countries, the newly industrialized economies (NIEs), and many other developing countries to an extent where the severing of ties would no longer be possible. Also, the deepening of mutually dependent relationships, the further urbanization, and the betterment of living standards, together with the tremendous increase in the destructive capabilities of weapons, have finally rendered wars among major powers meaningless as a rational means of advancing national interests. This is the formative process of what Kenneth Boulding called the condition of "stable peace," making war no longer relevant, first among the Western nations, and then spreading into the rest of the world. Indeed, such a change is not without profound implications for human history.

International relations can, just like human relations, be divided into two types. First is the situation in which one side loses if the other side gains, that is, a condition in which the rule of "zero-sum" game prevails. The second type is the situation in which all participants end up making net gains, that is, a case of the predominance of "positive-sum" rule. From this context derive the following two ways of looking at international relations. The first way is to emphasize the "zero-sum" aspects of the relationships among states and attempt to grasp the on-going international relations as the total sum of rivalries, confrontations, and expedient and temporary compromises of contending sovereign states vying for the chances to advance their respective national interests. So-called power politics is a typical example of this. In contrast, the second way is to emphasize the "positive-sum" aspects of international life such as the existence of common threats, the growth of transborder economy, and the proliferation of cultural activities. This is represented by the so-called interdependence theory.

When military rivalries and confrontations predominate, international relations tend to become zero-sum oriented, and power politics is an overriding concern. In contrast, when economic and cultural intercourse predominate, positive-sum tendencies strengthen themselves in the conduct of international relations, giving added impetus to the theory of interdependence. At present, pronounced zero-sum tendencies still linger on in East-West relations as well as in some of the international relationships among developing nations, providing considerable credence to analyses based on the framework of power politics. Power politics, then, has not completely disappeared, even among the Western advanced democracies, for which interdependence has progressed to the greatest extent. As indicated before, increasing interdependence tends to produce frequent economic friction, while the relative decline of U.S. economic power has brought about a pluralization of economic power. Further, the diminishing Soviet threat is shifting the attention of the Western democracies increasingly toward the confrontational economic issues dividing them. Therefore, dealings among the advanced democracies in the area of conflicting economic interests will to some extent unavoidably be colored by power politics, and not so few people will tend to interpret such conflicts more often than necessary or beyond justifiable limits in terms of power politics.

However, as indicated by Soviet President Mikhail Gorbachev's naming the aversion of nuclear wars and the safeguarding of the global environment as "values of mankind," more important even than class interests, the importance of interdependence is being recognized even in East-West relations. From the longer-term viewpoint, it might well be that we are witnessing the beginning of the end of the era of sovereign states and power politics, both of which have been dominant factors in international relations since the seventeenth century.

Future Relationships

The greatest difficulty in forecasting the future political relationships among the United States, the Soviet Union, Japan, and China in the Asia-Pacific region lies in the unpredictability of the course events will follow in the Soviet Union and in China, even in the near-term future. Regarding the Soviets, any one of the following four scenarios could be the future: (1) Although *perestroika* does not go well, the antireform forces do not recapture dominance, and the moderate reformists continue to muddle through. (2) The radical factions, dissatisfied with the slow-moving *perestroika* programs, increase their strength and give a powerful push to the reforms at the expense of the conservative factions. (3) Alarmed conservative factions succeed in rolling back the reforms, nullifying whatever *perestroika* has achieved. (4) The

conservative and the reformist factions collide while confrontations among ethnic minorities intensify, producing grave civil disorder.

Although unable to rule out conclusively the latter three scenarios, I think the first scenario is most likely. In any event, depending on which course the Soviet Union actually takes and what fate is in store for Gorbachev himself, the Soviet Union's relationship with the other three countries will significantly differ.

As to the near future of China, we can also see four scenarios: (1) Through adroit leadership, Deng Xiaoping (or his successor) maintains the delicate balance between the moderate conservatives and the hard-line conservatives. (2) The hard-line conservatives take power and revert to Stalinism. (3) The reformists stage a comeback, and Zhao Zhiyang or his supporters readopt their kind of open-door policy and push democratization. (4) All these three options fail to materialize, and the central authority and power structure break down, permitting the country to relapse into political decentralization akin to the days of the old military cliques. I am of the opinion that the second and third scenarios are less likely to happen than the first or last, but all that can be said with certainty is that China's condition is so unstable that the most unexpected can happen at any moment.

Given such instability in the Soviet Union and China, the task of accurately predicting the relationships among them, the United States, and Japan is almost impossible. This near impossibility notwithstanding, however, the following can be said with considerable certainty.

First, even though we must be prepared to cope with considerably different Sino-Soviet relations depending on what courses China and the Soviet Union actually take, they are unlikely to revert to the tight alliance of the 1950s or the confrontation of the years after 1969. China and the Soviet Union share between them the world's longest border (more than 7,000 kilometers); this border is marked by pronounced cultural differences and a long history of confrontations. Therefore, regardless of the leadership in either country, the Chinese and the Soviets will never put aside their deep-rooted mutual distrust. It is also unthinkable that a rapid economic interdependence will develop between them: a market economy cannot be so easily transplanted in these centrally planned and economically backward countries. However, it is also true that both countries are in dire need of reducing military expenditures for economic reasons and are therefore unlikely to reexpand their border garrison forces once troop reductions have been actually carried out. Indeed, both countries are finding it in their own respective interest to relax the tensions between them. And this state of affairs, in which neither side wishes to revert either to the days of alliance or of confrontation, happens to be in the best interest of Japan and the United States.

Second, the Soviet Union, even if it should fail to implement its *perestroika* programs and achieve the vitalization of its economy, will long remain a military superpower second only to the United States. The military capabilities the Soviets have built up over the years are formidable, and they have not stinted in their efforts in new weapons development. Furthermore, for the Soviet leadership, the world's recognition of the USSR as a military superpower is a proud status earned at the cost of great national sacrifices, and it is unlikely that the Soviets would meekly let it slip out of their hands. Therefore, in spite of considerable reductions in arms expenditures, the Soviets will steadfastly hold onto their position as a military superpower.

In addition, even if the tension relaxation between the United States and the Soviet Union continues and the strategic arms reduction talks (START) and other arms reduction talks make smooth progress, the northwestern Pacific will continue to be one of the main theaters for U.S.-Soviet strategic competition. Even if strategic nuclear arms should actually be reduced by 50 percent through successful START negotiations, neither the United States nor the Soviet Union is likely to give up any part of the three main pillars of their strategic nuclear arms, that is, their intercontinental ballistic missiles (ICBMs), their submarine-launched ballistic missiles (SLBMs), or their air-launched cruise missiles (ALCMs). Since the Soviets, not to mention the United States, will continue to possess SLBMs, the Sea of Okhotsk will remain important for the Soviet Union as the sea bastion for the Soviet SSBNs (nuclear-power missile submarines) armed with operational SLBMs. The United States will also continue deploying considerable naval forces in the northwestern Pacific to defend the mainland against any second strike by Soviet SLBMs and to further assure its strategic superiority. Therefore, insofar as the naval and air forces of the northwestern Pacific and the Siberian maritime province are concerned, no large-scale arms reduction will be feasible for a long time.

Third, the fact that the United States and Japan have extensive common interests will not at all be changed even if the Soviet threat subsides and/or frequent economic frictions continue to occur. For reasons already stated, moreover, it is unthinkable that the Soviet Union will cease to be a military threat to Japan and the United States. Furthermore, the interdependence of the Japanese and the United States economies has gone so far as to render severing them impracticable. As we have noted, economic frictions are nothing but an expression of the consequences of such interdependence. As a result of the rapid changes during the 1980s in the economic power balance between the two nations, the frictions have taken on increasingly critical aspects. It is also true, however, that the common bond tying the two countries together has also been strengthened; and unless the leaders of both countries lose their heads, no situation will arise that would force them to dissolve their relationships as

allies. Also, politically speaking, both countries share a community of interest in almost all areas, with essentially the same foreign policy directions. Therefore, for the foreseeable future, the U.S.-Japan alliance will remain in force, maintaining fundamentally the same attitudes toward China and the Soviet Union. In addition, unless the Sino-Soviet alliance revives, there will not be a recurrence of nineteenth-century *realpolitik*, in which the United States, Japan, the Soviet Union, and China shift their alliance ties from time to time according to their changing national interests.

Fourth, the probability of the successful execution of *perestroika* in the Soviet Union is not very high, and even if it did proceed in a somewhat orderly fashion, the development of Eastern Siberia is unlikely to yield much result for many years to come. While there is no doubt that Eastern Siberia is endowed with rich natural resources, the region suffers from submarginal climate, scanty population, and an underdeveloped socioeconomic infrastructure. Therefore, the possibility is slim of this region's becoming an integral part of the dynamic and fast-growing East Asian economic sphere. In contrast, the economic development of the Chinese coastal provinces possesses a much higher potential if political stability and the economic open-door policy remain firmly in place. However, China is finding it difficult to assure these prerequisites for development. For these reasons, neither the Soviet Union nor China is likely to develop an economically interdependent relationship with the United States and/or Japan within the foreseeable future. The fact that the revisions introduced to China's open-door policy and the resultant economic stagnation after the Tiananmen incident have had no noticeable effect on the Asian countries' economies (except Hong Kong's) is a clear indication that China's economy, after some ten years of growth made possibly mainly by the reformists' efforts, has not yet become an organic part of this region's economic life.

Effects on Regional Conflicts

Assuming that the above four points are predictable certainties, I shall briefly examine the manner in which the national interests of these four countries will become intertwined with the principal conflicts in this region.

Korean Peninsula

The four countries share an interest in ensuring that existing tensions in the Korean peninsula do not intensify. In the past, the United States and Japan opposed any unification in which North Korea played the leading role while the Soviet Union and China opposed unification under the aegis of South Korea. But the political environment has changed in such a way that today it is not inconceivable that in the not-so-distant future, China and the Soviet Union may well accept South Korea's taking the initiative for reunification. In fact, both

the PRC and the USSR are eager to initiate and nurture economic intercourse with South Korea. The Soviets have even established formal diplomatic relations with South Korea. To the extent the Soviet reformists consolidate their gains, the probability increases of their accepting South Korea's leadership in the peninsula's reunification. If and when this reunification occurs, the interests of the four major powers in this region will converge.

But the reunification of the Korean peninsula is not a realistic goal, at least at the present time. Faced with the radical political changes in the East European countries, North Korea is trying to shut its doors to the outside world even tighter than in the past, pulling out its students from the Soviet Union and East European countries while also strengthening the *chuch'e* (self-reliance) campaign at home. North Korea is one of the most isolated countries today (together with Albania and Myanmar [Burma]), and as long as Kim Il Sung lives it is unlikely to experience a significant change. At this point, Soviet and Chinese influence on North Korea is relatively limited. But if Kim Il Sung should die, what happened in Romania could be repeated in North Korea. And in such a situation, there is a considerable likelihood of the emergence of a democratically reunified Korea under the aegis of South Korea. And unless extremely conservative regimes take over in the Soviet Union or China, neither country is likely to attempt to interfere with such development in the Korean peninsula.

Taiwan Problem

China, long kept under the yoke of a semicolonial foreign control, is extremely sensitive to the question of territorial integrity and will not acquiesce to the emergence of two separate Chinas no matter how firm the reformists' consolidated position might become. At the same time, however, no matter how powerful its conservative political faction, China will not dare attempt to take over Taiwan by force. Therefore, it can be predicted with certainty that Taiwan will continue its existence as an independent political unit. Unless Taiwan chooses to seriously harm China's interest or knowingly injure its sense of pride, the existence of an economically prosperous Taiwan functioning as a separate political unit cannot be a disadvantage to China. The continuation of such a situation will be in the interest of the United States and Japan, but it also will be a favorable situation for the Soviet Union so long as it can take advantage of Taiwan's economic capability. Therefore, the four countries' national interests will converge as long as China stays away from acts of adventurism and Taiwan refrains from demanding full sovereignty.

Indochinese Peninsula

In Indochina, among the Soviet Union, an ally of Vietnam; China, a sponsor of the Pol Pot faction; and the U.S.-Japanese group, which favors the

establishment of an anti-Vietnam and non-Pol Pot Cambodian regime, there is a substantive difference of opinion. However, the Soviets are attempting to curtail their commitment in Vietnam, and their position will be coming ever closer to that of the United States and Japan. Therefore, if a compromise is reached between China and Vietnam, or between Vietnam and the ASEAN countries, here again the national interests of the four countries will converge.

3. A Soviet View

GENNADY I. CHUFRIN

Analyzing the global strategic situation in which the Soviet Union found itself at the beginning of the 1980s, the Soviet Defense Ministry noted with grave concern that the second most important source of military threat to the USSR was near its borders in the Asia-Pacific region.

According to this analysis, the United States had concentrated a large military task force, numbering more than 460,000 men, in the area and had obtained the use of several scores of Far East military bases and installations. In Japan, for instance, there were thirty-two major bases and in South Korea, 40.¹ Moreover, in South Korea the United States, since the beginning of the 1950s, had maintained on a permanent basis a large group of ground forces equipped with nuclear weapons.

No wonder many Soviet analysts and observers expressed fears, at that time not unfounded, that the United States, using its political/military agreements with Japan and South Korea, was in fact trying to form a triangular alliance among Washington, Tokyo, and Seoul, aimed at playing an important role in the global confrontation between the United States and the Soviet Union. Those fears were substantiated by the staging of regular large-scale Team Spirit military exercises. The three countries were building up their military cooperation.

The growing military threat from the United States was especially painful to the USSR when perceived against the background of highly strained Soviet-Japanese relations and an almost open confrontation with South Korea.

Add to that gloomy picture that over the previous twenty years, Sino-Soviet relations were going from bad to worse, that between the United States and China there was wide strategic cooperation, and that regional conflicts in Afghanistan and Cambodia were fast developing, and it becomes clear that by

¹ *Whence the Threat to Peace?* (Moscow, 1982), 15, 26.

the middle of the 1980s the Soviet Union found itself in an alarming strategic situation in Northeast Asia.

The Results of Isolation

This less-than-splendid isolation not only created in the Soviet Union a sense of insecurity and growing military threat from its Eastern flank, but also had a very negative impact on Soviet economic interests. It made necessary large-scale development in vast areas in Siberia and the Soviet Far East. The growth of international tension in the Asia-Pacific region and Northeast Asia both raised the demand for additional defense spending (thus diverting funds from pressing civilian requirements) and effectively prevented the Soviet Union from developing economic ties with leading Pacific powers and from actively participating in the international division of labor and international economic relations in the area.

The situation came about as a result of two groups of factors: The first was the ever-intensifying Soviet-American confrontation, both global and regional; the second was the serious, and sometimes even tragic, mistakes made by Soviet foreign policy planners, who often failed to distinguish real Soviet interests in the Asia-Pacific region and Northeast Asia from imaginary ones.

It was therefore a formidable task that faced the new Soviet political leadership that came to power in the mid-1980s. The government could either pursue the previous foreign policy, thus risking further international tension, or try to change it radically without at the same time jeopardizing national security interests and violating existing obligations toward its friends and allies.

As we know, the choice was made in favor of the second option: in favor of new political thinking and constructive approaches toward the problems of international relations in the Asia-Pacific region—some of them highly sensitive and difficult. Basic principles and goals of this new Soviet Eastern doctrine were formulated in a number of government and Party decisions and documents and in speeches by President Mikhail Gorbachev such as those in Vladivostok (July 1986) and Krasnoyarsk (September 1988).

The New Eastern Doctrine

Naturally, this new Soviet Eastern doctrine was not isolated from more general principles—both domestic and international—of the new Soviet policy of *perestroika*. It is characterized by similar attitudes toward modern international relations and is guided by emphasizing general human values at the expense of class interests; by accepting the natural right of every people to choose its own way of life and political and economic system; by denouncing the use of force or the threat to use force; and by respecting the sovereignty of

every nation. At the same time the Eastern doctrine has some specific features of its own, reflecting the disparate character of the region, which is divided by history, religion, language, culture, government, and levels of wealth and development. In this region—contrary to what one finds in Europe—the power structure is definitely not bipolar but multipolar. Further, this region (again contrary to Europe) is lacking so far a system of international agreements and regulations aimed at preserving peace and collective security.²

Following these principles, the Soviet Union has, in the last five years, dramatically improved its relations with practically all other nations in the Asia-Pacific region and Northeast Asia.

Soviet-American Relations

The positive changes in Soviet-American relations had a highly stabilizing impact on the global situation, including the situation in the Asia-Pacific. At the summit meeting off Malta, in December 1989, an important step was made by both sides toward better understanding of each other's goals and intentions, improving mutual trust and paving the way for future cooperation. In practice that brought the superpowers, in 1990, to signing several important agreements on arms control and arms reduction as well as on trade, technical, and economic cooperation.

By stating these positive developments in Soviet-American relations I do not intend to oversimplify the present state of these relations, which still contain mutual fears and suspicions about the situation in Northeast Asia. One cannot ignore, for instance, that a very substantial American military force equipped with the most modern weaponry remains very close to Soviet borders. Legitimate concern is voiced in the Soviet Union also with regard to the persistent refusal of the United States to start any dialogue with the USSR on naval armaments.

Sino-Soviet Relations

A major event for the region was the normalization of Sino-Soviet relations. During the visit of Mikhail Gorbachev to Peking in May 1989, the Soviet and Chinese leaders reached very important agreements, further substantiated by the results of the high-level Sino-Soviet talks held in Moscow in April 1990. These may have far-reaching consequences, not only for the Sino-Soviet bilateral relations, but also for the overall state of relations in the Asia-Pacific region. Yet here again, major differences and even contradictions remain, the most notable one being the Cambodian problem.

² Gennady Chufirin, *Working for a Safer Future: Security in South-East Asia and the South-West Pacific: Challenges of the 1990s* (New York, 1989), 60.

Soviet-Japanese Relations

In Soviet-Japanese relations, the last few years have seen unmistakable, though feeble, signs of improvement. Here Soviet foreign policy in the Pacific area is confronted with possibly its greatest difficulties, but the impression is that Soviet-Japanese relations have already passed the worst stage in their development. There has been visible intensification recently of high-level exchanges of visits by official and public figures from both countries—including the ministers of foreign affairs. Trade between our two countries, too, began to grow again after its decline at the beginning of the 1980s, making Japan now the third biggest Soviet trade partner among countries with market economies. There is also a definite increase in scientific and cultural exchanges. The possibility of a real breakthrough in Soviet-Japanese relations, however, was connected with Mikhail Gorbachev's visit to Japan in April 1991, the first summit-level visit by a Soviet leader to Japan in the history of Soviet-Japanese relations. However, the results of that visit were much less substantial than originally expected.

Soviet Policy on Korea

Analyzing the trends in international relations in Northeast Asia calls for special attention to dramatic recent changes in relations between the Soviet Union and the Republic of Korea (ROK; South Korea), a country of substantial and growing importance in the region. After Japan, South Korea is the biggest producer and exporter of steel, textiles, garments, shoes, cars, and electronic goods of all Asian countries of the Pacific rim. But the importance of South Korea in modern international relations is determined not only by economic factors. For forty years it has remained at the center of one of the most complicated and potentially explosive areas of international tension. Though since 1953 there have been no open armed conflicts on the Korean peninsula, tension between the North and South remains. Two huge armies, in all over 1.4 million men, face each other across the demilitarized zone (DMZ). And there is continuing presence of foreign troops in South Korea.

The problem of the unification of Korea is still acute. In the joint communiqué signed between the North and South on July 4, 1972, it was agreed that unification of the Korean people by peaceful means was necessary. This was to be achieved through mutual efforts based on the nonuse of force and nonaggression. Yet so far there is very little, if any, progress in the actual unification process. Moreover, from time to time relations between Seoul and Pyongyang become extremely strained.

Obviously, Korean unification first of all and above all is an internal affair of the Korean nation. However, the Korean problem has also a very clear

international dimension, and the Soviet Union, which borders this area of international tension, cannot disregard any serious changes in resolving the Korean problem. This interest of the Soviet Union is not new, of course; for many years, the USSR has supported a peaceful resolution of the Korean conflict, reduction of international tension, and the preservation of peace on the peninsula, as well as creating there a nuclear-free zone. The Soviet Union has consistently objected to the American military presence in the South and supported those initiatives aimed at democratic reunification of Korea without interference from the outside. Thus, for instance, in the Soviet view the proposals by the Democratic People's Republic of Korea (DPRK; North Korea) with regard to convening an interparliamentary meeting for discussing and adopting the North-South declaration of nonaggression were considered to be an effective measure to facilitate a constructive dialogue between both parts of Korea. The Soviet Union also supported a package of proposals put forward by the DPRK in November 1988 aimed at creating favorable conditions for early Korean reunification. The latest DPRK proposals, made in May 1990, were also regarded in the Soviet Union as an important contribution to the creation of an atmosphere of peace and stability in the whole of Northeast Asia.

Support of these proposals constituted an important part of the Soviet policy on the Korean problem. However, because of fundamental changes in the political and economic realities of the world, it became increasingly clear that the Soviet Union could no longer reduce its stand on the Korean problem to mere support of its ally.

The Soviet Union has, for instance, definite defense interests and commitments in this area, legally stated in the USSR-DPRK treaty on friendship, cooperation, and mutual assistance signed on July 6, 1961. However, following the recently adopted doctrine of defense sufficiency, the Soviet Union is prepared to safeguard its defense interests not only by purely military methods, but also and preferably by political methods. In this regard, it is worthwhile to recollect the recent positive negotiations on arms reduction in Europe.

Soviet economic interests in the Far East have also become an active factor in Soviet foreign policy, and the Soviet Union has expressed its readiness actively to promote peace and security in the region. However, changes in Soviet policy toward South Korea would hardly have been possible without the dramatic events in the political life of South Korea in the second half of the 1980s. As the result of a powerful democratic upsurge, a new political situation emerged. The dictatorial regime of President Chun Doo Hwan was replaced by the elected government of President Roh Tae Woo. Political awakening was accompanied by the growth of a public mood in favor of Korean unification,

and the further necessity of the American military presence in the South was sharply questioned.³

The new South Korean administration could not disregard the deep changes in public opinion. In July 1988, in a special declaration, President Roh put forward a number of specific proposals and measures to improve relations between the two parts of Korea, to stop confrontation and rivalry, and to create conditions for peaceful unification. In this declaration the president elaborated some basic principles he had outlined in his inaugural speech in February 1988. In that inaugural speech he announced South Korea's intention to pursue toward socialist countries, especially toward China and the Soviet Union, his *Nordpolitik* (Northern policy). The aim was to seek a breakthrough, reducing tension in Northeast Asia, and to move with North Korea toward eventual peaceful unification.⁴

Mikhail Gorbachev, analyzing these new political realities in South Korea and wishing to make an active contribution to improving the situation, spoke in favor of direct contacts between the USSR and South Korea in his speech in Krasnoyarsk in September 1988. He was pointing to the establishment and development of contacts in the fields of trade and finance, science, and culture, but not the establishment of official diplomatic relations.

Such an approach toward a highly delicate issue (establishing direct contact with South Korea) was, at that time, quite realistic and pragmatic. It is worthwhile to note in this regard that the same principle—separating politics from economics—was incorporated in President Roh's *Nordpolitik*. In accordance with this principle, gradual expansion and deepening of economic commercial, scientific, cultural, and other ties with socialist countries should pave the way to the establishment of official political relations.⁵

One has to note that economic considerations played not only a supporting role in starting contacts between the USSR and South Korea: they also generated a powerful impulse of their own. The Soviet Union—as already mentioned—could not, without jeopardizing its own interests, ignore the significant role of South Korea in the region. For its part, South Korea displayed a sincere interest in establishing commercial ties with the Soviet Union, being motivated among other reasons by the growing protectionism against South Korean products in the American and West European markets, as well as by a chronic deficit in its trade with Japan. Looking for new markets for

³ Nikolai Kalashnikov, *The Asia-Pacific Region in the World Economy and Politics* (in Russian) (Moscow, 1989), 45.

⁴ Kwang Soo Choi, "Korea's Foreign Policy in the 1990s," *Korea and World Affairs* (Seoul) 13, 2 (Summer 1989): 256.

⁵ *Asian Business* (Singapore), June 1989, 55.

their products and for courses of raw materials, South Korean companies became interested in exploring mutually beneficial cooperation and trade with the Soviets.⁶

Under such conditions, development of bilateral Soviet–South Korean economic relations indeed appeared necessary. Moreover, both sides felt the need to establish *direct* trade and economic relations with each other, excluding all intermediaries. (In their random business deals during the previous ten to twelve years, third parties had been necessary, even compulsory.) In 1989, trade offices were opened in both Seoul and Moscow, thus paving the way for business deals in such fields as fisheries, ship repair, timber, manufacture of electronic and other consumer goods, hotel construction in the USSR, and so forth.⁷

In spite of difficulties caused by inadequate Soviet investment laws and stiffening red tape, the trade volume between the Soviet Union and South Korea grew at a breathtaking rate in 1989–1990; and though remaining much lower than the volume of trade between South Korea and China, it was in excess of \$1 billion. The first large business deals signed in 1989 between Soviet and South Korea companies went to develop forest land in Siberia and to develop the port of Nachodka. There were also a few ship-repair contracts.⁸ Among South Korean companies that displayed interest in economic cooperation with the Soviet Union (even among the first contracts) were such big *chaebos* (monopolies) as Hyundai, Samsung, and Daewoo.⁹ In 1990 direct air service between Moscow and Seoul was established, and the development of bilateral economic relations was thus furthered.

There are reasons therefore for optimism in the future of Soviet–South Korean business relations. This optimism is based on both a realistic assessment of the economic requirements of Soviet Far Eastern regions and on the financial, technical, and production abilities of South Korean companies. However, there are some worrisome events, too, most of them connected with the decision of South Korea to join the Coordinating Committee (on Export Control) (COCOM) at the beginning of 1990 and to restrict the export of more than two hundred high-tech industrial commodities to socialist countries, including the USSR.

Hardly less dramatic were changes over the last two years in political relations between the Soviet Union and South Korea. In 1989, for instance, the Soviet Union was visited by a number of parliamentarians from South Korea,

⁶ *Asian Wall Street Journal* (Hong Kong), May 30, 1989, 10.

⁷ *Economic Gazette* (Moscow) (in Russian), no. 39 (1989).

⁸ *Business Week*, November 20, 1989, 30.

⁹ *Asian Wall Street Journal*, May 30, 1989, 10.

among them Kim Young Sam, a top leader of the South Korean parliament who was later to be in the ruling party. In turn, a few Soviet parliamentarians visited South Korea—among them Georgi Arbatov and Mikhail Kapitsa, who also serve as directors of big academic research institutes. Those visits were unofficial, but they were used extensively by both sides to exchange views and to compare their respective positions on bilateral and regional issues.

In November 1989 another important step—this one official—came in Soviet–South Korean relations. Representatives of both sides signed, in Singapore, an agreement on opening consular sections at their trade missions in Moscow and Seoul.

Seven months later, in June 1990, presidents Gorbachev and Roh Tae Woo met in San Francisco during the former's visit to the United States—a historic meeting signifying the establishment of full diplomatic relations was now only a matter of time and could not be far off. In October the foreign ministers announced that the decision had been taken.

It is difficult to underestimate the importance of that decision for the political scenery in Northeast Asia. It changed a Cold War structure of international relations and created a powerful new impetus for future development.

The possibility and necessity of taking this step had been discussed by Soviet analysts and observers long before it was actually taken. One leading Soviet specialist on Korea, Dr. F.I. Shabshina, argued in favor of establishing diplomatic relations as far back as September 1989, holding that such a step would help the development of the democratic process in South Korea and reduce tension on the Far Eastern borders of the USSR.¹¹ Soviet political scientists wanted “to untangle the Korean knot”—Dr. Shabshina's title for her article. Now that this desire has become a reality, the new situation on the Korean peninsula should, in my opinion, be exploited to further improve the political climate there and to make a real breakthrough in the solution of the Korean problem.

The situation on the peninsula and in Northeast Asia as a whole can be improved substantially if the U.S. government (which has already announced the reduction of its troops stationed in South Korea by seven thousand men before 1992) will announce a comprehensive and staged withdrawal of all U.S. troops from the peninsula within a specified time. To put it bluntly, in the improved international situation, continuation of a U.S. troop presence in South Korea is more and more a political and strategic relic of the Cold War.

Indeed, a hypothetical military threat from the North is even less realistic now than it was. Among other reasons, the DPRK not only has no intention of

¹¹ *News* (in Russian) (Moscow), September 1, 1989.

starting a war with South Korea—it also does not have such a capability. The military balance on the peninsula has changed substantially in the last few years. The South has had a large-scale military buildup. Even according to American and South Korean sources, numerically the armies of the North and South no longer differ dramatically. At the end of 1987, their respective sizes were estimated at 838,000 and 604,000.¹² These figures, too, need adjustment, since during 1989 the DPRK government unilaterally reduced its armed forces by 100,000.¹³ Further, in November 1988 and again in May 1990 the DPRK government proposed phased reduction of the armies of the North and South from their present sizes to fewer than 100,000 on each side.

In South Korea, public opinion—especially among students—is changing in favor of U.S. troop withdrawal. U.S. troops are no longer—especially after the tragic events in Kwangju in 1980—regarded as protectors of South Korean sovereignty but increasingly as an obstacle to Korean unification.

It would be logical for the United States to withdraw its troops, under the circumstances of Soviet troop withdrawal elsewhere. The Soviet Union and its allies withdrew their armed forces from Afghanistan, Mongolia, and Cambodia in 1989. The Soviet Union began unilateral reduction of armed forces in the Far East by 200,000 men, as announced by Mikhail Gorbachev in his speech at the United Nations in December 1988. The Soviet armed forces in this part of the country will, by 1992, be numerically less than, for instance, the present size of the South Korean army.

It is difficult to understand why, when the Soviet-American Intermediate Nuclear Forces (INF) Treaty is being implemented quite successfully—and in the near future we may expect even more substantial Soviet-American agreements on deep cuts in strategic and conventional armaments—the issue of U.S. nuclear weapons deployment in South Korea remains unresolved. I believe it is unnecessary to elaborate at great length on the fact that a change in the American position on this issue would be received very favorably in the Soviet Union and generate a positive response.

The Soviet people are deeply concerned about the regular holding of large-scale Team Spirit military exercises near Soviet borders. Suspension of these exercises, or at least a reduction of their size and duration and an invitation for Soviet observers to attend, would allay these Soviet fears and build an atmosphere of trust in the region. I must note also that similar suggestions have been put forward lately by American experts and political scientists. They, too, would like to see a substantial improvement of understanding between the

¹² *World Military Expenditures and Arms Transfers, 1988* (Washington, D.C., 1989), 49.

¹³ *Truth* (in Russian) (Moscow), December 9, 1989.

Soviet Union on the one side and the United States and South Korea on the other.¹⁴

¹⁴ Alan D. Romberg, *The United States, the Soviet Union, and Korea: Beyond Confrontation* (New York, 1989):20–21.

4. A Chinese View

WU ZHAN

Under the general global shift in international relations from confrontation to dialogue, from tension to relaxation, a new era has begun in the Asia-Pacific region. This era is marked by two major trends, namely, a trend toward dialogue, détente, reconciliation, and cooperation and another toward social reform, policy readjustment, economic competition, and development. Much regional effort to bring about rapprochement and cooperation through consultation is occurring in the Asia-Pacific, and its prosperity and development in the context of intensive international competition are being accelerated by economic and political reforms and policy readjustments.

Current Trends in International Relations

From Tension to Relaxation

The political, military, and economic situation in the Asia-Pacific region is undergoing significant change. Because the influence and control of the superpowers have declined significantly, strategies and foreign policies are being readjusted with a view toward dialogue, détente, and stronger alliances. But while these trends are gaining momentum, so also are the forces for national sovereignty, independence, and regional peace. Although détente between West and East has not induced any arms control talks in Asia similar to those in Europe nor any Asian counterpart of the European Conference on Security and Cooperation, the wind of relaxation is blowing to East Asia and bringing with it the hope of peace and stability.

With the change in Soviet foreign policy, relations between China and the Soviet Union became normalized. The two countries agreed on a mutual reduction of military forces in border areas. Thousands of Soviet soldiers were pulled back from Mongolia; boundary demarcation talks are well under way.

Soviet troops were withdrawn from Afghanistan; although civil war followed, it is of an internal nature and will sooner or later come to an end.

Vietnam is a long-suffering and seriously war-torn nation. Since World War II it has been fighting incessantly; it would have continued to fight for many more years, if the Soviet Union had not cut most of its military and economic support. Hence Vietnam has had to pull back most if not all of its forces from Kampuchea after ten years of invasion and had to seek to improve its relationship with China. While military conflicts on the Sino-Vietnamese border have subsided, civil war in Kampuchea has broken out. Under international mediation, the three factions of Democratic Kampuchea and the Vietnam-backed Phnom Penh regime began negotiations. Despite difficulties in bringing the factions toward a coalition, the civil war cannot be extended without external supports, so all the factions of Kampuchea may come to terms before long.

The situation on the Korean peninsula is still precarious, but the détente between the United States and the Soviet Union has brought about a turn for the better. The recent establishment of diplomatic relations between the Soviet Union and the Republic of Korea (ROK) was a stab in the back to the Democratic People's Republic of Korea (DPRK). Pyongyang's reaction was to seek diplomatic relations with Japan.

The undefined Sino-Indian border is generally in a stable state with no significant clashes occurring in recent years. Despite the problem of a historic border dispute, which resulted in a large-scale, armed conflict in 1962, China and India are developing good relations. Border demarcation talks have been resumed on the basis of the Five Principles of Peaceful Coexistence.

Since Taiwan authorities have allowed Taiwanese to visit relatives on the mainland not long ago, the situation between mainland China and Taiwan has become more relaxed. Large numbers of travelers, reporters, and business people have visited the mainland. Trade between the two parts of China as well as Taiwanese investments in the mainland have risen sharply. Although a quick solution to reunification cannot be expected at the moment, mainland-Taiwan relations have definitely been improved.

New Patterns of International Relations

Three new patterns in Asia-Pacific international relations are emerging. First, the old bipolar (U.S.-Soviet) pattern is gradually changing to a quadrilateral one. The United States, the Soviet Union, China, and Japan are now performing on the Asia-Pacific stage, contesting and collaborating with one another in various degrees. Efforts to expand respective political influences and, at the same time, to restrict and check those of opponents are being made.

Minor actors in the region are now enjoying to a certain extent their independence in tackling various problems in regional affairs and fighting for a larger voice in international relations. The rise of these minor actors inevitably has a constraining effect on the major players, who have become increasingly incapable of disregarding the will of the minor actors.

Second, a military policy that emphasizes defense is coming into being. Although the United States and the Soviet Union are still the biggest and strongest global military powers and have huge military forces deployed in East Asia—second only to those deployed in Europe—military policy between them is being transformed from an offensive to a defensive arrangement. As a result, further regional reduction of nuclear weapons and conventional forces is possible. In the wake of these changes in the world political environment and the universal push for economic development, Asian and Pacific Rim states have adopted or will adopt a defensive military policy. After Vietnam's withdrawal from Kampuchea, its energy to pursue regional hegemony will be diverted to substantially reducing its armed forces and redressing its war-torn economy. Even though the possibility of turmoil or civil war in some of the smaller Asia-Pacific countries cannot be ruled out, the superpowers will nevertheless be careful in exercising armed intervention because of lessons learned from the past. Owing to the new defense-oriented military policy in Asia-Pacific countries, a peaceful international environment will probably endure, and disarmament of the superpowers and many other countries, big or small, may follow.

Third, Far Eastern economies have taken on new aspects of competition and cooperation. The growth rate of the Asia-Pacific economy, which is higher than that of any other area in the world at present and probably will be for a long time to come, shows that this region is and will continue to be a global center of development. Japan, in particular, maintains increasingly inseparable ties with countries in this region. In the continental United States, the center of economic development is drifting westward; America trades more with this region than with Western Europe. The four small dragons (Hong Kong, Singapore, Taiwan, and Korea), the Association of Southeast Asian Nations (ASEAN), and China have started to play important roles in global economic activities.

These three new patterns of international relations in the Asia-Pacific region are interrelated. As prospects for peace continue, the roles of political and military affairs will decline, although they will still carry substantial weight. The role of the economy will gradually gain prominence, and consequently the nature of cooperation and exchanges between countries will become less dependent upon ideology and social systems. Instead, the interests of strengthening national security will be met by an intense competition for

economic development and progress in science and technology. Future diplomacy will center on economy and technology.

However, the new patterns and trends of Asia-Pacific international relations will not come about automatically. Their healthy growth will rely heavily on the joint efforts of the countries, particularly the bigger powers, in this region. Destabilizing and negative factors that would be detrimental to the new patterns and trends in Asia-Pacific affairs still exist and loom ahead. In the contest of comprehensive national strength, economic struggles may become acute. Protectionism in trade may lead to a series of frictions and troubles—economic hegemonism may turn up in covert form—and the gap between North and South may be further widened.

Interdependence and Nationalism

As mentioned above, the growth rate of the Asia-Pacific economy is much higher than that of any part of the world, largely through the achievements of Japan, the newly industrialized economies, and ASEAN. A remarkable increase in international economic activities—the expansion of trade, investment, and capital flow—has occurred, leading to closer international economic ties and increased interdependence among nations.

The United States and Japan, as developed countries, are economically highly interdependent. The United States depends upon Japan for cheap goods to help keep its inflation low and for capital to finance its huge budget and current-account deficits, while Japan depends heavily on the big American market for export. Both nations have made large direct investments in one another; economics has bound the two inseparably. In addition, Japan also relies on the United States for defense. The four small dragons and the ASEAN countries are outward looking and rely on the American market for export. They import capital goods and technologies from Japan and the United States. Close to approaching developed countries in gross national product (GNP) per capita, the small dragons are expanding their domestic demands for imports to make their economy more balanced and healthier. In an attempt to catch up with the small dragons, ASEAN countries are making efforts to absorb more foreign investment and to expand their exports. These intricate relations have been knitted into a large network of interdependence.

But interdependence doesn't always mean harmony and cooperation. As the United States and Japan each seeks its own benefit, for example, economic conflicts and frictions between the two countries persist. The huge American deficit of some \$50 billion (dropped to \$40 billion recently) in its trade with Japan has caused great trouble in the U.S.-Japanese relationship. Problems between the two economic giants recur. However, because American and Japan are too dependent on one another to sustain an actual breakdown of their

economic ties, which would be disadvantageous to both, compromises acceptable to both sides will have to be sought. The conclusion of the U.S.-Japanese structural-impediments negotiation is a good example of such compromise. Ultimately, interdependence inevitably leads to a “borderless economy,” and that will further strengthen the tie between the partners.

While interdependence draws nations together, nationalism is apt to tear them apart. Internationalization is the consequence of interdependence. America has long been internationalized. But up to the mid-nineteenth century, Japan isolated itself from the rest of the world. The United States forced Japan to open, and the Meiji Reformation started Japan’s process of Westernization and industrialization. However, until the end of World War II Japan was ruled by plutocrats and militarists. After the war, U.S. Occupation authorities forced Japan to democratize and imposed on Japan a constitution that renounces war. Since then Japan has become a developed nation and increasingly internationalized. Such nationalization has brought foreign economic, cultural, and social forces into Japan; it could also provoke nationalistic or even xenophobic reactions against internationalization itself from Japan’s highly homogeneous population.

Although Japan does not possess a military force strong enough to match its status as a major economic power, any action taken by the Japanese government reminiscent of Japan’s past war crimes may evoke strong protests and complaints on the part of the Asia-Pacific countries, which Japan invaded and occupied. Recollections of the Japanese occupation cannot be readily erased, and the manifestation of this nationalism is a warning to Japan against remilitarization.

Inasmuch as East Asian countries maintain a degree of vigilance against Japan, most of them would rather have an American than a Japanese presence to fill any power vacuum, although the Philippines may be an exception. In negotiating the future status of American military bases, the Philippines has shown reluctance to allow Americans to stay long. While there may be other reasons, nationalism plays an important role in this attitude. The desire of India to seek hegemony over its peripheral countries and Vietnam’s intention to maintain supremacy in Indochina are also examples of nationalism.

The rise of interdependence among Asia-Pacific states has not extinguished nationalism. On the contrary, persistent nationalism often forms a check to the growth of transnational economic development. It also exists perhaps because of the resurrection of the long-suppressed national feelings of Asian nations. Governments, representing national interests, have increasingly had to bend to transnational concerns, which are not necessarily in the best national interest. In cases where the two clash, national interests often prevail—even if the solution is short term. Sometimes it is only a matter of governments having to

listen to their local constituencies, rather than to the intricacies of interdependence in the modern world.

Generally, the more developed a nation's economy, the closer it is tied to transnational business, because its further development relies heavily upon international cooperation in production, investment, marketing, and technology. But even for countries like the United States and Japan, national interests do not necessarily accord with one another all the time. For instance, in trying to protect its less productive and thus less competitive agriculture against competition from American farm produce in Japanese markets, the Japanese government keeps those markets closed to American produce. The United States has charged Japan with unfair trade policies and has threatened protective measures of its own should Japan refuse to open its markets. During negotiations on the issue, the Japanese got angry at the American "overbearing attitude"; the Japanese mass media often expressed frustration with American "carping." In kind, the American media depicted Japan as insular, bent on economic gain at any cost and unwilling to assume global responsibilities. Many Americans thought the Japanese ungrateful for the help the United States had given to rebuild Japan after World War II. As Japan purchased more and more famous buildings and enterprises in the United States much nationalistic emotion was aroused. Despite this discord, the two nations still have to compromise with one another to avoid undermining mutual interests.

The less developed a nation is, the more it will adhere to nationalism and the more uncompromising its attitudes in disputes will be. Sometimes it may resort to war to protect its perceived interests. The territorial dispute between India and Pakistan is a good example of this sort of nationalism. As the relationship between the two superpowers improves, and the Soviet Union reduces its presence outside its borders, military conflicts are less likely to crop up between developed countries than developing or underdeveloped countries. Crises and war may keep emerging in the Third World and may mostly be the consequences of nationalistic disputes. This line of reasoning may explain why Third World countries, including most Asian states, are enthusiastically expanding their arsenals, while developed countries are doing the opposite—negotiating agreements on arms control.

It must be borne in mind that the force of nationalism, in all its diverse manifestations, is a powerful factor inhibiting a wider recognition of transnational interests. Being sometimes positive and sometimes negative, nationalism should be dealt with carefully in accordance with specific conditions related to the issue.

Destabilizing Factors

Territorial Disputes on South China Sea Islands. The South China Sea islands include more than two hundred islands, sand cays, reefs, and banks that, broadly speaking, form four groups—the Nansha (Spratly), Xisha (Paracel), Dongsha, and Zhongsha islands. The Nansha Islands are the most disputed group of the four for it is believed to be rich in petroleum and other resources. All four groups are strategically situated between the Pacific and Indian oceans. Nansha and the other three have been part of Chinese territory and under Chinese jurisdiction for more than a thousand years. Chinese sovereignty over Nansha has been widely recognized in the world. All four groups of islands were occupied by the Japanese during World War II and returned to China thereafter. The former Chinese government took back Nansha and the other groups of islands in 1945. Chinese Taiwan authorities have stationed a military detachment on Taiping, the largest island of Nansha. The government of the People's Republic of China has been sending vessels to Nansha to carry out surveys, studies, and patrols from time to time and has stationed crews on some of the islands and cays for scientific observations.

Vietnam recognized Chinese sovereignty over all four groups until 1975, when it alleged that Nansha and Xisha were Vietnamese territories. More than twenty islands and reefs of Nansha were illegally occupied by Vietnam, and an armed clash occurred with China in spring 1988. Other claimers for Nansha are Malaysia and the Philippines, who occupy Nansha islands closer to them. The present multilateral confrontation in this area is potentially dangerous and may result in military conflicts if unchecked. Somehow this hot spot in the South China Sea must be cooled down, perhaps through multilateral discussions on the future of the Nansha Islands. I think it unlikely, however, that China will agree to any division of the islands among the related parties, because it can't give up its sovereignty over Nansha. Negotiating on the joint development of Nansha by all parties concerned may be a good idea.

The Korean Peninsula. Even though there are tremendous obstacles in the way of reconciliation between North and South Korea, a war on the Korean peninsula is less probable now than at any other time since the 1953 cease-fire in Korea. Inasmuch as the Soviet Union and the East European countries are cutting military and economic assistance to North Korea, the United States plans to pull back part of its forces stationed in South Korea. Both Koreas have put forward reunification proposals, and both pledge to promote dialogue between themselves. However, Korea is still one of the hot spots in East Asia. Until its fuse is pulled, the bomb will remain detonable, for both Koreas are heavily armed, confidence is yet to be built up between them, and strong antagonisms still prevail. Upon the establishment of diplomatic relations

between the Soviet Union and the ROK, the Soviets hoped that the Americans would enhance their relations with the DPRK at a comparable level. However, the United States maintained that they had already done what they could. Because the United States is concerned about North Korea's alleged development of nuclear weapons, it rejected the Soviet proposal concerning the pullout of all or most American military forces in South Korea. The situation in Korea is, thus, still unstable.

The Indian-Pakistani Confrontation. Distrust and antagonism have prevailed between India and Pakistan for many years since Britain freed them from colonial rule in 1947. Tension reduction between the nations and confidence-building measures are very much needed. The dispute on Kashmir's sovereignty is mingled with religious conflicts. Both countries assembled large quantities of military force along their borders, and the situation developed to an explosive point not long ago. Of the two states, India is considerably stronger, as manifested in the war that dismembered Bangladesh from Pakistan. But in a new war with Pakistan, India could not count on a quick victory. In such a conflict damage to both countries could be very severe. It is, therefore, vital that the two nations sit down to talk patiently on the basis of the Five Principles of Peaceful Coexistence and not resort to force to settle their disputes. The United Nations might contribute to their rapprochement if UN efforts were supported by the major countries in the world.

Sino-Indian and Sino-Vietnamese Border Disputes. The situation on the Sino-Indian and Sino-Vietnamese borders is for the time being stabilized. There have been no major border clashes on the Sino-Indian boundary. Border demarcation negotiations between China and India have gotten under way but as yet have been unsuccessful. Although a war is unlikely at the moment, the possibilities of large-scale armed conflicts cannot be excluded in view of the facts that not only do both sides take widely divergent stands concerning the border dispute, but Indian forces are superior to Chinese forces in weapons and logistic supply lines.

Armed conflicts on the Sino-Vietnamese border have ceased, but dispute about the sovereign rights of land boundaries, the Gulf of Tonkin, and Nansha and Xisha islands are yet to be settled. A divergence of views concerning the coalition of the four factions of Kampuchea is yet to be solved. Until all these problems are solved, there can be no lasting stability and peace between China and Vietnam.

Political Relations among the United States, the Soviet Union, Japan, and China

The four big powers of the Asia-Pacific region, namely, the United States, the Soviet Union, Japan, and China, are the countries most likely to affect and

determine the course of political affairs in this region. I will discuss the relations between their nations in pairs.

Sino-U.S. Relations

One of the most dramatic and significant events in international relations during the past two decades was the reconciliation between China and the United States. When former U.S. president Richard Nixon visited China in 1972 and signed the famous Shanghai Communiqué jointly with former Chinese premier Zhou Enlai, the primary concern of both nations was to check Soviet expansion in Asia and the world as a whole. Soviet expansionist policy remained a dominant factor when the two countries established formal diplomatic relations toward the end of 1978. However, this common concern over national security did not lead the two countries into an alliance.

In 1981 the Chinese government began to readjust its foreign policy. This resulted in a declaration in 1982 that China would pursue an independent foreign policy of peace, “never attaching itself to any big powers or state groups.”¹ From then on, Sino-U.S. relations were placed on a more mature basis of mutual benefit, and later, smooth developments proved the correctness of such a policy change. Nevertheless, the two states continued to coordinate on security issues of mutual concern, such as Afghanistan and Kampuchea.

The United States failed to understand the Chinese government’s position in deciding to suppress the rebellion of the Tiananmen Square incident of 1989 and took sanction measures against China. As a result, months of mutual censuring and criticizing followed, and Sino-U.S. relations reached a low ebb. Judging from the sharpness of the dispute and the seemingly uncompromising attitudes of both sides, most people thought that the downward trend might persist for a few years.

Although China charges the United States with meddling in China’s internal affairs and plotting to change its socialist system, China is still willing to amend its relations with the United States for economic reasons, at least. The United States is the bellwether of the West. If Sino-U.S. relations deteriorate, it will be difficult for China to keep good relations with other Western states. Although China would not perish even if driven into a state of isolation, doing business with Western countries and maintaining an open policy would help China develop at a fast pace. Despite its strong desire for development, however, China is determined to take the socialist road and reluctant to become an appendage of any capitalist country—no matter how powerful that country

¹ Hu Yaobang, “A Report to the Twelfth National Congress of the Chinese Communist Party,” section 5, *Renmin ribao*, September 8, 1982.

may be. China cannot be bullied and manipulated; it needs independence and respect.

The success of China's drive for modernization is not only vital for China itself; it is also in the fundamental national interests of the United States in the long run. Unlike the competitive economic relationship that exists between the United States and Japan, the Chinese and American economies are more complementary. So long as the two countries enjoy friendly relations and the more stable and better developed China becomes, the less the United States will have to worry about in East Asia; the greater the role America plays in China's economic development, the stronger will be the tie between the two countries, and the easier it will be for the United States to exert influence in the fast-developing Asia-Pacific region.

Both China and the United States are sovereign nations. To consolidate and develop friendly relations and cooperation between them, it is necessary to abide by the principles of mutual respect, equality, and mutual benefit. But it is regrettable that a number of people in the United States still criticize unfairly China's internal affairs and even want China's affairs to be done according to their will. This is naturally not good for the development of the Sino-U.S. relationship. It is normal, however, that China and the United States sometimes agree and sometimes disagree on important international or bilateral issues. As long as both sides can be frank and earnest and keep in touch with one another, understanding will be reached; negative factors will be overcome and bilateral relations will be developed. The relationship between China and the United States is too important to be spoiled by careless, rude handling.

Sino-Soviet Relations

After nearly twenty years of rivalry between China and the Soviet Union since the early 1960s, a reconciliation occurred during the visit of the Soviet leader Mikhail Gorbachev to Beijing in 1989. During Chinese premier Li Peng's return visit to Moscow in spring 1990, several agreements were signed, including an agreement on the mutual reduction of military forces along the Sino-Soviet border. Boundary demarcation negotiations are taking place at regular intervals.

Despite the recent thawing of the Sino-Soviet relationship, it may be sensible to review the geopolitical conflict that has existed between the two giants. The Chinese cannot readily forget the historical Russian ambition for territorial expansion. Czarist Russia seized territories totaling more than 1.5 million square kilometers from China by unequal treaties in the nineteenth century. Afterwards Czarist Russia and the Soviet Union violated the treaties even further by occupying Chinese territories covering tens of thousands of square kilometers. The Soviets did not intend to return any of these territories to

China, even after the founding of the People's Republic. China waives the claims for territories taken away in accordance with the unequal treaties but insists upon the recovery of those territories occupied in violation of the treaties. Negotiations between the two countries are under way, yet the dispute is still not settled.

Sino-Soviet trade, especially border area trade, has increased considerably in recent years. This growth rate will level off, however, because both countries lack the hard currency required (instead of barter by agreement since January 1991).

We cannot predict with certainty what Sino-Soviet relations will be, but dramatic changes are not expected. Should relations between the two states worsen, they would not be as strained as during the Sino-Soviet split of the 1960s; should they turn better, they would not likely be improved to such an extent that the two would form an alliance, as they did in the 1950s.

The Sino-Soviet rapprochement poses no threat to the United States as long as it does not develop into a military alliance, which is neither necessary nor likely at present. The tripolar relationship among the United States, the Soviet Union, and China has entered an era of stability and steady development. It is to some extent not a zero-sum game and, if properly and carefully handled by all the related sides, will be conducive to global peace and stability.

Sino-Japanese Relations and Japan's Remilitarization

China and Japan share parallel interests in various areas. Both seek a peaceful and stable situation on the Korean peninsula, support peace and the coalition of factions in Kampuchea, and desire a substantial reduction of Soviet military power in the Far East. Moreover, they have good economic ties, with Japan being China's second biggest trade partner. But the two countries have conflicting interests, too. While a stable and prosperous China would be beneficial to Japan, Japan is afraid of China's becoming strong enough to pose a threat. Hence, Japan hopes that China will not develop too rapidly. And although Japan is eager to sell goods to China, it is not enthusiastic about transferring its technological know-how.

China has its own apprehensions as well. In Chinese eyes, the danger of a resurgence of Japanese militarism combined with Japanese economic hegemony looms on the horizon. Because of Japan's war crimes, the Chinese are sensitive to anything the Japanese do. Furthermore, although the issue of the ownership of the Diaoyudao (Senkaku) Islands was shelved in 1972, at the time of the normalization of relations between China and Japan, the islands are now actually under Japanese control. The two countries also disagree on the delimitation line of jurisdiction over the continental shelf in the East China Sea.

Generally, Sino-Japanese relations have been good for more than a decade. After the Tiananmen Square events of June 1989 in Beijing, the relationship declined somewhat. Japan joined some Western countries in taking unfriendly measures against China. With a change for the better in U.S.-China relations, Japan has also begun to improve its relationship with China.

Japan's possible remilitarization is of great concern to China. Many Chinese think that Japan seems to be becoming a big military power. Financially, the Japanese are capable of doing so if they wish. Even though Japan's military expenditure now accounts for only 1 percent of its GNP, the lowest among world powers, that expenditure is the world's third highest. If Japan enlarges the proportion to 5 percent, or even 2-3 percent, it could easily become a big military power. Japan's high technologies also would be adequate to produce not only sophisticated conventional weapons when necessary but also nuclear arms. With its potential, Japan would be able to achieve the status of a superpower if it chose. Nevertheless, Japan will not achieve this end in the near future; it takes time to deploy all the weapons that would be needed, and Japan's desire to expand its arsenal significantly is not very strong. However, the possibility of a militarized Japan is always a nightmare for the Asia-Pacific people who suffered heavily from past Japanese aggression and for Americans, too, who fought bitterly against the Japanese during World War II.

While the probability of Japan's rearmament cannot be excluded and vigilance should be maintained, we must also be aware of another prospect that concerns this country. Japan reaped considerable benefits from its tremendous economic growth after World War II. The Japanese presently have a high standard of living and may no longer be willing to get remilitarized, as rearmament would certainly deteriorate their economy and impede any further improvement in well-being. Moreover, Japan's remilitarization would be restricted by international factors; the Soviet Union and China particularly would be on the alert against any Japanese military moves that would jeopardize their regional interest and peace. Despite present demand from some in the United States who favor Japan's expansion in military strength on the basis of burden sharing, the United States will see to it that Japanese military expansion not extend beyond a certain limit. Present Japanese war preparations, which were jointly made with the United States, are based on a tit-for-tat policy toward the Soviet Union. As the Soviet are implementing a more reconciliatory foreign policy and may reduce their arms substantially as a result of disarmament agreements between the East and the West, there is less justification for Japan's rearmament.

Should Japan expand its armaments significantly, most Asia-Pacific states would follow suit and increase their own military strength; an intensified arms race and strained relations would, thus, occur in this region. The peace and

prosperity of the region depend, in part, on Japan's keeping to its self-defense stance.

Japan's influence could extend beyond the military/strategic arena. As the Asian nation that has embraced more Western civilization than any other in the region yet has still retained much of its own culture, Japan could be a bridge linking East and West and, thus, could contribute to the harmony of the world. Unfortunately, however, Japan is at present too introverted to produce much cultural impact on its neighboring countries. What has impressed Japan's neighbors most is a warlike Japan with its Bushido in the past and its businessmen in the present. Most East Asians would like to see Japan as a cultural exchanger and peacemaker, rather than as a warrior.

Japanese-Soviet Relations

Because Japan is a world economic power and is situated in a strategic position, where it can bottle up the Soviet fleet inside the Seas of Okhotsk and Japan, the Soviet Union attempts to win it over into active partnership. Such a partnership would help in the exploitation of Siberia and would allow easy passage of the Soviet navy into the Pacific Ocean. However, so long as the Japan-U.S. alliance is strong, Soviet political and economic relations with Japan must remain weak and low. In spite of all the efforts the Soviets have made to induce the Japanese to invest in Siberia, Japan has remained rather indifferent.

A peace treaty between the Soviet Union and Japan is under discussion. The principal obstacle on the Japanese side is the dispute over the sovereignty of the four northern islands. On this matter, practically all Japanese factions are united, including the conservative Liberal Democratic Party and the left-wing parties. Japan insists that these islands are an inseparable part of its territory and were illegally taken away at the end of World War II. The Soviet Union wants to retain the islands as a strategic forward position, close to Hokkaido, and is unwilling to create a precedent for further concessions to territorial claims by other states.

The depth of suspicion between the two countries is profound. For nearly a century, Japan and the Soviet Union (or Czarist Russia before the October Revolution) fought several wars against one another. Eliminating their mutual enmity is therefore no easy task. Nevertheless, as Soviet-Japanese political relations are to a great extent dependent upon U.S.-Soviet relations, the recent rapprochement between the United States and the Soviet Union may usher in a period of improved Soviet-Japanese relations.

U.S.-Japanese Relations

Japan, along with the United Kingdom, has become one of the most steadfast allies of the United States. Since World War II economic interdependence between the two nations and Japan's dependence upon the United States for its security are two reasons why. Since interdependence has been discussed above, we will turn our attention to the security aspect of the U.S.-Japanese relationship. Japan's security dependence upon the United States originated from the necessity of a common defense against a Soviet military threat; it was also a product of the constitution imposed on Japan by American Occupation authorities in 1947—a constitution that strictly limits Japan's capacity to develop military forces. Japan has thus relied upon the U.S. nuclear umbrella and conventional military supports. Japan has been happy over this dependent status, which enabled it to spend less on defense and concentrate its resources on economic development. Corresponding to the dramatic growth in its economy, Japan has begun to exert significant influence on international affairs and may become a political power, too. Because of the decline of its own economic power, the United States has asked Japan to share its military burden in East Asia. This "burden sharing" ranges from picking up some of the expenses of American troops based in Japan to expanding Japanese self-defense forces, especially its naval force, with a view to making up for any deficiency in American forces in the Asia-Pacific region. Japan is also being asked to share the burden of foreign aid in Asia, and with its vast reservoir of surplus cash, Japan has become the world's leading dispenser of such aid.

Japan's expansion in military power to compensate for an inadequate American presence in East Asia is instrumental to the United States not only in its contention with the Soviet Union for supremacy but also because it serves the U.S. purpose of weakening Japan's economic competitive strength. Nevertheless, the possibility that this economic superpower may someday be turned into an intractable big military power that may pose a threat against the United States is worrisome.

More positively, Japan's role as a leading foreign aid donor fills the gap left by the United States and thus helps stabilize the political situation in the Asia-Pacific region in favor of the West. (Of course, such aid enables Japan to accelerate its economic expansion and enlarge its share of the market, to the detriment of the United States.)

Burden sharing thus creates a dilemma for the United States. It is not entirely impossible that Japan, backed up by its economic and military power, will shift from its current low-profit diplomacy to a more aggressive and tougher stance in international relations and seek a greater say in global affairs.

Should that happen, Japan could become a destabilizing factor, threatening countries in the Asia-Pacific region and even threatening the United States.

U.S.-Soviet Relations

The United States and the Soviet Union have been superpowers and opponents contending with each other since the end of World War II, but the situation is changing. Both countries have their own troubles. The United States is confronting an economic decline in comparison with other Western economic powers. Although the American economy is still the most powerful one in the world, it is suffering from twin deficits. But compared to the United States, the Soviet Union is in a much worse state. Its economy is on the verge of collapse, and the movements for independence in many of its republics are challenging the *raison d'être* of the union.

Under President Gorbachev the Soviet Union has adopted a moderate foreign policy. Seeking to maintain a peaceful, stable international environment that will enable the Soviet Union to concentrate on tackling its internal problems, the Soviets have increased their relations with the United States, Western Europe, and East Asia. In carrying out such a policy, one initiative after another has been taken to relax international tension by making concessions. The Soviets have had to make more political concessions to the United States than vice versa. They are ending the Soviet military presence in the South China Sea by withdrawing naval and air forces from Cam Ranh Bay in Vietnam, and they are planning cuts in their land, air, and naval forces in East Siberia. The Soviet proposal concerning an appropriate reduction of American forces in East Asia was turned down. The Soviet military deployment comprises mainly land forces, while the U.S. deployment focuses on its naval force, which is distributed over the entire Pacific Ocean—and not only for defense against the Soviet Union. Owing to the asymmetric force structure, arms control arrangements in Asia between these two countries will be difficult. Notwithstanding that the Soviet Union is still comparable to the United States in military strength, the Soviets will not be as threatening as they used to be, because they no longer have the will to go to war. Instead, they would rather coordinate more with Americans in global affairs to maintain their international standing.

The United States has been accustomed to a tough opponent and is unprepared for a reconciliatory one. Just one or two years ago, Americans often raised the question whether the Soviets really meant what they said; by and by they began to believe the Soviets. Currently the United States is cooperating with the USSR to encourage the latter to make the kinds of political and economic reforms the Americans seek. The Soviet Union has had to pay a price internationally for its need to prepare the ground for its domestic reform.

The most crucial problem confronting Gorbachev is whether he can successfully carry out economic reform or *perestroika*. The first phases in reforming a rigid, centralized planning system inevitably entails inflation, excess demand (over supply), unemployment, injustice in distribution, and corruption. For fear that *perestroika* may go wrong, Gorbachev is slow and prudent in pushing ahead with economic reform. Nevertheless, the Soviet Union hopes to carry out its transition to a market economy within two years. This task, however, cannot be completed in a few years. Consequently, a divergence of views concerning reform has already arisen among the Soviets. Should the reform be unsuccessful and living standards worsen, dissatisfaction with and opposition to Gorbachev would grow. The Soviet people's enhanced freedom of speech—a result of political reform or *glasnost*—would only aggravate criticism and opposition. Ethnic problems are another thorn in the flesh of the Soviet leadership. National minorities account for more than 50 percent of the total Soviet population. The demand for independence is growing throughout the minority republics, but granting independence to any one of them would inevitably lead to a unanimous demand by all, resulting in the disintegration of the Soviet Union.

An Uncertain Future

Can we predict the future of political relations between nations, East Asian ones in particular, in a decade or two? Probably not. Some argue that they can “predict” the future course of world affairs by extrapolating from past events; experience shows that this method has not always proven correct. Political events are not like comets in the sky, whose orbits astronomers can precisely compute so as to predict when they can be seen. Politics follows laws that are often too complicated to understand.

Did any soothsayers predict the Tiananmen Square incident of June 1989 in Beijing or the avalanche of political changes in Eastern Europe? Few people had that clairvoyance, I dare say. The year 1989 proved to be capricious, as weather often is. It is practically impossible to make a clear-cut assessment of trends in world political situations and to forecast international relations. The best that can be done is to make alternative scenarios, which are inferences that estimate what may happen under various conditions. In conclusion, I will present a few inferences for further discussion. First, now that the Cold War is over and the bipolar pattern of world power politics that governed global affairs for the past four decades no longer exists, a fluid, multipolar world is emerging, and more power groups are in the making. A new world pattern is yet to be formed; we will live in a world without a definite political pattern for years to come.

Second, with the decline of the Soviet Union, the United States becomes the only superpower in the world, albeit one undergoing relative decline compared with other rising big powers. Will the United States retain its status as a superpower in the decades to come? Possibly it will, if it succeeds in reviving its economy. If it does, a Pax Americana may emerge, but it will not be a peremptory regime. The United States may not be powerful enough to override other world powers and may have to make more consultations with them in the leadership of world affairs, probably through the United Nations Security Council. If the United States proves to be unsuccessful in reviving its economic power, I can't say what will happen.

Third, the Soviet Union is in crisis with the crux of the matter hinging on whether it will succeed in transforming itself into a market economy. Judging from Chinese experience, this task will not be accomplished in the two years planned by President Gorbachev. The Soviets seem to be entering a long, one-way tunnel; it will take ten to fifteen years before they reach the end. If Gorbachev finally succeeds, his country will be stronger but not as threatening as it once was because it will have been integrated into the world economy. If Gorbachev gets derailed in the tunnel, the Soviet Union might disintegrate.

Fourth, three economic regions may emerge in the future, namely, the Asian region headed by Japan, the European region headed by Germany, and the American region headed by the United States. These regions will be integrated free markets, not entirely exclusive to one another. Among them there will be mutual competition, infiltration, and cooperation.

Fifth, in Asia, Japan will further expand its economy, although at a slower pace. The four small dragons may join the ranks of developed countries; ASEAN will continue to develop, and fifth and sixth dragons may emerge. China's reform will also be well under way, but until China gains significant success in its economic development, an Asian Century will not come into being. China is the biggest country in the region and would be a drag on the Asian economy if its development cannot keep pace with that of the other Asian states.

Sixth, in spite of all the destabilizing factors in the Asia-Pacific region, which should be dealt with carefully, there will be more chance of peace than war. Since most Asia-Pacific nations will be bending backward to foster their own economic development, resorting to wars may be considered counterproductive.

5. The Importance of Regionwide Cooperation

GENDENGIIN NYAMDORJ

The new world climate of constructive cooperation between East and West has had a beneficial influence on the situation in the Asia-Pacific region. But compared with Europe, this region noticeably lags behind in coming to a new level of trust and cooperation.

Certainly, the conditions in the Asia-Pacific region differ from those in Europe. Lasting peace and security in this region need not be the same as in Europe, but it seems unreasonable to fully reject the European experience. Everything that is valuable and can be applied to the Asia-Pacific region to bring peace and security must be used.

The example of Europe might serve as a stimulating impetus for the region. The general political improvement in the world is thought to be a long-term trend, and it introduces favorable prospects for restructuring the entire complex of international relationships. The new political thinking, which is already bearing fruit, is winning wide recognition as a political-philosophical outlook.

Positive processes are taking place in the Asia-Pacific region. In interstate relations, Soviet-American relations are improving; there is also normalization of relations between the Soviet Union and the People's Republic of China (PRC)—a truly important event whose significance goes far beyond the framework of bilateral relations and carries with it the possibility for stabilizing not only the Pacific region but the world as a whole; and there is progress in the relationships of China with Laos, India, and Indonesia. Changes are taking place, too, in Soviet-Japanese relations, with hopes for their considerable improvement in the near future. Sino-American and Sino-Japanese relations, after the estrangement caused by events in China, are becoming normal again. Major military conflicts between the big powers of the region can probably be avoided, at least in the near future. The absence of conflicts is good in itself, but it is not sufficient; the Asian and Pacific states should expand political contacts and cooperation, both bilaterally and multilaterally.

The future of the huge Pacific Rim depends upon the political will and practical activities of the states in the region, and we feel deep satisfaction that the aspirations and efforts of states in the region are aimed, in general, at finding ways of reducing tension, strengthening peace and security, and establishing regional cooperation. The aspirations of the Asian and Pacific nations for peace are reflected in their constructive security initiatives and proposals. Within the framework of the worldwide task to eliminate the nuclear threat, the antinuclear proposals put forward by the states of the Asia-Pacific region are of special significance. The antinuclear aspirations popular among the people of the Asian and Pacific states are finding their way into state policies.

I am also glad to note the efforts being made in the search for political settlements of disputes—by the means of renunciation of violence and the use or threat of force.

Progress on Regional Conflicts

Progress has been made in regulating regional conflicts. The beginning of this positive process was laid by the Geneva accords on Afghanistan, which were to secure the political settlement of that situation. Unfortunately, that did not take place, and today more effort is needed by the international community to bring about a cease-fire in Afghanistan and to promote national reconciliation.

In Cambodia, as a result of an intensive dialogue, a qualitatively new situation for the comprehensive settlement of the problem has appeared. Presently, however, the problem is in stalemate. The way out of this situation is in the ongoing talks at the Paris conference on Cambodia, aimed at finding mutually acceptable agreements concerning the problems besetting that country. We hope that the Paris meeting of deputy foreign ministers (from the permanent member-states of the UN Security Council) will lead to results. In principle, more active involvement of the UN in the Cambodian issue should be welcomed. At the same time we consider the demand of the present Cambodian government for reconsideration of the UN resolution on representation of the Khmer people to be fully legitimate. The formula of the “vacant seat” for Cambodia, already being used in the Nonaligned Movement (NAM), seems the most suitable at present. The achievement of a comprehensive settlement of the Cambodian problems would have a positive effect on the situation in the whole region, in particular in political relations between the Indochinese and the Association of Southeast Asian Nations (ASEAN) states, between China and Vietnam, and between the United States and Vietnam.

A just settlement of the Korean problem, with due regard for the aspirations of the Korean people, is of great importance in stabilizing the situation in the

region. It is still too early to speak about fundamental changes on the Korean peninsula, but here, too, the striving for a dialogue is more tangible. The search is on for points of bilateral contact. Both sides have proposals that could become the subject of either bilateral or multilateral discussions on the question of the withdrawal of American troops and armaments. The necessity of withdrawal—frequently proposed by the government of the Democratic People's Republic of Korea (DPRK)—is widely recognized by the world public. The withdrawal of foreign troops was an integral part of the political settlement of the Afghan and Cambodian issues. The Soviet Union and Vietnam removed their troops from Afghanistan and Cambodia. Now it is the turn of the Americans to demonstrate their good will and end their military presence on the peninsula.

Attention should be paid to the report prepared by the Seoul University Center for International Studies and the Center for Strategic Studies at Stanford University. Proposals in this paper stress the necessity of immediately negotiating reductions in the arms of both sides and of the withdrawal of American troops within the next decade. This is the first South Korean report to advocate withdrawal of the 43,000 American troops stationed in South Korea.

Unfortunately, there are also negative tendencies in the situation in the Asia-Pacific region. The biggest concern is caused by the danger of stockpiling nuclear arms. The region lacks a dialogue mechanism to discuss the problems of how to lower nuclear confrontation and reduce arms and armed forces. The Soviet-American treaty on eliminating intermediate and short-range missiles, which has started the process of real disarmament, has a direct bearing on the situation in the Asia-Pacific region. Some questions of arms reduction and disarmament could be solved at global rather than regional level. Nevertheless, the high level of militarization in the region mandates the creation of a regional mechanism. Naval forces are of special interest, yet they are still out of the discussions. There is an opinion that the specific conditions of sea-based nuclear weapons complicates control over them. There may be certain difficulties, but we understand they can be overcome. The results of the joint Soviet-American nongovernmental experiment, carried out in the summer of 1989, testify to this. The purpose of the experiment was to evaluate the spotting of nuclear warheads on a surface ship. The Soviet and American scholars who took part concluded that it was possible to create a practical system of technical control using a remote-contact system on surface ships.

No progress has been made on implementing the concrete Soviet proposals on reducing military confrontation and naval activities in the Pacific, and the lack of progress cannot but trouble the people of the region. Lack of an arms-curbing mechanism in the western Pacific and the intensification of military

preparations not only threaten the countries of the region but can also tend to destabilize the international situation.

The testing of nuclear systems and missile carriers and the fact that the number of military bases and maneuvers have not been reduced eloquently characterize the situation in the region. The military spending of these countries is being increased. While fewer nuclear weapons are deployed in the Asia-Pacific region than in Europe, the region has far more conventional armaments and armed forces than other regions.

From all this we can say that the situation in the Asia-Pacific region is controversial and far from stable. In general, however, positive tendencies prevail. And conditions seem to favor basic improvement in the political climate. The efforts of the Asian and Pacific states, we think, should be to further develop the positive international political processes, making them irreversible and complementing them by broad economic cooperation.

In the economic sphere, the Asia-Pacific region has good prospects. In recent years, the region has enjoyed a high rate of economic growth—almost twice as high as that in other world regions. Since 1980, the average annual rate of economic growth has been 5 to 6 percent. In some countries the rate has been 10 percent. There is also vastly increased commodity circulation. The share of the Asia-Pacific nations in world trade circulation can be compared with the share of the European countries. As a result of this growth and expansion of foreign trade exchange, the region now provides up to 60 percent of the capitalist world's industrial production and accounts for about one-third of its foreign trade volume.

The Need for a Regional Organization

Reviewing the situation, it is impossible not to pay attention to the integrating processes gaining momentum in the region. The deepening of European integration—the transformation of Western Europe into a close economic and political entity—promotes regional cooperation in the Asia-Pacific region. The region is now trying to create an intergovernmental organization to deal with the intensification and liberalization of trade cooperation in investments, technology transfer, labor resources, environment protection, and energy. The meeting of the region's twelve foreign ministers in Canberra was the first step toward the creation of this regional organization. The participants in the meeting noted that the economic forum would be of an open character, aimed at promoting stable development. The creation of such an organization will strengthen mutually beneficial cooperation. The task is pressing, and we welcome the process. However, some doubts occur concerning the openness of the organization to all nations of the region, in particular those with nonmarket economies. A discriminatory approach would not make

it easier to overcome alienation and confrontation in the restructuring of international relations in the region. As we see it, international economic relations in the region must be an important factor in accelerating the development of the countries in the region, helping them to resolve their urgent socioeconomic problems. The establishment of regional cooperation in other areas is also necessary. There are great prospects and possibilities in such fields as science, technology, culture, and ecology.

I think the creation of a regional intergovernmental organization of this kind is only a matter of time. It would be good if the organization would, from the very beginning, act constructively and serve the ideas of cooperation and rapprochement of the countries of the region, irrespective of their social system, level of development, and world outlook.

In our view, under the influence of the changes taking place in the world, the Asia-Pacific region has begun its move toward a new international order. Restructuring of the regional international relations demands revising the old, out-of-date approaches and replacing them with new ones, adequate to present requirements and attuned to solving the accumulated problems. Compromise solutions must be worked out, based on balance of interests.

The new approach presumes, first of all, renunciation by nations of military force as an instrument of achieving political, economic, and other goals. As noted earlier, the apprehension of this has already been reflected in actions by some countries of the region. According to press reports, some states are considering revision of their military policies. Applicable on a large scale to the conditions of the Asia-Pacific region are such measures as the introduction of a defensive character to military doctrines, confirmation of the principle of reasonable sufficiency, and the working out and application of confidence-building measures in the military sphere on a bilateral and multilateral basis. Asian socialist countries have taken a lead in this respect. The Soviet Union, China, the Democratic People's Republic of Korea, and Mongolia have unilaterally reduced their armed forces. Sino-Soviet talks on demilitarization along their mutual borders are under way, as are mutual reduction of armed forces and confidence-building measures in the military field.

The socialist countries have also withdrawn their troops from Afghanistan and Cambodia in line with mutual agreements. The number of Soviet troops in Mongolia has been reduced by up to 75 percent.

So far we have only one-way movement in the field of military détente. The emergence of a reciprocal movement would strengthen international confidence, as well as national and regional security. Recent information in the media about plans to reduce joint American and South Korean military maneuvers and to invite military observers from other countries to remaining maneuvers could be regarded as a first sign of steps in this direction.

A “minimal nuclear deterrence” in the region could also be discussed as an intermediate step, pending complete liquidation of nuclear armaments. A new international order presupposes complete renunciation of nuclear weapons. In this connection, it seems expedient to take a fresh look at putting into practice the creation of nuclear-free zones in the Asia-Pacific region.

Still, the restructuring of international relations in the region, as we see it, will take a long time. The basis of a new order will be worked out through talks between the states, and it is necessary to stimulate, expand, and regularize this process.

Mongolia’s Foreign Policy

I would like to dwell briefly on the foreign policies of the Mongolian People’s Republic (MPR) and its efforts to ensure peace and security in the region. The Asia-Pacific region is one of the top priorities in the foreign policy activities of the MPR. Our present Asian policy is aimed at maintaining friendly relations and cooperation with the countries of the region, first of all with neighboring states, promoting in every possible way regional peace and security and participating in the work of the regional international organizations.

We have accumulated a positive experience of cooperation with the Soviet Union and other socialist countries of Asia. Mongolia’s relations with them are developing in all spheres of life, acquiring greater dimensions and scope and being enriched with new forms of cooperation.

The MPR has normalized its relationship with the PRC. Bilateral cooperation has been restored in various fields, including interparty ties. The normalization of Sino-Mongolian relations meets the interests of both the Mongolian and Chinese peoples and contributes to regional peace and security. There is also progress in our relations with India and Japan, and we maintain political contacts with a number of other countries of Asia and the Pacific. The MPR also cooperates with the countries of the region in economic, commercial, and cultural fields.

Because Mongolia has much in common with Asian nations—in national traditions and customs and in historical, cultural, and religious matters—there is a sound basis for better understanding and closer cooperation with the countries of the region. We think it is important to forge in every way a sense of community among Asian nations, to maintain and intensify diverse contacts with them—not just on a bilateral basis but multilaterally as well.

The MPR is interested in increased cooperation and interaction with nonaligned states, especially on problems of peace and international security. As you know, quite recently our country has obtained the status of observer in

the Nonaligned Movement. This step brings us closer to the objectives and principles of this authoritative and influential movement.

Mongolia makes persistent efforts to create an atmosphere of trust and mutual understanding among the states of the Asia-Pacific region. To this effect it put forward some proposals in the 1980s and in August 1989.

Mongolia proposed setting up a mechanism that rules out the use or threat of using force in interstate relations in the region. In our view, the significance of this proposal is increasing, given the general tilt toward peaceful settlement of conflicts. We hold the view that one of the principal components of a new order in the Asia-Pacific region should be a legally binding commitment on the part of all states of the region to refrain from using or threatening to use force in their mutual relations.

Of late, a number of Asian and Pacific states have accentuated the need for a regional mechanism to discuss ways and means of ensuring peace and security in this part of the world, to exchange views on the promotion of regional cooperation, and to solve unresolved problems. Wholeheartedly sharing this view, last year we proposed to set up such a mechanism of dialogue in Northeast Asia. It is not our intention to establish an organization. We just propose to hold a dialogue on regional problems on a regular basis with regional actors, including Canada. In our opinion, such a dialogue should start with a meeting of government experts from these countries (the United States, USSR, PRC, DPRK, ROK, MPR, Japan, Canada). At a later stage the number of participants could be enlarged, if another country wished to take part. The meeting of experts should deal with issues of economics, trade, scientific and technological cooperation, and cultural and humanitarian matters, as well as with problems of the environment, confidence-building measures, and the safety of international communication lines. This is not a fixed agenda. It is open for discussion, and we welcome any suggestions on the part of the countries concerned. Perhaps, at the beginning, the meeting of government experts should confine itself to one or two problems acceptable to all. Certainly, all regional problems cannot be solved at once. That requires regular consultations and dialogue at various levels. Scholars and research workers can make a valuable contribution to launching multilateral cooperation in Northeast Asia. We are confident that such talks will further strengthen the positive processes of the region.

Our proposal is consonant with the initiatives of other countries of North-east Asia, and while formulating our proposal we took due consideration of these initiatives. Actually, they supplement each other.

In its foreign policy, the MPR now pays greater attention to raising the efficiency of bilateral cooperation with Asia and the Pacific and to making more efficient use of our international economic ties to solve the country's acute

socioeconomic problems and to accelerate development. We should admit that up to now we have laid more emphasis on political relations, ignoring or paying insufficient attention to economic aspects. That led our country to some kind of isolation from regional international economic relations.

With growing world interdependence, Mongolia is seeking to integrate itself into world and regional economies and to take a more active part in regional economic and financial organizations. We have applied for membership in the Asian Development Bank and now are studying the possibilities of joining other international bodies.

World Influence

Mongolia, as a developing socialist country of Asia, is vitally interested in securing a durable peace in the Asia-Pacific region and in creating favorable international conditions for implementing its policy of renewing and restructuring all spheres of life of our socialist society. It is our hope that the reforms being undertaken in Mongolia and other socialist countries will give a fresh impetus to mutually advantageous cooperation in the Asia-Pacific region. The region is playing a growing role in world politics. And in the future, its significance will steadily increase. The state of affairs in this vast region will largely influence world peace and security. The two contradictory trends—negative and positive—will continue to exist, with the positive trend dominating over the negative one. Anyway, it is our hope that the positive processes in the region will gain in strength. Political relations will be further improved, especially with final and comprehensive political settlements of the Afghan and Cambodian problems. It is likely that integrational processes in the region will further deepen and result in the setting up of an intergovernmental organization for economic cooperation.

Affirmation of the principle of peaceful coexistence in interstate relations—and its strict observance in the practical activities of states—is the only reasonable way to a better, more secure, nonnuclear and nonviolent world.

Part 2.
Pacific–Asian Economic Relations



6. Prospects for Continued Rapid Growth in East Asia

DWIGHT H. PERKINS

Over the past decade and longer, much has been written about the rapid development of the nations and territories of East Asia. But does rapid growth really set the nations of East Asia apart from the rest of the world? Does this unique experience require that these nations be treated differently? Is the common experience of accelerated development a strong basis for future cooperation within the region? Will continued growth overcome some of the political divisions within the region that clearly still exist today?

The essence of the challenge posed by East Asia's rapid development is whether the rest of the industrialized world can accommodate continued accelerated growth within the region without upsetting the world economic system that made this growth possible. Or will the strains caused by economic imbalances upset this system with ramifications not only for the economic but also for the political and military spheres as well?

The strains caused by East Asia's economic performance are well known. Less well understood are the forces that made this performance possible. But without an understanding of those forces, it is not really possible to say much about what is likely to happen in the future. And without a reasonably well-informed view about the future of the economies of the region, it is difficult to say anything useful about the prospects for regional cooperation or conflict.

The first part of this chapter, therefore, is devoted to an exposition of what has driven East Asian economic growth over the past two or three decades and speculation about whether those driving forces will continue to operate in the future. The second part returns to the question of how this growth experience is likely to effect the prospects for cooperation within the East Asian region and between that region and the rest of the world.

Sources of East Asian Growth

East Asian growth, as is well known, has been unprecedented in both the speed and length of the period over which its high growth rate has been sustained. The data for the most recent two decades are presented in table 1, but in the case of Japan, Hong Kong, and Taiwan, this performance stretches back into the 1950s. In the case of South Korea it encompasses most of the 1960s. In the People's Republic of China, accelerated growth begins only sometime after 1976.

Growth of 7 percent per capita per year means that real income doubles in ten years, and over a three-decade span it rises by 8-fold. If the rate can be sustained for four decades, real income will rise by 16-fold, but no one so far has been able to maintain such rates for so long. Japan grew at an accelerated rate for two decades (1953–73) from an already industrialized base. South Korea and Taiwan are well into their third decade of rapid development starting from a poor rural economy. Only Hong Kong may have grown at such high rates for four decades. One says “may” because we don’t have very reliable Hong Kong gross national product (GNP) data for the 1950s.¹ With growth rates of this magnitude, the transformation that occurred in Europe and North America over the period of a century is happening in East Asia within thirty years. There are no Americans or Europeans who can remember what it was like to live in the 1870s or 1880s. But many of the current leaders of East Asia grew up with lower standards of living than those of nineteenth-century Europe and are now, in late middle age, having to adjust to the demands of running an industrialized, urbanized society.² Values and political systems do not change as rapidly as technology in conditions such as this, and it is little wonder that growth has contributed to societal tensions. The real wonder is that the transition has been as smooth as it has been, even taking into account Tiananmen, Kwangju, and the various lesser crises that have marred the transformation in the social and political realms.

¹ One of the first efforts by the Hong Kong government to put together a statistical handbook was published in 1969, but it did not include estimates of GDP (Census and Statistics, *Hong Kong Statistics, 1947–67* [Hong Kong: Hong Kong Government, 1969]). The official GDP estimates begin in 1966 (Census and Statistics Department, *Estimates of Gross Domestic Product, 1966–1983* [Hong Kong: Hong Kong Government, 1984]). Only unofficial estimates are available for earlier periods (Ronald Ma and Edward F. Szczepepanik, *The National Income of Hong Kong, 1947–1950* [Hong Kong: Hong Kong University Press, 1955]).

² In 1988 Japan’s per capita income, converted from yen at the official exchange rate, was \$21,020. If converted by using a purchasing power parity rate, the figure would be somewhat lower (World Bank, *World Development Report, 1990* [Washington, D.C.: World Bank, 1990], p. 179). In 1955 Japanese GNP in 1988 U.S. dollars would have been around \$3,000 per capita, or in the same general ball park as Yugoslavia, Venezuela, and South Korea.

Table 1
Growth Rates of GNP Per Capita (in percent per year)

	1960–1970	1970–1980	1980–1987
China	2.1	4.1	9.1
Japan	9.6	3.4	3.1
South Korea	6.8	7.5	7.3
Taiwan	7.1	7.6	5.5
Hong Kong	8.4	7.2	5.5
Singapore	5.2	6.7	5.6
Thailand	4.9	4.2	2.6
Malaysia	3.1	5.1	0.9
Indonesia	1.0	4.8	1.9
Philippines	2.9	3.7	–3.3
Brunei	–0.4	3.1	–5.1

SOURCES: World Bank, *1983 World Bank Atlas* (Washington: World Bank, 1983); World Bank, *World Bank Atlas, 1988* (Washington: World Bank, 1988); and World Bank, *World Bank Atlas, 1972* (Washington: World Bank, 1972).

A comparable or even greater pace of transformation has occurred in the international economic role of East Asia. Some relevant figures are presented in table 2 and are startling. Total exports of the East Asian nations and regions taken as a group rose 67.5 times, or at an average rate of 16 percent a year between 1960 and 1986.³ But world trade also grew rapidly in this period, so that East Asia's share of total world exports only rose from 6–7 percent in 1960 to 11 percent in 1980. With the revaluation of Asian currencies together with slower trade growth overall, the share of East Asian exports rose to nearly 18 percent of the world total in 1988. Imports, of course, did not grow as rapidly as exports, but their growth was also enormous by any previous standard, a 48-fold rise in twenty-eight years, or a rate of 15 percent per year. As late as 1980, thanks in part to the 1979 oil price rise, imports of the region as a whole had grown fast enough so that overall there was a balance-of-trade deficit more than \$20 billion. By 1988 the region taken together had a surplus of more than \$80 billion. Can growth rates of the GNP and foreign trade continue at this rate

³ These trade data are in current prices, which exaggerate the real rate of growth because of the rise in general price levels in this period. For the United States, export prices rose 3.44 times between 1960 and 1988, and import prices rose 4.39 times (*Economic Report of the President, 1990* [Washington, D.C.: Government Printing Office, 1990] p. 299). The proper deflators for the data in table 2 would be somewhat different but of the same general order of magnitude.

Table 2
East Asian Foreign Trade (U.S. \$ millions)

	1960	1970	1980	1986	1988
	<i>Exports</i>				
Japan	4,055	19,318	129,812	209,153	264,752
South Korea	33	835	17,505	34,714	60,696
Taiwan	164	1,481	19,811	39,789	60,397
China	1,860	2,260	18,270	30,940	47,540
Hong Kong	689	2,514	19,720	35,439	63,165
Singapore	1,136	1,554	19,376	22,495	39,300
Total	7,937	27,962	224,494	372,530	535,850
	<i>Imports</i>				
Japan	4,491	18,881	140,524	126,408	187,335
South Korea	344	1,984	22,292	31,584	51,811
Taiwan	297	1,524	19,733	24,165	49,757
China	1,950	2,330	19,550	42,910	55,250
Hong Kong	1,026	2,905	22,413	35,366	63,899
Singapore	1,332	2,461	23,589	25,512	43,849
Total	9,440	30,085	248,101	285,945	451,901

SOURCES: U.N. Economic Commission for Asia and the Far East, *Statistical Yearbook for Asia and the Far East, 1970* (Bangkok: United Nations, 1970); Council for Economic Planning and Development, *Taiwan Statistical Data Book, 1987* (Taipei, 1987); U.N., *Statistical Yearbook for Asia and the Pacific, 1973*; U.N., *Statistical Yearbook for Asia and the Pacific, 1986-1987*; and State Statistical Bureau, *Zhongguo tongji nianjian, 1988* (Beijing: Statistical Publishers, 1988).

indefinitely into the future? Probably not, but it is important to understand why not.

The starting point to any understanding of the accelerated GNP growth rates of East Asia is the recognition that there are advantages to being a follower nation in economic terms.⁴ A follower nation can borrow more than just the backlog of engineering techniques built up by the leading industrial nations; it can also learn which industries to target for future growth and can avoid many costly mistakes already taken by the leaders—supersonic commercial aircraft, for example. There are now enough examples—not all of them in East Asia—to

⁴ This point was made eloquently many years ago by Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, Mass.: Harvard University Press, 1962).

make clear that GNP growth rates of 10 percent a year are feasible if a nation's planners and entrepreneurs don't make too many mistakes.⁵

Not all nations are in a position to take full advantage of being a follower. A developing industrial sector requires skilled workers, engineers, and experienced managers. A nation with a poorly educated work force and little managerial experience is in no position to begin an across-the-board industrialization effort. Expanded educational opportunities plus experience with less-complex forms of management must come first. East Asia, by developing-country standards, had a rich human resource base upon which to build even in the 1950s, and that base has been expanded and upgraded with great energy ever since.

A stable political environment for long-term investment is also essential. Civil war such as in Korea in the early 1950s or Vietnam during much of the post-World War II era obviously inhibits growth. But constantly changing governments, where new groups in power regularly repudiate the policies of predecessors, are also not conducive to long-term investment. Japan has had a great many different prime ministers, but the policy environment for its business has been consistently supportive. In South Korea, Taiwan, and Singapore consistent policies have also been carried out, in part, because the same rule retained power for a long period. South Korea's one occasion of negative growth since 1962 followed President Park Chung Hee's assassination, and the correlation was not spurious. Hong Kong, without any resistance to speak of from those governed, has been ruled by appointees of the queen of England. Finally, the particular policies pursued by these stable governments do matter. It is certainly not a coincidence that all the rapid developers of East Asia placed great emphasis on the development of their capacity to export manufactures. This strategy has sometimes been presented as an act of genius on the part of the East Asian nations, but it would be closer to the mark to say that the East Asian people had little choice. None—with the exception of China, which will be discussed below—had any natural resources to export.⁶ Even the agricultural products of these so densely populated nations were not likely to provide adequate levels of foreign exchange as they had in the decades prior to World War II. So what was left was a choice between a dependence on

⁵ Few nations have grown at rates above 5 or 6 percent a year throughout the 1960s, 1970s, and 1980s. But nations outside East Asia whose GDP has grown at more than 7 percent a year for at least a decade in the period since 1964 include Brazil, Indonesia, the Dominican Republic, and Ecuador (World Bank, *Development Report, 1990*, pp. 180–81).

⁶ The Republic of Korea was in the worst position in this regard. Total Korean exports in 1961 were U.S.\$43 million of which U.S.\$18 million came from the country's limited supply of minerals (Economic Planning Board, *Major Statistics of Korean Economy, 1977* [Seoul: Economic Planning Board, 1977] p. 185).

foreign aid or the export of manufactures. Just because a nation has little real choice, however, does not mean that it will take the path leading to rapid growth. Bangladesh, with essentially the same set of choices, has opted for continued dependence on foreign aid and slow growth and is not alone in preferring that option.⁷ The East Asian nations that achieved accelerated growth, in contrast, managed to understand the nature of the options facing them and to acquire the political capacity to implement the choices they made.

A short chapter may allow only brief mention of the specific policies that made export of manufactures and high industrial productivity growth in East Asia possible. Keeping the exchange rate from becoming overvalued was important. Infant industrial protection, to be removed after a few years so that an enterprise knows it will soon have to withstand the forces of competition on its own, is also critical. Permanently protected markets are a formula for low-quality goods and slow productivity growth, whatever other incentives are in place. Firms that export, of course, by definition must survive in unprotected markets.

It is not that the East Asian nations made no economic policy mistakes. The attempt by Japan's Ministry of International Trade and Industry to consolidate the Japanese automobile industry was an attempt that probably would have done harm if it had succeeded. And there were a number of major white elephants in President Park's heavy industry programs of the 1970s. South Korea, Taiwan, and Japan also provided protection for their domestic markets far longer than was necessary to any economic purpose and by doing so helped foster protectionism in their export markets, which in turn restricted their own growth. But the mistakes made in East Asia were dwarfed by its overall policy environment, which was very supportive of the efficient growth of its industry.

Much of the rest of the developing world has not fared so well. Most of sub-Saharan Africa does not yet have the trained and experienced personnel to run a major, export-led manufacturing drive. Latin American nations have the personnel in many cases but with political environments that foster a climate where policy favors small, short-term gains for politically powerful groups over the much larger, long-term gains for society as a whole. The massive debt of several of the largest Latin American states is one manifestation of this problem. Other nations on various continents have made poor use of a rich natural resource base. Nigeria, Mexico, and Iran are each examples of how natural resource wealth can undermine as well as promote growth.

⁷ Some of the reasons behind the contrasting responses of Korea and Bangladesh are discussed in D. H. Perkins, "Economic Development: The Role of Values," in *International Ethics in the Nuclear Age*, ed. Robert Meyers (Lanham, Md.: University Press of America, 1987), pp. 233–60.

In short, there is a long list of reasons why many of the world's nations have not taken full advantage of the opportunity provided by being a follower state. Why were the East Asian states so different? In part, as suggested above, it was because they had little choice. It is also true that in several cases the very survival of the government, and even the state itself, depended critically on achieving rapid growth and a strong economy. Whether for that reason or others, the population was willing to give tacit or explicit support to growth-oriented policies. Confucian values, with their strong streak of authoritarianism, may have also contributed to the ability of strong leaders to impose sometimes unpopular measures—for example, President Park's normalization of relations with Japan.⁸

The great enigma in this East Asian story is the People's Republic of China. China, of course, is far larger than its East Asian neighbors, and its size may make it a more complex and difficult nation to govern. China also has natural resources, so that an inward-looking development policy is at least feasible. The 1949 revolution brought to power a group that looked for inspiration to the Soviet autarkic model of growth. In the 1950s, it should be remembered, the Soviet economic growth model was widely admired in the developing world, not without reason. Following this model, the Chinese economy did grow for nearly two and a half decades. But the rate of per capita GNP growth was 2–3 percent a year, and it took a larger and larger share of GNP to maintain that rate.⁹ Disillusionment with this inefficient development policy and even greater disillusionment with the excesses of Mao Zedong's last two decades of rule ushered in a remarkable period of economic reform in China in the late 1970s. Loosening controls over agriculture and returning to household farming led to a spurt in farm output that lent credibility to reform efforts in general. By the mid-1980s, China was well into a development process designed to bring China toward a socialist version of the East Asian growth model.¹⁰ Promotion of the export of manufactures had begun even before Mao's death and gained considerable momentum after it. Efforts were made to increase the role of market forces but with a considerable dose of state direction. But the state

⁸ The reasons behind Korea's accelerated growth story have been the most carefully researched. See E. S. Mason et al., *The Economic and Social Modernization of Korea* (Cambridge, Mass.: Harvard University Press, 1980); for Taiwan, see S. W. Y. Kuo, G. Ranis, and J. C. H. Fei, *The Taiwan Success Story* (Boulder, Colo.: Westview Press, 1981).

⁹ Official Chinese data indicate a somewhat higher figure than this for the rate of growth in GNP per capita. But the official Chinese data link up indexes some of which were derived using the highly distorted Chinese prices of the 1950s—prices that overstate the contribution of industry to GNP.

¹⁰ For the similarities between the Chinese development model of the 1980s and the East Asian growth model, see D. H. Perkins, *China: Asia's Next Economic Giant?* (Seattle: University of Washington Press, 1986).

played a critical role in the guidance of South Korea, Taiwan, and Japan as well.¹¹ Except for Hong Kong, the East Asian model has had little in common with laissez-faire capitalism.

The result of these Chinese reform efforts was an East Asian-style growth of 9-plus percent per year for a decade. The shift of the population out of agriculture accelerated, and the standard of living of the great majority of the Chinese people by the late 1980s was nearly double what it had been a decade earlier. The political support for these growth-oriented policies began to erode in 1988, fueled in part by rising inflation and increasing corruption. When the student movement of April and May 1989, stimulated in part but not primarily by economic problems, came together with a power struggle among the leadership of the Chinese Communist Party, the result was the June 3–4, 1989, explosion at Tiananmen. China had moved into a period of political instability with uncertain goals in both the political and economic spheres. The consequences for the economy were bound to be negative, but whether these negative effects would be modest and short lived or large and prolonged remain to be seen.

The Future of East Asian Growth

By the end of the 1980s, therefore, East Asia was in an economic development process that involved both continuity and change. Japan's rapid growth had come down to levels more in keeping with the fact that it was now on the leading edge of industrial technology. South Korea, Taiwan, and Hong Kong were still growing at high rates and might do so for another decade, although sustained GNP growth rates of 10 percent a year were becoming increasingly difficult to achieve. China had proved that its economy was capable of East Asian-style growth, but it was far from clear that its political system was capable of sustaining the policies that would ensure the continuation of that high growth.

Forecasting the long-term growth of nations that have settled into a steady pattern is not particularly difficult. Short-term forecasting of business cycles is quite another matter, but within the leading industrial countries a change in the long-term growth rate of 1 percent per year over a sustained period is a major change. Thus, for the purposes of a paper such as this, one can confidently predict that Japan will grow somewhat faster than most other industrial nations because of its high savings rate, strong industrial management, and balance-of-

¹¹ For the Korean case, see L. Jones and I. Sakong, *Government, Business, and Entrepreneurship in Economic Development: The Korean Case* (Cambridge, Mass.: Harvard University Press, 1980).

payments surpluses. But a high rate for Japan probably means sustained growth of 4 or 5 percent a year during the decades ahead.

Forecasting the future economic performance of nations that have sustained growth rates of nearly 10 percent for two or three decades is more difficult. Assuming that the political environment remains favorable to supportive economic policies, the critical issue is how long it will take these nations to reach the frontier. Certainly South Korea and Taiwan have not yet caught up with Japan, Europe, and North America. But will they become caught up in another decade, or will it take two decades?¹² The assumption here is that domestic economic forces will remain supportive of rapid growth for another decade but probably not much longer.

But what about domestic political forces? Both Taiwan and South Korea have moved into a period of transition to a fully democratic system. Will a democratic system remain supportive of growth-oriented policies? Surprisingly, the answer appears to be yes. The policies have been so successful for so long that opposition platforms attack the fringes of these policies, not the core. Thus, in South Korea there are calls for more concern for social welfare and the creation of a more even playing field on which smaller enterprises can compete on an equal footing with the *chaebol* conglomerates. But the government was already moving down this road well before the democratization process really took hold. Farm price supports and trade barriers are also popular with powerful interest groups, but these policies won't upset the major engines of growth any more than did similar policies in Japan (or the United States).¹³ Only a prolonged period of political instability would be likely to alter the course of the economy in any fundamental way, and such instability, while not impossible, is certainly not the most likely prospect. In Singapore, the transition from one leader to another has no precedents, but there is no reason to expect fundamental change there either.

Hong Kong and, of course, China are another matter. Hong Kong is already experiencing a kind of instability, which has not yet slowed the economy but could do so. From now until 1997, large numbers of skilled Hong Kong Chinese

¹² There is currently a very active discussion among theorists of economic growth over whether nations' per capita income tends to converge over time. Put differently, does the growth rate of a nation tend to decline as its per capita income rises? See, for example, R. J. Barro, *Economic Growth in a Cross Section of Countries*, Economic Research Working Paper, no. 3120 (Cambridge, Mass.: National Bureau of Economic Research, September 1989).

¹³ Perhaps the biggest question mark in the case of Korea is whether management-labor relations will move away from the turmoil that has characterized the period immediately following the end of government repression of unions. Japan, it should be noted, went through a similar period of turmoil in the 1950s before labor and management established a more effective means of ironing out their differences.

will be leaving the colony to establish residence elsewhere. The question is whether these people can be replaced either with accelerated training for Hong Kong citizens or with expatriates (including overseas Chinese with passports that allow them a quick exit). The assumption here is that after 1997 the Chinese government will honor its "one country, two systems" commitment, at least in the economic sphere. If China itself is growing and prospering, Hong Kong will remain a major base of economic activity both on its own account and as the best place for foreigners to do business with southern China. Politically, Hong Kong may become a more repressive society, but all those who can escape that repression will already have left.

The critical issue—not just for Hong Kong or even Taiwan, but for all of East Asia and for the other side of the Pacific as well—is what happens to China itself. Broadly speaking, there are really only two possibilities at the extremes and various combinations in between. On the one hand, China could get its reform effort back on the track. In essence, this would involve a renewed successful export drive in which the growth of manufactured exports would return to the levels that China averaged in most of the 1980s.¹⁴ Foreign investment, particularly that from Hong Kong and Taiwan, would continue to be welcomed and would help fuel this export drive. In domestic industry, there would be a continuation of efforts to cut the umbilical cord tying enterprises to the central bureaucracy and of measures designed to enhance the role of market forces in all areas of the economy. The two-price system would give way to a one-market-price system thereby eliminating a major source of corruption. Inflation would be controlled by improved macro levers operating through a modernized commercial banking system. GNP growth under these conditions would probably stay at levels of 7 or 8 percent a year.

The alternative would be "creeping" rebureaucratization of an economy that already has a heavy dose of bureaucracy. The word "creeping" is used because a systematic attempt to return to full-scale central planning has been discredited around the world. Efforts to control inflation, for example, could take the form of price freezes on selected key products such as grain or cotton cloth. These price freezes may slow inflation, but they will also hurt the incentives of producers, thus slowing the growth of output as well as prices. Eliminating the secondary free markets for certain intermediate industrial inputs will reduce opportunities for corruption by those who divert goods at low state-set prices into these high free-price markets. But with the elimination of markets for intermediate inputs, allocation of these inputs will be done by government bureaucrats who may or may not know where the priority needs of

¹⁴ Chinese exports in 1990 did in fact accelerate markedly, but one year does not make a trend.

the economy really lie. Small-scale enterprises almost certainly will have greater trouble getting critical inputs, and their growth will suffer as a result.

Some of these problems were already apparent in 1989. The government in 1988 and 1989, in an effort to slow inflation, introduced a severe credit squeeze on all enterprises. Because China's urban industrial economy was only partially reformed, and the macro levers available to control credit were crude, the credit squeeze hit enterprises very unevenly and brought industrial growth down sharply in 1989. The credit squeeze also created such dangerous side effects as paying farmers for their crops with IOUs instead of cash, a move likely to threaten both rural productivity and rural political stability.¹⁵

The economic problems created by policy errors in 1988 and 1989, however, are not large when compared with the kinds of errors introduced in the 1958–76 period. And even in that period, China's economy managed a growth rate that averaged 4–5 percent a year (2–3 percent per capita). Thus, it is unlikely in the decade ahead, when economic policies are bound to be an improvement over those during the last decades of Mao's rule, that China's economic growth rate will fall below 5 percent per year. Nine years ago, I suggested that China's long-term growth rate over the next decade or two, given reasonably sensible policies, was likely to average 6–8 percent per year.¹⁶ That range in 1990 still appears to cover the most likely possibilities.

The Future of East Asian Trade

If China and the newly industrialized countries that neighbor China continue to grow at 6–8 percent per year, and if Japan grows at 4–5 percent a year, what are the implications of these GNP growth rates for the region's foreign trade? Up through the 1980s, East Asian exports and imports have grown faster than the region's GNP. Is continued growth of this magnitude likely, or even possible?

Certainly there is no evidence as yet that export growth rates are slowing down. In nominal dollar terms, in most of the region in 1987 and 1988, export growth rates were well into the double-digit range.¹⁷ Devaluation of the U.S.

¹⁵ The nature of Chinese economic policy and performance in late 1989 and early 1990 is discussed in D. H. Perkins, "The Prospects for China's Economic Reforms," in *China Briefing 1990*, ed. A. J. Kane (Boulder, Colo: Westview Press, 1990), pp. 25–46.

¹⁶ Dwight H. Perkins, "The International Consequence of China's Economic Development," in *The China Factor*, ed. Richard H. Solomon (Englewood Cliffs, N.J.: Prentice-Hall, 1981) p. 120. At the time these projections were made, many critics felt they were hopelessly optimistic. As it turned out, they were slightly on the "pessimistic" side compared to the 9 percent GNP growth rate actually achieved in the 1980s.

¹⁷ In the 1980s taken as a whole, export growth rates in nominal (current price) terms were at or above 10 percent per year in China, South Korea, Hong Kong, and Taiwan, but below 10 percent

dollar has had more than a little to do with these very high rates, but even in real terms there was rapid growth except, perhaps, in 1989. What if export growth rates continue to exceed GNP growth throughout the 1990s up to the year 2000?

A few simple projections presented in table 3 illustrate the nature of the problem. In the table, we have assumed that East Asian exports in real terms will grow at a rate equal to or 1 percent above the real GNP growth rate of each country. The 5–8 percent a year growth rates used in these projections may seem high, but they are much lower than the actual rates attained over the past two decades. Even in the latter half of the 1980s, it was common for planners in the region to think of real export growth rates of 9 percent or more. But even these lesser rates produce a doubling, or \$560 billion increase, in exports by the year 2000.

Is such an increase in exports feasible? Total world exports in the mid-1980s were only \$2,000 billion, and the entire East Asian region accounted for 17.6 percent of this total (1986).¹⁸ Clearly, whether East Asian exports can rise above \$1,000 billion by the year 2000 depends in part on what happens to world trade as a whole. Between 1965 and 1980 total world exports in real terms grew at an average rate of 6 percent a year, but between 1980 and 1988, the rate dropped to 3.8 percent a year.¹⁹ At this latter rate, world exports by the year 2000 would rise to \$3,700 billion (in 1987 prices), and East Asian exports, as projected, would constitute 30 percent of this total, almost doubling East Asia's share of world export markets (see table 3).

A doubling of East Asia's share of world export markets might have been feasible in the 1960s and 1970s when East Asia's share of these markets was much lower, but it is not likely to be acceptable in the 1990s when the base, or starting point, is already so large. Clearly, sustaining East Asian export growth at levels comparable to the region's GNP growth requires that world exports as a whole grow faster than they did in the 1980s. How likely is that to happen?

The key to the performance of world trade in the 1990s remains primarily a question of what happens to the Organization for Economic Cooperation and Development (OECD) nations. Together these nations constitute roughly three-quarters of all world trade, and sustained high growth in world exports is

per year in Singapore (7.3 percent) and Japan (5.3 percent). World Bank, *Development Report 1990*, pp. 204–5; and Council for Economic Planning and Development, *Taiwan Statistical Data Book, 1990* (Taipei, 1990), p. 205.

¹⁸ Economic and Social Commission for Asia and Pacific, *Statistical Yearbook for Asia and the Pacific, 1986–1987* (Bangkok: Economic and Social Commission for Asia and the Pacific, 1987), p. 4.

¹⁹ World Bank, *Development Report, 1990*, p. 205.

Table 3
Hypothetical Export Projections

	Actual 1988 Exports	Hypothetical Year 2000 Projection*
Japan	264.75	475.45
South Korea	60.70	136.71
Taiwan	60.40	136.03
Hong Kong	63.17	142.27
Singapore	39.30	88.51
China	47.54	119.71
Total	535.86	1,098.68

SOURCES: Economic Planning Board, *Major Statistics of Korean Economy, 1989* (Seoul: Economic Planning Board, 1989), pp. 277–78; and State Statistical Bureau, *Zhongguo tongji zhaiyao, 1989* (Beijing: Statistical Publishers, 1989), p. 83.

* Exports are assumed to grow at or above one percent of the GNP growth rates of the country. The figure used for Japan is 5 percent per year, China is 8 percent per year. For the others the figure used is 7 percent per year.

not conceivable unless OECD trade is growing at or not far below the world totals. A popularly held view is that rapid OECD trade growth is not very likely. Protectionism, it is said, is rampant in these countries as the various trade blocs, notably the European Community (EC) and the North American market, turn inward on themselves.²⁰ Since economic growth in the OECD region has also slowed in the 1980s and, it is argued, is not likely to accelerate, trade will grow only slowly.

This pessimistic view may be valid, but there is little evidence to support it from the known historical record. Between 1965 and 1987, the real growth rate of OECD exports averaged 6.2 percent a year, substantially higher than these nations' GNP growth rates, which average 3.3 percent per year. Both growth rates were lower in the 1980s as well. Japan, of course, accounts for part of this high export growth, but not a particularly large part.²¹ Given these facts, is it wildly optimistic to suggest that OECD growth in GNP might average 3.5

²⁰ To be more precise, the view that protectionism is rampant is widespread among the popular press and many politicians, in the U.S. Congress for example. This view is less widely found in the scholarly literature, although it exists there as well.

²¹ In the 1980–88 period all OECD exports grew at a rate of 4.1 percent a year, while Japanese exports taken alone grew at 5.3 percent a year. Japanese exports in 1988 accounted for only 8.7 percent of all OECD exports, so OECD export growth minus Japan would still be about 4.0 percent per year.

percent, and exports and imports might average 5 percent a year? If world exports were to rise at 5 or 6 percent a year for the next dozen years, the East Asian share would rise but to 25 or 22 percent respectively of the world total, not 30 percent.

The problem is not that world trade overall can't grow fast enough to accommodate continued expansion of trade from East Asia. More than adequate rates of foreign trade growth have been achieved in the past. The real problem that has become so acute in the 1980s is the unbalanced way in which overall foreign trade growth has been achieved.

The basic story is well known, and a few illustrative figures are present in table 4, which shows the wide variation in growth rates of imports and exports that has resulted in large imbalances in foreign trade. The imbalance is mainly represented by the very large trade deficit run by the United States and the very large surpluses run by Japan, Germany, and, to a lesser degree, Taiwan and South Korea. It is conceivable that these deficits and surpluses could run on, accumulating indefinitely into the future, but it doesn't seem likely. If these imbalances are not likely to be sustainable, then the question becomes one of how they are going to be brought to an end. Is it going to be by responsible governments getting rid of the imbalances through macro economic policy, will major changes in the exchange rate have to generate the change, or will one nation try to impose a change on the other? Specifically, will the United States attempt to correct the imbalance by protectionism on a grand scale directed probably at East Asia, or will the Japanese attempt to do so by refusing to invest in the United States, thereby driving up interest rates and causing a recession first in the United States and later elsewhere?

If the more drastic "solutions" to these imbalances are employed, then there are ample grounds for pessimism about the future of world trade. And the drastic "solutions" cannot be totally ruled out. Certainly, the evidence that U.S. political leaders are willing to do much about the federal budget deficit is limited, and that deficit, together with our low savings rate, is the main source of our trade deficit.²² And will the Japanese continue to finance this deficit at current real rates of interest if the dollar keeps being devalued, thereby lowering the Japanese rate of return when that return is denominated in yen?²³ Or will Japanese investors prefer to help trigger a recession that will hold down U.S.

²² In 1990 the U.S. government did pass a budget deficit reduction package, but the U.S. deficit is and will remain large, unless far greater cuts in that deficit are made in the future.

²³ Net flows of capital from Japan to the United States appear to have come to a halt in 1990, but this may or may not be a harbinger of the future.

Table 4
Growth Rates of GDP and Foreign Trade, 1980–87

	(1) Exports	(2) Imports	(3) GDP	(4) Difference (1)–(3)	(5) Difference (2)–(3)
U.S.	–0.05	9.7	3.1	–3.15	6.6
Japan	5.8	3.6	3.8	2.0	–0.2
Germany	4.7	4.6	1.6	3.1	3.0
France	3.5	2.2	1.6	1.9	0.6
U.K.	3.0	4.8	2.6	0.4	2.2
Canada	6.3	7.3	2.9	3.4	4.4
South Korea	14.3	9.6	8.6	5.7	1.0
Taiwan	13.5	6.5	8.2	5.3	–1.7
Hong Kong	11.4	9.1	5.8	5.6	3.3

SOURCE: World Bank, *World Development Report, 1989* (Washington: World Bank, 1989), pp. 166–67, pp. 190–91.

imports and hence help avoid further devaluation of the dollar? U.S. imports alone account for 17 percent of all world imports, and it is hard to imagine rapidly growing world trade if U.S. imports are stagnant.

To state these more drastic alternatives, however, is to provide the most compelling argument about why they are not likely to occur. Or if they do occur, why they are likely to trigger political actions that will bring them to an end within a several-year period. Certainly, it is hard to believe that the 1990s will be dominated by a worldwide recession generated by American, Japanese, and German trade imbalances. More likely is a two- or three-year period of adjustment painful enough to force the political leadership to do what is necessary to end the imbalances. The shorter the period of adjustment, the easier it will be for the world trade system to accommodate a continued, fairly rapid export growth in East Asia.

Is a Pacific Trading Bloc an Answer?

It is sometimes suggested that one way for Asia to respond to the EC and North American common markets would be to form an Asian common market, or a Pacific Basin common market. Certainly, there is a base for some kind of economic cooperation between the nations of East and Southeast Asia, and many forms of cooperation have, in fact, been under way for decades. Japan, for example, is now the largest bilateral donor of foreign aid, and the great bulk

of that bilateral aid has gone to Asia.²⁴ Japan has benefitted from its access to Southeast Asian raw materials, and many of the nations of Southeast Asia have benefitted from Japanese private direct investment. It would be interesting to explore these areas of mutual economic benefit further, but they are beyond the scope of this chapter. The issue addressed here is whether economic cooperation within Asia could go a long way toward providing a solution to the principal question asked here: Specifically, could such cooperation play a major role in sustaining rapid export growth in the region?

There are encouraging signs that Japanese markets are becoming increasingly open to the manufacturing exports of Japan's East Asian neighbors. Data up through 1986 are presented in table 5; that growth continued in 1987 and 1988. For South Korea, for example, exports to Japan rose from \$5.43 billion in 1986 to \$8.44 billion in 1987 to \$12.00 billion in 1988. The devaluation of the dollar makes this growth seem more rapid than if it were measured in real terms, but after years of tight restrictions by Japan on Asian manufactures coming into the country, the change in the 1980s was substantial.²⁵ But is Japan in a position by itself to absorb rapid increases in exports from other parts of East Asia on a sustaining basis? In 1988, these other East Asian areas exported \$271 billion worth of goods, \$87 billion more than the total imports of Japan. Even if Japan were to spend all its annual foreign exchange earnings on East Asian exports, it could just afford to cover the total. And our projections suggest that exports from East Asia outside Japan over the next decade are likely to grow more rapidly than those of Japan itself.

Thus, Japan is clearly in a position to help sustain the export growth of the other East Asian nations and the nations of Southeast Asia as well. If Japan can match or surpass our hypothetical export projections in table 3 and can eliminate its balance-of-trade surplus at the same time, that would add more than \$300 billion to the world demand for non-Japanese exports—and East Asia outside Japan might provide \$60 or \$70 billion of that increment. The other regions of East Asia, however, would still have to find non-Japanese markets for another \$250 billion or more of their exports.

²⁴ For data on the rapid rise of Japanese development aid and its components, see Ministry of Foreign Affairs, *Japan's Official Development Assistance: 1988 Annual Report* (Tokyo: Association for Promotion of International Cooperation, 1989).

²⁵ For a more in-depth discussion of the issues discussed in these paragraphs, see Yung Chul Park and Won Am Park, "Changing Japanese Trade Patterns and the East Asian NICs," paper presented at the National Bureau of Economic Research Conference on "The U.S. and Japan: Trade and Investment," October 1989.

Table 5

Japanese Imports from East Asia, 1976–1986 (U.S. \$ millions)

	1976	1980	1986
Total Exports	67,224	129,812	209,153
Total Imports	64,891	140,648	126,317
Imports from Asia	19,375	40,433	36,764
South Korea	1,919	2,999	5,286
Taiwan	1,095	2,173	4,545
Hong Kong	343	570	1,074
Singapore	648	1,511	1,467
China	1,373	4,292	5,657
Subtotal	5,378	11,545	18,029

SOURCES: Economic and Social Commission for Asia and the Pacific (ESCAP), *Statistical Yearbook for Asia and the Pacific, 1986-1987* (Bangkok: ESCAP, 1987), p. 11; and Council for Economic Planning and Development, *Taiwan Statistical Data Book, 1987*, p. 215. The Taiwan data are f.o.b. (freight on board) Taiwan whereas the other figures are all c.i.f. (costs, insurance, and freight) Japan.

Conclusion

The various estimates and calculations presented in this chapter do not constitute forecasts of what is likely to happen over the next decade. They are presented instead for the purpose of illustrating the issues that will have to be addressed if East Asian and worldwide economic prosperity based on continued growth of exports is to be sustained.

The main conclusion is that continued growth of GNP and exports is possible in East Asia over the coming decade, but only if certain steps are taken to facilitate that growth. The steps required involve efforts by the East Asian nations themselves, but efforts confined to the East Asian region alone will not be sufficient—no matter how creative East Asian leaders become in breaking down barriers to trade within the region. We have a world trading system, not a collection of regional trading blocs, and the biggest markets in that world system are still those of the United States and Western Europe. If prosperity is to be sustained it must be sustained everywhere in the industrialized world; the current imbalances that threaten that prosperity require all parties involved to seek solutions together.

7. Patterns of Growth

SABURO OKITA

The 1980s has been a decade of rapid growth for the countries of Pacific Asia as these countries have steadily become more important in the world economy, boosting their share of nominal world GNP from 41 percent in 1980 to 52 percent in 1985. This growth has been particularly evident in the Asian newly industrializing economies (NIEs) (Hong Kong, Singapore, the Republic of Korea, and Taiwan) as they have maintained strong growth rates of, for example, 12.3 percent in 1987 and 9.7 percent in 1988. At the same time, the original five countries of the Association of Southeast Asian Nations (ASEAN) (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) enjoyed accelerating economic growth of 5.5 percent in 1987 and 7 percent in 1988, and the development-pace gap between the Asian NIEs and the ASEAN countries has been rapidly narrowed. Even within ASEAN, Thailand has been a particularly strong performer, recording real economic growth of 11 percent in 1988, and is expected to be the region's growth leader with 10 percent plus in 1989.

Plotting this pattern of economic development in East and Southeast Asia along a time line, we see that there have been three major waves of growth in this region since the 1960s. The first wave was in the 1960s, when Japan recorded its income-doubling-and-beyond rapid growth; the second was in the 1970s, as the Asia NIEs came on strong; and the third was in the 1980s, powered by the ASEAN countries and China.

The pattern created by these three consecutive waves of growth has been aptly characterized as a "flying geese" pattern. This image was first postulated by Professor Kaname Akamatsu in the 1930s, when he likened the historical pattern of Japanese development to that of a flock of geese in flight, but it is elegantly applicable and eloquently descriptive of the pattern of growth in East and Southeast Asia over the last three decades. In this pattern, the nations of the region engineer successive take-off industrialization and are soon moving on

their way to higher stages of development. It is akin to a V-formation, and the relationship among the countries in the formation is neither horizontal integration nor vertical integration as they are commonly known. Rather, it is a combination of both. And because the geese that take off later are able to benefit from the forerunners' experiences, shortening the time required to catch up, they gradually transform the formation from a V-formation to horizontal integration.

As Japan's industrialization moves to more sophisticated realism, the Asian NIEs are shifting from labor-intensive industries to more technology-intensive fields, and the higher wages that accrue as part of this process mean that the labor-intensive industries move from the Asian NIEs to the ASEAN countries and China. While Japan has served as both an example and a supplier of capital goods for these countries, it is expected that the Asian NIEs will increasingly come to supply the ASEAN countries' capital equipment needs. In effect, this is a process of consecutive takeoffs with a built-in catch-up process, and it is these countries' consecutivity and acceleration that accounts for the fact that East and Southeast Asia have developed differently from other developing nations.

Because this pattern of economic development as seen in East and Southeast Asia is based upon export-oriented industrial development strategies, it has also resulted in expanded trade and in the region's increasing share of world trade. In 1980, the total value of exports from Japan, the Asian NIEs, the ASEAN countries, and China amounted to 14.3 percent of total world exports. In 1987, this was 21.5 percent. Likewise, the region's share of total world imports has gone from 14.7 percent in 1980 to 16.9 percent in 1987. The trend has been especially pronounced for the Asian NIEs, which saw their share of total world exports go from 1.6 percent in 1965 to 7.6 percent in 1987 and their share of total world imports go from 2.1 percent in 1965 to 6.5 percent in 1987. By comparison, Japan during this same period saw its share of total world exports go from 4.9 percent in 1965 to 9.9 percent in 1987 and its share of total world imports from 4.5 percent in 1965 to 6.2 percent in 1987.

While some of these countries' export expansion has been in competition with the Western industrial countries, it should be noted that the enhanced import capability that their export earnings have given them has generated new markets and created complementary relations among them. The region-wide spread of export-oriented industrial development strategies has worked through the resultant relationships of competition and complementarity to create greater consecutivity and acceleration.

The Growth in Trade and Investment

Against this background, intraregional trade and investment are increasing rapidly in the Asia-Pacific region. While trade between North America and the European Community countries grew sixfold in the years 1970–87, that between Japan and the ASEAN countries grew eightfold, that between Japan and North America tenfold, that between the Asian NIEs and the ASEAN countries fifteenfold, that between Japan and the Asian NIEs eighteenfold, and that between the Asian NIEs and North America forty-eightfold during the same period. As a result, the Asia-Pacific countries have obviously become much more interdependent in their trade relations. In 1987, for example, when the European Community countries did 58 percent of their trade within the region, the United States did 50 percent of its trade with Pacific Asia, Japan 65 percent, the Asian NIEs 72 percent, and the ASEAN countries excepting Brunei 73 percent with the region.

The same general trends also hold with regard to investment. In fiscal 1988 alone, the flow of direct investment capital from Japan to the Asian NIEs was approximately \$3.3 billion—an increase of 26.5 percent over the previous year. Likewise, Japanese fiscal 1988 direct investment in Thailand was up 3.4-fold and that to Malaysia 2.4-fold over the previous year. There has also been sharply increasing investment from Taiwan in Thailand and the Philippines and from South Korea in Indonesia, all typical of the flow of investment from the Asian NIEs to the ASEAN countries.

Among the factors thought to account for this situation are the major progress that was made in trade liberalization during the 1964–67 Kennedy Round and the 1973–79 Tokyo Round of multilateral trade talks, as well as the dollar's exchange strength and the booming U.S. economy in the first half of the decade and the yen's exchange strength and strong Japanese domestic demand in the second half of the decade. All of these factors have meant sharply expanded trade and investment for the region. At the same time, the increasing percentage of the industrial countries' production that is done offshore, the dramatic advances that have been made in transport and telecommunications, and the expansion of the international capital markets have all combined to produce stronger, broader interdependence among these countries.

Although China's economic growth rate was down from 12.3 percent in 1987 to 9.7 percent in 1988 and expected to be down still further in 1989, if that country continues to pursue policies of openness to the outside world and to promote industrialization and development in the littoral provinces, it is very possible that these coastal areas may develop along roughly the same lines as South Korea, Taiwan, and Hong Kong. If so, the addition of coastal China

would make the East and Southeast Asian region roughly equivalent to North America or the European Community in both economic strength and population by the year 2000. In other ifs, if political stability comes to Cambodia, and if such countries as Vietnam, Laos, and Burma work steadily on economic development, it is conceivable that a new economic region could develop centering on Thailand on the Indochinese peninsula. Finally, it should be noted that the Soviet Union has been making strong economic approaches to the Asia-Pacific region ever since President Mikhail Gorbachev's July 1986 speech in Vladivostok. When all of this is factored in, it is clear that the Asia-Pacific region still has great growth potential and that, assuming both the international political situation and the various domestic political situations remain stable, the region will continue to develop vigorously.

Some Problems

However, there are a lot of ifs in this rosy forecast. Many problems still have to be solved. The first is the excessive dependency that East and Southeast Asia have upon the U.S. market and the major trade imbalances they maintain with that country, as well as the American propensity to bilateralism and protectionism that this situation engenders. To give you some idea of how very dependent Japan and the Asian NIEs are upon exports to the United States, Japan's export dependence was 38 percent in 1986, 37 percent in 1987, and 34 percent in 1988, while the Asian NIEs' dependence was 40 percent in 1986, 37 percent in 1987, and 31 percent in 1988. Even though these figures are clearly coming down, they are still very high—so high that a recession possibly sparked by economic adjustments in the United States would have a strong deflationary impact on East and Southeast Asia.

On the plus side, however, the yen's exchange strength and Japan's rapidly increased receptiveness to imports have helped the Asian NIEs and the ASEAN countries to sharply increase their exports to Japan. At the same time, there is greater trade among the Asian NIEs as well as exports from the ASEAN countries to the Asian NIEs. These countries are also exporting more to Japan. Lest anyone doubt this about the Asian NIEs, in 1988 South Korea increased its exports to Japan 46.3 percent, Hong Kong 35.1 percent, and Taiwan 22.7 percent. And from ASEAN, Thailand increased its exports to Japan 53.2 percent.

As the Asian NIEs gradually expand their exports of manufactured goods for the region, it is imperative that Japan continue to absorb more imports from the other countries of East and Southeast Asia, both to lower East Asia's excessive dependence upon exports to the United States and to maintain this region's economic vitality. Japan's ratio of manufactured goods to total imports rose from 31 percent in 1985 to over 50 percent in the first nine months

of 1989. However, while the United States, the United Kingdom, France, and West Germany had per capita imports of manufactured goods in the \$1,500–3,000 range in 1988, Japan's was only about \$750. In the long run, it is expected that the industrialization in East and Southeast Asia and the expansion of intraregional trade will raise income levels in the area and that this will in turn facilitate expanded imports from the United States at the same time as it possibly lowers the region's dependence on exports to the United States and reduces the trade imbalances with the United States.

Yet that is the long term, and the short-term outlook is not so rosy. In 1988, imports from East and Southeast Asia accounted for around 70 percent of the total U.S. trade deficit of about \$120 billion. Of this, the Japanese share was 44 percent, the Asian NIEs' was 24 percent, and ASEAN's was 5 percent. Much of the world's trade friction is centered squarely on this region.

According to a survey of U.S. public opinion reported in the October 9, 1989, *Newsweek*, 33 percent of the people who were asked, "Which do you think is a greater threat to the United States?" opted for Soviet military strength (this opinion may have changed since the end of the Cold War) while 52 percent cited Japanese economic strength. I suspect, however, that the two are not really analogous where it counts. The Soviet threat is military and provokes an arms-race response that is basically a zero-sum game, whereas the economic rise of Japan and East Asia is not so much a threat as it is a challenge, and the result is a plus-sum game in that the higher income levels in this region should mean expanded markets for U.S. goods and hence be to America's own benefit.

I can see how the United States views Japanese and East Asian economic strength as a threat, given the size of the trade imbalances, the strong Japanese competitiveness in high-tech fields, and anxiety that the Asia NIEs are catching up technologically. Yet it should be possible for the United States to reduce its trade deficits by using macroeconomic policy to raise the savings rate and by letting the dollar fall to reduce imports. This process could well be complemented by Japanese and East Asian efforts to improve the foreign reserve positions of the Latin American countries by, for example, channeling part of their surpluses to Latin America and helping the Latin American people countries export more to East Asia—efforts that would most likely also contribute to improving the U.S. international balance of payments, since these countries are traditionally very good markets for American products.

According to calculations by Harvard's Jeffrey Sachs, if Japan spent \$25 billion a year for three years on expanding domestic demand, the benefits to the U.S. trade balance would average \$2 billion a year. If the same amount were transferred to Latin America over the same three-year period, the benefits to the U.S. trade balance would average \$11.5 billion a year. Japanese efforts to

recycle its surplus funds and to promote imports are clearly good for the revitalization of the developing countries and the alleviation of the debt problem, and there should be more and more ways for Japan to cooperate with the United States or with the multilateral financial institutions by using its aid policies in complementary ways. Rather than shouting about the need to rectify the bilateral trade balance immediately, it would be much better to work for improvements in the U.S. international balance of payments as part of a triangular arrangement involving the developing countries.

In June 1989, the government of Japan announced (at the summit of the seven industrial countries held in Paris) that it was enhancing its earlier plan to recycle \$30 billion over the three-year period 1987–89 and that the new target was to recycle a total of at least \$65 billion in the five-year period 1987–91. Of this, \$10 billion has already been earmarked for cooperation with the new debt strategy proposed by U.S. Treasury Secretary James Brady. Combined with Japan's Overseas Development Assistance (ODA) target of \$50 billion for 1988–92, and even deducting for overlap, the total transfer from Japan to the developing countries will be about \$100 billion for the five-year period—not including private direct investment. This total is more than the Marshall Plan for Europe during the early postwar period. The World Bank reports that the developing countries' total debts outstanding were \$1,290 billion as of the end of 1989 and will be \$1,319 billion by the end of 1990. The United States has changed from a major capital exporting nation to a major capital importing nation, its public and private net capital flows to the capital-poor developing world are both negative, and the private net flow of capital in particular has been declining sharply in recent years. This has made the flow of capital resources from Japan to the developing world all the more important. In fiscal 1988, the flow of Japanese direct overseas investment was up 41 percent over the previous year to \$47 billion—30 percent of it to the developing countries.

Facing Fragility

The second issue facing the Asia-Pacific region is fragility of the region's developing economies and the need to enhance the infrastructure foundations for growth. The Asian NIEs have very high ratios of exports to GNP. While Japan's ratio of exports to GNP was 10 percent and the average for all industrial countries was 14 percent in 1987, South Korea's was 40 percent, Taiwan's 55 percent, Hong Kong's 105 percent, and Singapore's 138 percent. What this means is that the Asian NIEs' economies are extremely vulnerable to fluctuation in the world economy. While it is expected that the ASEAN countries will follow the same basic development path as the Asian NIEs, the likelihood that protectionism will target this area and its possible adverse impact on the world economy as a whole make it imperative that the countries of the Asia-Pacific

speak out loudly and constructively for the preservation and strengthening of global free trade and that they be heard and heeded in international trade negotiations.

These countries' narrow industrial bases, the relatively low level of their research and development efforts, the fact that their infrastructures have not been able to keep pace with their economic growth, and other factors may impede the shift to sophisticated industries quickly and could well bottle up the long-term development of self-sustaining economies. Because transport and telecommunications infrastructure improvements are essential to enhancing intraregional exchanges across a wide spectrum of interests, and because this infrastructure improvement will also have a major impact upon the local economic climate, it is essential that the improvements be planned and implemented not just on a country-by-country basis but systematically from a regional perspective. Realizing this, the Pacific Economic Cooperation Conference (PECC) has set up a "triple-T" task force on transportation, telecommunications, and tourism. These are areas that obviously demand considerable hardware and heavy capital investment, but that investment alone is not enough, since it will be money wasted unless the facilities are maintained and managed wisely. Accordingly, I believe it is essential that a greater effort be made to enhance know-how assistance to the developing countries so that they can acquire the systems, institutions, and arrangements they need to plan, develop, and manage these projects on their own.

In light of the great diversity in the Asia-Pacific region and the overlapping waves of development there, those countries that are just starting out in the development process could in some cases benefit more from the middle-range countries' experiences and technology than they could from state-of-the-art technology from the advanced industrial countries. Accordingly, it would be worth considering if there is not some way Japan could provide capital support to the Asian NIEs to facilitate the transfer of technology from the Asian NIEs to the ASEAN countries.

While on the subject of what Japan could do to help, it should be noted that Japanese assistance has traditionally been geared primarily toward economic and technical cooperation. Today, this focus has to be completed with a greater effort in research cooperation, including assistance to researchers and research institutions in the developing countries, funding to enable their experts to attend international conferences in their fields, assisting with the seconding of researchers from the industrial countries, accepting more researchers from the developing countries, supporting joint research projects, helping with data collection and data sharing, and promoting the formation of networks among the region's research institutions.

The Pearson Approach

While the developing countries of this region have relied upon overseas sources of capital to offset their own domestic savings shortfalls, the Asian NIEs are gradually institutionalizing their trade surpluses and moving to become capital suppliers. In 1968, former Prime Minister Lester Pearson of Canada was appointed to head up the eight-member Commission on International Development (better known as the Pearson Commission) to look into the development process and to draw up recommendations on international cooperation in development assistance. The results of this commission's work for the World Bank were announced in 1969 as *Partners in Development*. The commission took the approach that it would be most efficient to concentrate assistance on those countries with the best chance of graduating from developing status—i.e., of implementing efficient use of resources and moving from the aid-receiving to the aid-giving side of the table as soon as possible. There were, however, views critical of this approach, views arguing the welfare principle that aid should be given to meet such basic human needs as food, health services, and elementary education. Yet the experience of the Asian NIEs is eloquent testimony to the validity of the Pearson Commission's emphasis on allocating the assistance where it can be used most effectively to support a viable economy. Although many people have noted that Japanese assistance has a relatively low grant element, the fact that the Asian region—which received over 90 percent of Japanese bilateral official development assistance in the 1960s and 1970s and nearly 70 percent of the total since the mid-1970s—has achieved such remarkable success in its development policies could arguably be taken as demonstrating the validity of this assistance policy. Given the expected strong capital needs of the region—both of the Asian NIEs and the ASEAN countries—Japan has a continuingly important role to play here.

The issue of stable energy supplies is also crucial in underpinning long-term regional growth. The region's energy demand is expected to grow approximately 40 percent from the 1987 base year by the year 2000. While U.S. and Japanese energy demand growth is forecast at 1–2 percent a year during this period, growth in the Asian NIEs, ASEAN countries, and China is forecast at a high 4–6 percent. Specifically looking at electrical power consumption, it is expected that consumption in this region will grow 60 percent larger from the 1987 base year by 2000, including 180 percent growth in the Asian NIEs, Asian countries, and China. Given this projected growth and the need to avoid a global warming caused by carbon dioxide emissions from the burning of fossil fuels, it is essential to ensure that there is no anxiety over the adequacy of

supplies, including discussion of the issue of nuclear energy and the development of sustainable alternative energy sources.

At the same time, every possible effort must be made to ensure that economic growth in the developing countries is not accompanied by environmental destruction. It is thus encouraging that the Japanese government has pledged \$2.25 billion in Overseas Development Assistance over the next three years specifically to environmental conservation. Over the past twenty years, Japan has succeeded in reducing the amount of sulphuric acid gas in its atmosphere to one-sixth what it was two decades ago, and it is important to share this environmental policy experience with the developing countries. As the developing countries industrialize and urbanize, increasing attention will also have to be paid to housing and public sanitation.

I have been taking part since 1984 in the activities of the United Nations World Commission on Environment and Development (WCED) headed by Norway's Gro Harlem Brundtland—prime minister for much of this period. In 1987, this commission issued a report (*Our Common Future*) arguing the need for sustainable development—which it defined as development that “meets the needs of the present without compromising the ability of future generations to meet their own needs.” Almost as if unleashed by this report, there has been an outpouring of interest in the global environment, as evidenced by the fact that the 1988 Toronto Summit Economic Declaration expressly endorsed the WCED report and the fact that 1989's Paris summit devoted nineteen of its fifty-six paragraphs to the environment and a call for worldwide cooperation in resolving global environmental issues. Likewise, the Tokyo Conference on the Global Environment and Human Response toward Sustainable Development held in September 1989 produced a chairman's summary calling for international scientific cooperation to solve global environmental issues.

Because the Asia-Pacific region includes such a diverse wealth of situations—developing and industrial countries, resource-rich and resource-poor countries, and densely populated and sparsely populated countries with very different geophysical and climatological conditions and different historical, social, ethnic, cultural, and other heritages—cooperation on global environmental issues in this region could well serve as a model for more broadly based international cooperation.

The problems affecting the Asia-Pacific region cannot be resolved by any one country acting alone. Rather, they require a concerted effort based upon a realistic assessment of the different countries' capabilities and the problems' seriousness. And given the fact that this region has achieved its economic dynamism largely through export-oriented growth, it is clear that this regional cooperation should not degenerate into an inward-looking regionalism or the formation of an economic bloc but should be premised upon the promotion of

global free trade and should support progress in the General Agreement on Tariffs and Trade (GATT) Uruguay Round. This in turn leads us to a discussion of the systemic framework or *modus operandi* for regional cooperation in Pacific Asia. It is essential that regional objectives and global objectives be compatible, for only then can the strengthening of the international trade and economic systems be achieved.

A good start has already been made on building the systems and institutions for Asia-Pacific cooperation. In 1968, the academic-oriented Pacific Trade and Development (PAFTAD) Conference began in Tokyo to discuss, among other things, Professor Kiyoshi Kojima's 1965 proposal for a Pacific free trade area. In the same year, the region's industrialists started the Pacific Basin Economic Council (PBEC). About a decade later, in 1979, Peter Drysdale of Australia and Hugh Patrick of the United States proposed the establishment of an Organization for Pacific Trade and Development (OPTAD), and Prime Minister Masayoshi Ohira of Japan put forth his Pacific Basin Cooperation Concept. It was this Pacific Basin Cooperation Concept that served as the basis for the agreement with Prime Minister Malcolm Fraser of Australia to host the Pacific Community Seminar (the Canberra Seminar) at Australian National University in September 1980, out of which the Pacific Economic Cooperation Conference emerged. And in 1989 there was another significant step forward with the holding of the ministerial-level meeting on Asia Pacific Economic Cooperation (APEC) in Canberra in November. This was the first ministerial-level meeting of its kind.

Background to APEC

Having served as an advisor to the Japanese delegation to the APEC conference, I would like to say a few words about this meeting. Actually, this APEC meeting was first proposed by Australian Prime Minister Bob Hawke in his "Regional Cooperation: Challenges for Korea and Australia" speech in Seoul in January 1989. At that time, Japanese opinion was divided, supporters citing the need for government-based regional cooperation and go-slowers worried about what the ASEAN reaction would be and wondering how APEC would fit in with the PECC's tripartite structure of government officials, businesspeople, and academics. In fact, opinion in the ASEAN countries, both governmental and private-sector, was also divided. However, with Australian efforts to allay these concerns and with the support voiced by U.S. Secretary of State James Baker III in his June 1989 "A New Pacific Partnership: Framework for the Future" speech, it was finally possible to hold the APEC meeting in Canberra in November 1990.

As envisioned in the original Hawke proposal, the APEC was to be modeled on the OECD, with provision for a ministerial meeting and a standing

secretariat. As proposed, the group would have excluded the United States and Canada at first but allowed them to become members later. It was finally concluded that the United States and Canada should be included from the beginning and that an effort should be made to avoid duplicating the work of the ASEAN, PECC, and other existing organizations, thus making it possible for all the ASEAN members to attend the conference. Even so, Indonesian Foreign Minister Ali Alatas spoke for ASEAN at the APEC meeting when he emphasized the need to make use of the ASEAN secretariat based in Jakarta and ASEAN's annual ministerial meetings with the dialogue partners. Several countries attending the APEC conference were unenthusiastic about linking the group too strongly to the ASEAN base, however, and a compromise was reached whereby further APEC meetings will be held alternately in ASEAN countries and non-ASEAN countries; in addition, the ASEAN secretariat was made an APEC member along with the twelve participating governments.

One reason for ASEAN's concern about these organizational details is that the creation of a strong institutional base for Pacific cooperation could well eclipse ASEAN in the region. This concern was also evident at the time of the 1980 Canberra Seminar, when a few of the Southeast Asian participants expressed the fear that the creation of a new organization for Pacific cooperation would tend to impact negatively on the future of ASEAN, which had been a Southeast Asian initiative, or that the new organization would be a cover for regional domination by such powers as Japan and the United States. These same concerns were still alive a decade later in 1989. However, the experiences of the last decade have given the ASEAN countries greater confidence in their economic development and greater awareness of the need for broader regional cooperation in light of the rapid increase in Pacific intraregional trade. It is significant that the Republic of Korea was a strong supporter of the APEC proposal from the very beginning, not merely because it grew out of a speech that Prime Minister Hawke made in Seoul but rather because Korea now feels itself an important player in the Pacific able to provide technical, capital, administrative, and other cooperation and assistance to the nations of Southeast Asia.

Indicative of the strong interest in Asia-Pacific cooperation, the November 1989 APEC meeting was attended by twenty-three leading ministers of state from twelve countries—the six ASEAN countries plus Australia, Canada, Japan, South Korea, New Zealand, and the United States—and had ASEAN, PECC, and the South Pacific Forum attending as observers. Although it proved impossible this time to include China, Hong Kong, and Taipei, their participation at future meetings was encouraged. Paragraph 24 of the Summary Statement by chairman Gareth Evans, Australian minister for foreign affairs and trade, carefully states this issue as follows: "Ministers have noted the

importance of the People's Republic of China and the economies of Hong Kong and Taiwan to future prosperity of the Asia Pacific region. Taking into account the general principles of cooperation identified above, and recognizing that *APEC is a non-formal forum for consultations among high-level representatives of significant economies in the Asia Pacific region*, it has been agreed that it would be desirable to consider further the involvement of these three economies in the process of Asia Pacific economic cooperation'' (emphasis added).

The second APEC meeting was held, as agreed, in Singapore in July 1990, and the third meeting was scheduled for October 1991 in Seoul, South Korea. On the question of establishing a permanent secretariat, it was felt that this would be premature and that the arrangements for the next one or two ministerial-level meetings should be made by senior officials from the participating economies, similar to what is done for the Group of Seven (G-7) meetings. The APEC meeting also agreed on utilizing the capabilities of ASEAN, PECC, and other organizations and on a number of principles for Asia-Pacific economic cooperation, including (1) opposing the creation of trading blocs and supporting the GATT Uruguay Round, (2) respecting the region's diversity and promoting gradual cooperation, and (3) emphasizing consensus among the participating countries and stressing common interests to achieve mutual benefits.

A few days after the APEC meeting adjourned, PECC met in Auckland, New Zealand, and I had the pleasure of attending as chairman of the Japanese National Committee for PECC. Counting the Canberra Seminar as the first meeting, this was PECC's seventh meeting—previous meetings have been held in Bangkok, Bali, Seoul, Vancouver, and Osaka. As mentioned earlier, PECC has a distinctive tripartite structure of government officials, businesspeople, and academics, and it is a flexibly structured nongovernmental international body. The fifteen PECC members are the six ASEAN countries, the five Pacific industrial countries (Australia, Canada, Japan, New Zealand, and the United States), South Korea, China, Chinese Taipei, and the South Pacific island countries as a single member. China and Chinese Taipei have been full members since the fifth meeting in Vancouver in 1986.

As the PECC's work has progressed, it has seen fit to establish a number of subgroups to study specific issues and sectors. Among the older ones are the trade policy forum, the minerals and energy forum, the task force on fisheries development and cooperation, and the task force on agricultural trade policy and development. At the most recent meeting, it was decided to supplement these groups with four new task forces: the Pacific Island nations task force, the science and technology task force, the triple-T task force, and the task force on tropical forest cooperation. Because environmental issues are relevant to the

work of all the task forces and forums, because there is such worldwide interest in the environment, and because PECC obviously has to deal with this issue, it was decided to convene a meeting of experts from around the globe to identify those issues most appropriate to the Pacific region and the PECC format and then to work from that to ensure that the activities of the different forums and task forces are compatible with global environmental concerns.

PECC's future and its relationship to the newly established APEC was also a major subject of discussion at this seventh meeting. While some people had initially expressed concern that the establishment of the APEC might make PECC less important, it was felt that PECC's distinctive tripartite structure makes it uniquely useful, especially in giving government policy access to the expert views of academics and industrialists, and that PECC cooperation is essential to the future functioning of the APEC.

Consistent with its effort to encourage broad-based participation, PECC has enabled Pacific coastal states that are not full members of PECC itself to take part in the work of its forums and task forces. In the eighth PECC General Meeting held in Singapore in May 1991, Hong Kong and the three Latin American countries of Mexico, Chile, and Peru were represented for the first time as regular members. While it will clearly be necessary to discuss the possibility of expanding PECC membership, given the membership applications received from the Soviet Union, Colombia, and Papua New Guinea, this has been postponed to the September 1991 Standing Committee meeting in San Diego to give the national committees time to study this issue.

If we are to promote increased economic cooperation, it is essential that there be effective frameworks for policy coordination, both regional and international. While there are a number of institutional issues involved here, I believe that, since regional initiatives can at times prove effective in the quest to achieve global objectives, these consultations to bring the shared interests of the very diverse Asia-Pacific countries together and to discuss regional policies for effectively promoting intraregional trade and supporting development efforts will continue to be very important. In that sense, Asia-Pacific cooperation is replete with factors that make it a model for international economic policy and coordination. While both APEC and PECC are currently facing membership questions, decisions firmly reaffirming the openness of the Asia-Pacific to the rest of the international community are crucial for emphasizing the importance of globalism in the face of the European Community's Project 1992 integration and the increasing U.S. propensity to bilateralism and protectionism.

8. Changing Patterns of Economic Interaction

D.W. NAM

Northeast Asia is known to be one of the most economically dynamic regions in the world. This dynamism is accompanied by major changes in economic relations among the market economies in the region and the United States. The relative positions and roles of the major players are changing, and this change entails acute economic frictions and need for adjustments. Moreover, China's economic reform policies (dating from 1978) and the Soviet Union's recent perestroika initiatives under the leadership of President Mikhail Gorbachev have brought about profound changes in the geopolitical landscape in Northeast Asia, with far-reaching implications for economic relations, both within the region and with the United States.

This paper reviews these changing patterns of economic relationship and considers the prospects for economic cooperation among the economies of the region in the light of those changes. In this paper "Northeast Asia" is defined to include the People's Republic of China (PRC), the Soviet Union, Japan, South Korea, North Korea, Taiwan, and Hong Kong. Since Taiwan and Hong Kong are not regarded as sovereign states, the terms "economies" will be used in place of "countries" to refer to the geopolitical entities in the region.

Why treat Northeast Asia as a unit for economic analysis? Apart from geographical proximity, the geopolitical interaction among the major powers (Japan, the PRC, the Soviet Union, and the United States) has been sustained and intense over the course of centuries. Around the turn of this century, two major international wars—the Sino-Japanese (beginning in 1894) and the Russo-Japanese (beginning in 1904)—took place exclusively in this region, with Korea as the principal theater of operations. The more recent and far more important conflict, the Pacific theater of World War II, involved an extraregional superpower—the United States—as a principal participant, as well as the three Northeast Asian powers, and brought about, among other things, the liberation of Korea from Japanese colonial rule, only to be followed by the

tragic division of Korea's territory into two parts. This, in turn, led to the Korean War, involving the United States and China as major participants as well as fifteen other nations, which participated under the U.N. flag. Thus, it may be said that Northeast Asia has been a center of great power rivalry at least since the later nineteenth century, with the Korean peninsula as its focal point. This historical background has overshadowed economic relations and still remains as one of the major factors defining economic interaction in Northeast Asia, as will be discussed later.

Several other factors also combine to give Northeast Asia a distinctive politico-cultural character. First, except for the Soviet Union, the countries or economies of Northeast Asia all fall within the sinic cultural sphere, as identified by Toynbee and other scholars. More specifically, China, Japan, Korea, Taiwan, and Hong Kong have all been deeply influenced by both Confucianism and Buddhism. Confucian culture is often cited as partly responsible for the rapid growth of the market economies of the region, while it is also often seen as a partial explanation of the paternalistic and authoritarian tendencies in political and social life throughout the region.

Second, both major Communist powers are represented in Northeast Asia, as is their ally, North Korea. Indeed, in no other area along their long common border do the political and economic interests of the Soviet Union and China so clearly intersect. The wide-ranging economic transformations now taking place in the USSR and the PRC bear directly on the future of economic relations within the region.

Third, Northeast Asia is also characterized by the active, long-term, and massive involvement of an extraregional power, the United States, in its economic and political affairs. The interaction of the United States with each of the four regional countries has been very different and will be examined later in this paper.

Fourth, Northeast Asia is the only subregion within the broader Asia-Pacific region that has not yet established a multinational framework of political or economic cooperation such as the Association of Southeast Asian Nations (ASEAN).

Market Economies

Since the 1960s, trade relations among the United States, Japan, and the East Asian newly industrializing economies (NIEs), in particular, have grown rapidly on the strength of differing factor and resource endowments and a favorable pattern of comparative advantage among these economies.¹

¹ This section draws mainly from Seiji Naya et al., "Pacific Economic Cooperation in the Global

After World War II, the United States provided the main impetus for economic development in non-Communist East Asia, including Northeast Asia, by exporting its capital, technology, and managerial skills and importing large quantities of goods manufactured by those countries' "infant industries." Even today, the United States is the largest single national market for the export of Japan and the NIEs, notably South Korea, Taiwan, Hong Kong, and Singapore. In 1989, the U.S. market absorbed 34 percent of Japan's exports and a slightly smaller share of the exports of the NIEs, virtually all of which were manufactured goods. Indeed, the export-led growth of these countries would not have been possible without access to the huge U.S. market.

The U.S. market is also becoming increasingly important for China as a source of capital goods as well as an absorber of China's labor-intensive products such as textiles. Between 1980 and 1990, two-way trade between the two countries increased from \$4.7 billion to \$11.7 billion. In contrast, trade between the United States and the Soviet Union has been erratic and stagnant, within the range of a few billion dollars during the 1980s.

In contrast to the United States, Japan has provided a very limited market for the exports of its major trading partners in the region. In 1989, Japan accounted for 12 percent of U.S. exports, up from 9.4 percent in 1980. Japan's share of total exports of the Northeast Asian developing countries, including China and North Korea, was 17 percent in 1989, an increase from the 7 percent recorded for 1980. The Japanese market has been far less significant to the Soviet Union, whose exports to Japan have not increased appreciably for the past ten years.

However, Japan has been a major factor in the development of the Asian NIEs through its exports and investment in return for access to the natural resources and the rapidly growing markets of the region. Much as the United States did in an earlier period, Japan has provided the developing countries of East Asia with financing, capital goods, and technology to assist their overall economic development and, more particularly, development of export- and natural resource-based industries. Not surprisingly, these countries have tended to follow the Japanese model, beginning with exports of labor-intensive commodities and shifting to more skill- and technology-intensive exports as their economies developed.

The expansion in trade has been accompanied by rising regional investment flows. The United States had been a major source of international capital until it turned into a deficit country in the early 1980s. Now Japan has taken over the

Context: Macroeconomic Structural Issues of Trade, Finance, and the Adjustment Process," a paper prepared for the seventh PECC general meeting, in Auckland, New Zealand, November 12-15, 1989 (Honolulu: East-West Center, 1989). See also Edward J. Lincoln, *Japan's Economic Role in Northeast Asia* (New York: The Asia Society, University Press of America, 1987), 17-60.

position of major supplier of capital, much of which is concentrated in the United States. Japan accounted for more than 30 percent of capital inflows into the United States in 1988 and 24 percent in 1989. The inflows of \$84 billion far surpassed the \$56 billion coming into the United States from the European Community (EC).²

Japan and the United States are also the largest investors in the Asian NIEs and ASEAN countries. The appreciation of the yen, the new Taiwan dollar, and the Korean won has propelled investment flows even faster. To reduce production costs, Japanese, Taiwanese, and Korean firms are investing heavily in manufacturing facilities in the ASEAN countries and seeking investment opportunities in China and the Soviet Union.

Thus economic relationships in trade and investment in the United States–Northeast Asia region are now undergoing major changes. The U.S. role as a market for Asian exports and its capacity to serve as a source of finance are decreasing, though its direct investment and technology exports remain important for regional economic development as a whole. On the other hand, Japan is becoming a leader in new technologies, increasing its intake of manufactured exports from Asian countries aided by the new policy emphasis on domestic-oriented growth. It is also expanding its financial flows in the forms of Official Development Assistance (ODA), direct investment, and loans to Asian developing countries, although the total amount is dwarfed by its capital exports to the United States and the European Community. The NIEs are losing comparative advantage in labor-intensive manufactures and are shifting to more sophisticated products. They are also becoming suppliers of capital in their own right. China, likewise, is moving to expand its exports of manufactured goods, and its demand for imports of capital, technology, and durable goods is increasing.

The emergence of these new relationships has been characterized by growing trade imbalances between the United States and Japan and the United States and the NIEs. The United States has accumulated a large trade deficit, 68 percent of which was accounted for by Japan and other Northeast Asian economies in 1989. The large, chronic trade deficits that the Asian NIEs and other developing countries have with Japan have also been a major problem affecting economic cooperation in the region. Trade imbalances between the United States and Japan and between the United States and the NIEs have been a source of friction and increasing protectionist measures in the United States, culminating in the Omnibus Trade Act of 1988. Moreover, the U.S. need to finance its deficits by foreign borrowing or by encouraging inflows of foreign

² Naya, 6.

investment has brought about an added imbalance of financial flows which again can be a source of tension.

The Reforms in China and the Soviet Union

The economic reforms in China since 1978 and the adoption of perestroika in the Soviet Union have added a new dimension to regional economic relationships. In each country the objective is to transform a nonmarket economy into a market-oriented economy. But there are considerable differences in their approaches and achievements thus far and in the problems faced by the governments of the two countries. The enormity of the tasks facing the reforming governments is daunting, and the chances of success remain uncertain; but their external economic relations with the market economies in the region, including South Korea, have been expanding in the area of trade and investment in recent years.

By way of comparison, in economic reform, China is better situated than the Soviet Union not only because China initiated reform programs about a decade earlier than the USSR but because of other factors as well. First, it is often said that in terms of national character and other cultural factors the Chinese people are more adaptable to political and social change than are the peoples of the Soviet Union. Second, given the weight of seventy years of the "indigenous" Soviet system, as compared with China's mere forty years (including the ten-year period of "Cultural Revolution") of experience with a Communist system "transplanted" from the West, Soviet society has been rendered less flexible because of the entrenched interests of both the ruling elite and the humbler orders of society. Third, China could draw upon the experience of Hong Kong, Taiwan, and some ten million overseas Chinese spread over the Southeast Asian countries, whereas the Soviet Union lacks such transplanted exemplars of the market economy. Finally, there are key differences between the two reform strategies. China began with agricultural reform and achieved remarkable successes, freeing people from the scourge of hunger, while the Soviet Union placed more emphasis on nonagricultural changes.

The Market/Nonmarket Relationship

The economic relationship between the market and nonmarket economies has been and still is conditioned by highly intricate geopolitical obstacles that impede expansion of trade and investment between the two sides. For example, the United States and Japan imposed economic sanctions on China for two years as a political response to the Tiananmen Square incident of June 1989, and Japanese-Soviet economic cooperation is still held hostage to the northern territories issues. The triangular economic relationship among the PRC,

Taiwan, and Hong Kong is also delicate and uncertain, because of the political relations between Taiwan and the mainland. Furthermore, the scheduled British transfer of Hong Kong to the PRC in 1997 poses serious problems for Taiwan.³ The relationship between South and North Korea is even less promising, without any sign of breakthrough in the stalemate that has lasted for more than four decades.

Finally, but most importantly, U.S.-Soviet economic relations have been characterized by what may be called political protectionism. On the Soviet side, protectionism is an integral part of its economic system: everything is under the strict control of the government. On the U.S. side, selected protectionist policies have less to do with economic theory than with other issues; they are directed at perceived Soviet threats to national security and to American values, such as human rights. Consequently, the United States has implemented a number of restrictions on the Soviet Union (involving trade, technology, and financial flows) for political reasons during the 1980s.⁴

Fortunately, however, the economic relationship between the market and nonmarket economies is improving. Trade and investment have expanded as a result of the economic reforms under way in the PRC and the Soviet Union and the generally cautious but positive response to it from the United States, Japan, and other neighboring economies in the region. In this connection, the Malta and Washington summit meetings (December 2, 1989) augured well for closer economic cooperation between the two superpowers.

Given this general picture of changing economic relations in the region, what are the major challenges to enhancing economic cooperation in the region as a whole? Four major areas draw our particular attention.

Macroeconomic Adjustment

The foremost task facing the region today is to reduce trade imbalances among the United States, Japan, and the NIEs. These imbalances are a major source of protectionism and economic friction in the region. This problem has many facets and requires adjustments in both domestic and external government policies.

Looking at the problems involving the United States, it is important to recognize that the chronic, large U.S. trade deficits are mainly attributable to three major factors: (1) fiscal deficits and overconsumption, (2) deterioration of the international competitive power of U.S. industry, and (3) economic

³ See Ralph N. Clough, "Taiwan's Relationship with Hong Kong," in *Taiwan in a Time of Transition*, ed. Harvey Feldman and Ilpyong J. Kim (New York: Paragon, 1988), 223-31.

⁴ See Richard F. Kaufman, "U.S.-Soviet Trade Policies in the 1980s," a paper prepared for the Twelfth International Workshop on East-West European Economic Interaction in Athens, Georgia, April 1-6, 1989.

stagnation of the debt-ridden Latin American countries, which are traditional major U.S. export markets.

The principal policy efforts of the United States have been directed to currency realignment vis-à-vis the trade surplus countries, combined with protectionist trade policy and pressure on Japan and the NIEs to further open up their markets to U.S. goods and services. There have also been some measures aimed at reducing fiscal deficits and improving industrial productivity. Yet there has been no significant reduction in the massive U.S. current-account deficits. The lesson to be learned from these experiences is that unless the United States changes its underlying macroeconomic policies—cutting the budget deficit and increasing savings—reducing or even eliminating the U.S. trade deficit with Japan and the NIEs would not substantially alter the overall U.S. trade balance.

Clearly, trade balance cannot be accomplished by one nation acting in isolation. It can be achieved only through cooperation and coordination of relevant policies by all the principal players. In the case of Japan, this requires a major shift of economic priorities in favor of a more open domestic market and more expansionist fiscal and monetary policies. To some extent, Japan is already moving in this direction, as reflected in its rapidly growing volume of imports from the United States and the developing countries. But continuing policy efforts by Japan in this direction are crucial to reducing its surpluses not only with the United States but also with the Asian NIEs, whose economies would be most vulnerable to the deflationary effect of U.S. policy adjustment aimed at reducing the twin deficits.

The increasing role of Japan as an absorber of exports from Asian developing countries is well reflected in the share of manufactured imports in total Japanese imports, which grew from 27 percent in 1983 to 49 percent in 1988.⁵ However, the increase in manufactured imports has been concentrated on a few items such as iron products, ceramics, leather, and wooden items; imports of more sophisticated products, such as machinery and transport equipment, remain minimal. Hence, Japan has a long way to go in strengthening its capacity to absorb foreign goods in favor of correcting its trade imbalances with the United States and the Asian developing countries. In this connection, it is hoped that valuable results emerge from the current bilateral negotiations between the United States and Japan on the so-called Structural Impediments Initiative. The thrust of these talks is to remove barriers to trade, such as the bias against imports inherent in the distribution system and other restrictive practices.

⁵ Naya, 17.

As for the NIEs, both Korea and Taiwan substantially opened their home markets to manufactured imports, while revaluing their currencies upwards by 25 and 52 percent, respectively, between the Plaza Accords of September 1985 and the end of 1989. Korea and Taiwan together with Japan are expected to play active roles in restoring their trade balances with the United States by continuing to open their markets to foreign goods and services and by better protecting intellectual property rights of foreign companies to facilitate technology transfers.

Industrial Adjustments and Division of Labor

The major source of economic dynamism in the Northeast Asian region has been trade expansion based on international division of labor—a division of labor that is a response to shifting patterns of comparative advantage among the countries in the region. Large exchange rate realignments have enhanced changes in the pattern of comparative advantage that have occurred in the Asia-Pacific region. They have forced Japan to restructure its economy at an even faster rate toward more high-tech intensive goods and have pushed many Japanese firms producing standardized goods to relocate their plants abroad. The appreciation of the new Taiwan dollar and the Korean won, combined with escalation of wage rates at home, has propelled Taiwanese and Korean firms to invest in manufacturing in the ASEAN countries and to seek investment opportunities in China and the Soviet Union. This adjustment in response to shifting patterns of comparative advantage contributes to the industrialization of the Asian developing countries and increases their interdependence. However, the necessary adjustment is often hampered by the vested interests of declining industries and the short-term political gain of protecting them. A concerted international effort is necessary to facilitate industrial adjustment in line with shifting comparative advantage.

Increased participation by China and the Soviet Union in Asia-Pacific trade is likely to have a great impact on the pattern of specialization and trade in the region. First, China has little choice but to specialize in labor-intensive goods, and, given the sheer size of its population and economy, China can easily flood world markets with cheap goods, even though its export capacity is constrained by the need to supply the domestic market. In this way, China will increasingly affect the export position of the ASEAN countries and, to a lesser degree, the Asian NIEs, creating potential sources of economic friction. Already, China has been subject to antidumping actions by the EC resulting from socialist pricing practices.

Second, primary resources exported from China (such as cotton, crude oil, coal, and metal including scrap metal) and from the Soviet Union (such as timber, mineral fuel, and metal ores) to neighboring Japan, Korea, and Taiwan

will compete with similar exports of the resource-rich Pacific countries such as the United States, Canada, and Australia. Unless the Japanese and Korean economies continue to grow fast enough to absorb the additional supply from the newcomers without prejudice to their traditional suppliers, such exports may also become a new source of economic friction. To minimize this sort of friction, international economic consultation and cooperation may be needed to help the socialist countries diversify their exports and participate more fully in the open international trading and financial systems.

Investment Pattern

Direct investment by the United States and Japan has been critical in the economic development in the Asia-Pacific region during the past three decades. From the Asian point of view, however, there are some less-than-desirable aspects of the foreign investment pattern of the "big two." One issue is the place the Asia-Pacific region occupies in global direct foreign investment. The bulk of U.S. investment is in Canada and Western Europe. Indeed, a greater share of U.S. investments is in Latin America and the Caribbean than in the Asian NIEs, China, and ASEAN. Japan's volume of foreign investment has also been concentrated in the United States, the EC, Latin America, Canada, Australia, and New Zealand, only 17 percent of total investment in 1981 through 1986 going to other Asian countries.⁶

Japan's investments in Asian developing countries are widely thought to represent an attempt by Japanese firms to secure the supply of natural resources, to evade protectionist policies, to strengthen their foothold in these markets, and in recent years, to establish supply bases for their own domestic market. As for Japan's investments elsewhere, there is a growing perception that Japanese foreign investment represents more of a problem than a solution. Japanese investment in real estate and takeovers of existing enterprises are often seen as "takeovers" of "national assets" and are perceived as making little contribution to the economic growth of the country concerned. From the perspective of regional cooperation, it can be argued that a much greater amount of Japanese and U.S. investment should find its way to Asian developing countries, including China and the Soviet Union, making greater contributions to regional economic development as a whole.

Accommodation of Nonmarket Economies

Another challenge facing the Northeast Asian countries and the United States is how to incorporate China, the Soviet Union, and perhaps eventually

⁶ Ministry of Finance, Japan; U.S. Department of Commerce; and *Survey of Current Business*, June 1989.

North Korea into the international market system, assuming that these non-market economies make continued progress toward political and economic pluralism. The market-oriented countries must understand that the reform process will in no way be an easy task, and that it may experience setbacks, stagnation, and even retrogression. Insofar as the change in the Communist countries is believed to be irreversible, the market-oriented countries can well afford to show patience over the gradual progress of reform in the former. In this context, it is encouraging to hear that the Soviet Union plans to adapt the Chinese system of special economic zones for use in the Soviet Far East as a means of introducing elements of the market economy in cities or regions segregated from the rest of the economy. This experiment may prove to be a realistic approach to transforming the Soviet economy in a more orderly manner. It could avoid the economic chaos that might result from a radical departure of the whole economy from existing institutions and practices. It is also often suggested in the international community that the Soviet Union should play a greater role in the international economic system by participating in multilateral organizations such as the World Bank (International Bank for Reconstruction and Development—IBRD), the Asian Development Bank (ADB), and eventually, the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT). Such a role would also, presumably, at some point entail the adoption of ruble convertibility.

Although economic cooperation with the nonmarket economies cannot be insulated from the political and security concerns of the countries in question, it is also true that economic cooperation extended to socialist countries provides better opportunities for cooperation in political and security areas by facilitating their evolution toward pluralism, which in turn would enhance economic interdependence between the two groups.

What, then, could be a feasible approach to economic cooperation with the socialist countries engaged in political and economic restructuring? There are several promising approaches. Former U.S. national security adviser Zbigniew Brzezinski urges the West and Japan to undertake a “comprehensive program of staged economic and technological assistance” to foster peaceful transition within the Communist world.⁷ He further suggests that special training and exchange programs for political leaders in the reformed Communist systems may be needed to familiarize them with the details of, *inter alia*, parliamentary procedure and operation. Western nongovernmental actors such as trade unions, press associations, environmental groups, and others have greater opportunity now than ever before, he argues, to forge links with their incipient

⁷ See Zbigniew Brzezinski, “Ending the Cold War,” *Washington Quarterly*, Autumn 1989.

counterparts in Eastern Europe. Brzezinski's suggestion may also be applied to China and the Soviet Union with necessary modifications.

Second, economic cooperation requires harmonization of the interests of all the countries involved. This consideration is important in view of the complex intersecting of strategic interests in this region. No country in the region wants economic domination by any single nation. China, for example, has been mindful of avoiding excessive economic dependence on Japan as reflected in its import controls vis-à-vis the latter. In spite of its increasing role in the region, Japan has been inhibited in dealing with regional affairs and often exhibited a passive attitude, simply following the lead of the United States or other countries in the region for fear of creating the impression that it is attempting to revive economic domination over the region. However, there appears to be growing nationalist sentiment in Japan that its foreign policies should be more assertive and independent from the influence of the Western powers, the United States in particular.

Among other things, the Soviet Union wants to ensure safe passage for its vessels along the sealanes stretching from the Indian Ocean, through the Taiwan Strait and the Bashi Channel choke point, to Northeast Asia, which is known to be one of the focal points of Soviet naval strategy. At the same time, the USSR is seeking wider participation in the development process of the Asia-Pacific region in connection with perestroika. Given this situation, the role of the United States as a balancing power in Northeast Asia will in no way be diminished. On the contrary, the United States remains in many areas the single largest market for Asian countries, the country with the most advanced technology to share, and the military superpower guarding regional security. Furthermore, its intellectual leadership role is unmatched by any nation in the region, including Japan.

One implication of these observations is that multilateral, rather than bilateral, arrangements may be the best suited for regional economic cooperation. The multilateral approach would provide more and better opportunities for coordination of the economic cooperation programs of individual countries, maximizing the overall efficiency of these programs while minimizing political misunderstandings and suspicions that may arise in the case of bilateral dealings. This is an added reason why the Soviet Union should participate in international institutions such as the World Bank and the ADB, as recommended earlier.

This chain of reasoning leads to the fourth point: regional banks such as the ADB can and should do more to facilitate economic cooperation between the market and nonmarket economies in the region. Some thought, however, might be given to the possibilities of establishing in Northeast Asia a regional development bank that would not specialize only in financing development

projects in the region but would also serve as a catalyst—transplanting elements of the market system (business organization, accounting, trade practices, etc.) to nonmarket economies. All countries in the region, including North Korea, Mongolia, Taiwan, and Hong Kong, should participate in the bank, along with major Western nations, if they wish. The capitalization of the bank could be made in both hard and soft currencies of the participants, following the practice of various international institutions such as the IMF.

The basic idea underlying this proposal is to meet the specific economic needs of those countries in the unique geopolitical setting of Northeast Asia, which is not found elsewhere in the Asia-Pacific region. It is to be hoped that such an institution might contribute both to assisting economic transformation and to developing nonmarket economies in line with the free enterprise system and thereby help create economic conditions congenial for ending political rivalries in the region.

Finally, though Northeast Asia is the only subregional unit in the Asia-Pacific region without its own multilateral cooperative body, such a body does not appear to be either feasible or necessary, at least at present, in view of the heterogeneous political and economic systems under review and the different stages of economic development of the countries involved. In recent years the idea of forming free trade agreements between the market economies under consideration has been aired on both sides of the Pacific Ocean. Studies so far made, however, suggest that, although this may be desirable, it is hardly yet feasible, for the reasons cited above. What we might hope for at present, therefore, is an incipient form of cooperative organ such as a regional bank.

At any rate, it should be stressed that the Northeast Asian countries are expected to play an increasingly important role in the broader context of the Asia-Pacific region as a whole. As the current movement for Asia-Pacific cooperation embodied in the Pacific Economic Cooperation Conference (PECC) and APEC is based on the principle of nondiscrimination with other regions, any attempt at regional cooperation in Northeast Asia should not be prejudicial to Asia-Pacific cooperation. The scope for economic interdependence is far greater in the Asia-Pacific region than in the narrower confines of Northeast Asia.

In Conclusion—A Historic Opportunity

To summarize, what should be done by major players to resolve the macroeconomic imbalance among the economies involved is reasonably clear. To prevent further erosion of its leadership role in the region, the United States must reduce its fiscal deficit, increase domestic savings as well as industrial productivity, and promote a freer and more open international trading system.

Japan has to assume a greater leadership role, commensurate with its economic power, absorbing more goods and services from the United States and the rest of the economies in the region and making better use of its trade surplus in such a way as to stimulate economic growth and development and to promote the regional division of labor, more particularly a horizontal or interindustry division of labor, between countries in different stages of development. This approach would do much to help reduce the chronic trade imbalances between Japan and the rest of the countries in the region.

The Asian NIEs must continue their efforts to modernize their institutions and policy frameworks and to liberalize and open their economies to the international economic system. They should also expand their financial and technological contributions to the development of latecomers in the Asia-Pacific region on the basis of their own development experience and capabilities.

Let me conclude by stressing once again that the political and economic reforms in the socialist countries provide us with a great and historic opportunity for opening up economic exchanges on a vastly wider scale between the market and nonmarket economies. Such exchanges can bring us much closer to realizing the enormous regional potential for promoting common economic prosperity throughout the region and, above all, for ensuring that the former Cold War between the Communist and non-Communist worlds will never be resumed.

The chances of success for political and economic transformation in the socialist countries remains uncertain but it may well be irreversible, particularly in the area of economic reform. If so, it is then imperative that the market economies in the region extend their help to foster conditions conducive to the success of the socialist country's reforms. Since economic cooperation is inseparable from geopolitical interests, any approach to regional economic cooperation has to take this reality into consideration. It is therefore our suggestion that a multilateral, rather than bilateral, approach should receive greater emphasis and, from that point of view, some sort of multilateral coordinating mechanism may be in order, if not a subregional organization in the Asia-Pacific. A multilateral regional development bank could prove to be a viable candidate for that purpose.

9. Soviet Economic Policy in the Asia-Pacific Region

VLADLEN A. MARTYNOV

Defining the strategy of the USSR in the Asia-Pacific region (APR) we proceed from three obvious premises:

1. the growing importance of the region for global development
2. the USSR's new global approach to foreign economic relations
3. Soviet awareness that further development of the Soviet Far East depends on its integration with international economic systems

Within this context I draw attention to four issues:

1. assessment of the trends in the development of the Asia-Pacific region
2. the place the Soviet Far East occupies in the region
3. the basic features of the reform of the USSR's foreign economic relations
4. the development prospects of the economy and foreign economic relations of the Far East

Assessment of Regional Trends

The growth of the Soviet Union's interest in the Asia-Pacific region was caused by the fast-growing economic, scientific, and technological potential of the countries of the region. The countries of the Pacific, including the countries of Central and South America, now account for 60 percent of the world gross national product (GNP).

According to the majority of economic forecasts, the region will maintain dynamic growth rates to the end of the twentieth century and will be the "locomotive" of the world economy. According to our estimates, the average rates of economic growth of Asia-Pacific countries will reach 4 percent by the end of the century. A rise in per capita incomes will characterize all countries of the region. The horizontal division of labor in industry will develop extensively, and the interdependence of economies will intensify.

In our opinion, the future development of the region is closely linked to global problems, to the development of political and military-political processes in the world as a whole. Economic advance of the region is based on the presumption of political stability in this complex region. Tension continues, particularly in the Korean peninsula; a great number of interstate problems, including economic ones, are still to be solved. In a sense the Asia-Pacific region is the focus of all the global contradictions of today (East-West, North-South, North-North, South-South, East-East). Hence, the main task is to overcome economic contradictions and to guarantee a favorable political situation safeguarding peace.

Assessing the prospects for the region we proceed from the following assumptions:

- The United States retains its leading economic position in the world and will remain the principal partner of Asia-Pacific countries. Although the U.S. role in the region is decreasing, primarily as a result of Japan's growing economic influence, the U.S. continues to serve as a major market for most of the countries of the region.
- Japan's market potential is smaller than that of the United States, so it might in future assume the role of "architect" of the economy of the region, becoming a large-scale consumer of manufactured goods; serving as the source of technologies, finances, and investments; and becoming the base for educating managers and researchers for most of the countries of the region.
- Asian newly industrializing countries (NICs) (South Korea, Taiwan, Hong Kong, and Singapore), the economic might of which is rapidly growing, will exert considerable influence on the configuration of economic relations in the region.
- Developing countries that are members of the Association of Southeast Asian Nations (ASEAN) will continue to play an important role in the economy of the region. Recent years witnessed a rapid growth of such high-technology industries as shipbuilding, auto industry, electronics, petrochemistry, and a number of others. By a number of indicators of economic growth, Malaysia and Thailand reached the level of the NICs.
- Though symptoms of trade war are manifest and pose a serious threat to the countries of East Asia, on the whole, centripetal forces prevail in the region.
- Integration processes will intensify in the region (the experiences the countries of the region have had with regional cooperation in other areas—e.g., ASEAN—will facilitate such processes).

However, in our opinion, it is unlikely that in the immediate future any economic grouping similar to the European Economic Community (EEC) will

be formed in the Asia-Pacific region. Several factors impede the development of integration processes in the region. There are considerable differences in the level of economic development and per capita incomes of the countries in the region; also, a number of countries have a considerable external debt. There are also great differences in the cultures of the countries: the population of the Asian-Pacific region speaks numerous different languages and professes numerous different religions. Cultural exchanges have not been sufficiently developed. Intraregional trade—the level of relations between different economic groupings—is comparatively low. Nor have the processes of economic interdependence yet spread to the whole region—although the level of such interdependence is steadily rising.

We consider that Japan will become the focus of developing integration processes in the region. Contradictions between Japan and the other countries of the region have not been aggravated in recent years. This can be explained by the interest of the Asia-Pacific countries in Japan's market, capital investments, and technology. With the help of economic incentives, Japan tries to get the countries of the region more and more closely bound to itself, so that those countries to a much greater extent will depend on Japan rather than that Japan should depend on them. In our opinion, the idea of the government and business circles of Japan is to create in the western part of the Pacific a specific zone of regional cooperation involving Japan, the Asian NICs, and ASEAN. In some variants of the idea, it also includes the People's Republic of China (PRC).

The economic situation in the Asia-Pacific region will, we think, be determined by the two following cardinal factors: whether Japan, the Asian NICs, and ASEAN will be able effectively to adjust their strategy of development to the changing international economic situation; and how far the United States, Japan, and the other developed countries of the region will advance in the improvement of East-West and North-South relations, taking into account their long-term interests.

The Low Level of Soviet Trade

Anyone who even glances at a geographic map can see that the Soviet Union is the largest state in Asia and the Pacific. However, we have to acknowledge that our country's participation in the economic life of the region is, unfortunately, rather modest.

A comparison of the economic potentials of the states of the Western Pacific has not yet shown to the advantage of the Soviet Union. And the gap is increasing, both in the comparative rates of economic growth of the eastern part of the USSR and a number of adjacent countries and in the degree of their integration into regional economic relations. The share of the Soviet Union's trade relations with Asia-Pacific countries (including the PRC and other

socialist countries) amounts to only 8 percent of the total foreign-trade turnover. (It is 9 percent of export turnover and 8 percent of import turnover.) In contrast, these indicators for most of the countries of the region are between 50 and 80 percent. There is practically no trade between the Soviet Far East and the Pacific coast of the United States, although before 1917 this was the main channel of trade for our Far Eastern region.

It should be noted that in the 1980s, Soviet exports to developed and developing countries of the Asian-Pacific region did not grow, and imports even decreased. Soviet leaders are well aware of this disturbing situation. We realize that a delayed reaction to the profound changes in the economy of the Asia-Pacific region results in a number of detrimental effects: a slowdown of development; a decrease in the efficiency of intraregional economic relations; the intensification of structural and quantitative disproportions in the turnover of goods; and the USSR taking a lower place in the international division of labor in the region.

The Soviet Union is not a member of most of the regional and subregional organizations of Asia and the Pacific—only, in fact, of the Economic and Social Commission for Asia and the Pacific (ESCAP). Such a situation not only limits our possibilities but, in a number of cases, practically blocks the way to economic cooperation. Several factors—objective and subjective—underlie such a state of affairs.

First is the longstanding isolation of the USSR from the world market. The closed economy of our country is contrary to present standards in the international division of labor.

Second is the USSR's concept of economic development for the Soviet Far East. In this thinking, this region has been subject to the interests of the European part of the USSR (which constitutes less than one third of the territory of our country). In essence, this concept reduced the role of East Siberia and the Far East to being raw materials appendages of the industrial European part of the USSR. Until now, the Far East has been represented in the intra-USSR division of labor by mainly extractive industries, which process their resources only to a low degree. Three industries—mining (mainly of nonferrous and precious metals), timber, and fishing—make up more than 40 percent of the output of the Soviet Far Eastern region. The Far East accounts for 10 percent of total timber cutting and 40 percent of fish and sea products output. Such specialization considerably limits business relations with Asia-Pacific countries.

The perestroika policy in the Soviet Union outlines new qualitative goals for the Soviet economy. I would now like to describe briefly the USSR's plans for reform of foreign economic relations and for a new orientation of the economic development of Siberia and the Far East.

The Soviet Reform of Foreign Economic Relations

The principal aim in the development of the USSR's foreign economic relations is organic inclusion of the Soviet Union into the world economy. This aim will not be easily realized. We cannot immediately go over to an open model from the isolationism that has characterized our economy for many years. The experience of many countries—for example, Japan—testifies to this fact. Orientation toward the openness of the economy is a long-term matter. It goes without saying that we shall not be able immediately to structure foreign trade like that of the West European countries or the United States, but we shall take more drastic steps in this direction than previously.

We are already doing many things. We have adopted a series of legislative acts granting broad rights to enterprises and to regional and local authorities. Of course, immediate transition to such decentralization is impossible. But this process is inevitable, and our foreign partners will have to take into account this new situation one way or another. The range of potential partners has now become wider. In the present transition stage only a few enterprises have foreign trade rights, but in the near future these rights will be expanded.

But only one department will be engaged in licensing exports and imports. The economic situation in the Soviet Union is critical, and if we spread the licensing system it will be for essential goods only. The tax system will become one of the main instruments of regulation.

During the last two to three years, a whole series of decisions has been made to remove the most notorious administrative barriers to foreign economic relations for both Soviet and foreign firms. The first steps have also been made toward creating normal conditions for market relations; in particular, measures are planned for insurance services, foreign trade crediting, and some convertibility of the ruble (with a renouncement of differentiated currency coefficients from 1990 and a transition to a new exchange rate in 1991). Cost accounting and self-repayment cannot function without such measures.

The measures in regulating foreign relations have included the introduction of some incentives for joint ventures in the Far East (from April 1989), provisions for a number of advantages in economic relations with socialist countries, and a complex of permission measures that preserves, to a certain extent, economic assistance to developing countries.

But this transformation of economic relations with foreign countries is very slow. Many problems are caused by lack of an appropriate foreign trade infrastructure and skilled personnel. And finally, it should be taken into account that the restructuring of the foreign economic system is taking place within the restructuring of the whole economic mechanism, a restructuring that is still muddling through.

Factors Impeding Progress

Two groups of factors impede the progress of foreign economic relations. Their essence is that they hinder real exposure to the market. Until the real power of the market is introduced, it needs to be purposefully regulated.

The first group of impeding factors consists of the difficulties engendered by the pace of the general economic reform. The general and foreign economic parts of the program are disconnected. In the end, all the characteristics of the internal transformations are important for the foreign sphere: they include, among other things, price reform (price proportions and a pricing mechanism) that would favor the progress of relations with the external market; regulation of deficit commodity markets; development of the credit and monetary system; general regulation of investment and consumer demand; and distribution of centralized funds between these.

In the orientation of production toward the domestic market, it should be noted that the internal market deficit of all kinds of commodities and a real opportunity for enterprises to boost prices are becoming important factors.

One of the key problems of competitiveness—of both individual producers and the entire country—is the calculation of production costs, and this problem still has to be solved. Any structure of foreign economic relations optimum today will certainly be unfit when production-factor prices are reduced to a real basis. But only on such a base would it be possible to select an international specialization. This would activate industrial production, change the balance of supply and demand in certain commodity markets, and allow for interflow of investments and labor resources—as seen throughout the world.

The correlation of production factor prices generates distorted signals, and to this extent it is difficult to structure foreign economic relations.

The second group of factors impeding foreign trade and investment is to be found within foreign economic relations, and therefore it is influenced more easily. As in the case of internal reform, most problems ensue from deficits and are related to the search for ways to overcome them.

The main problem is that there is a deficit of foreign currencies for making payments. This can be alleviated through the development of currency crediting or the search for other kinds of settlements—often by barter. Currency crediting is more progressive, and it should be developed first. Steps have already been made in this direction. The sphere of potential sources of currency crediting has been expanded to include Soviet foreign banks and foreign banks, and the right to get currency credits has been granted to individual producers.

The task, under these conditions, is to change the structure of foreign economic relations while making the transition to market principles. At the same time, adjustments have to give comparable advantages in international

exchange. From our point of view, these advantages are conditioned by the relative cheapness and availability of manpower and natural resources and also by a developed research and development system (without, however, much applied research). All this indicates specialization similar to that of a developing country (labor- and resource-intensive products). The only difference is that pure technology could be an export. Technologies, capital, foods, raw materials, and consumer goods are becoming important imports.

We hope that new opportunities for foreign economic relations ensue from the conversion of military production into civilian. The conversion will release raw material resources, and these can be diverted to exports. Further, our defense-oriented industries can expand exports of high-tech products and technologies and can develop relations in science and technology.

A few words about the problems of foreign investments are in order. Both inside and outside the USSR, there is dissatisfaction with the low level of foreign enterprise capital. This form of cooperation is an important means of including the USSR in the world economy. However, at present, there are contradictions between the commercial profitability of investing in the USSR and the strategic goals of the West and the East. From the point of view of strategic goals, there is no doubt about the expediency of such investments. However, at present, commercial aspects of foreign companies' activities in the USSR are open to criticism, and in many respects it is justifiable. To what extent incentives for foreign investment will be enhanced depends on the course of economic reform and changes in the Soviet laws concerning ownership, including ownership of land. But many things could be done right now. It seems to me that the granting of concessions can become a really plausible way to induce large-scale investments of capital, technology, and know-how. In the 1920s this form was widely adopted in our country. Concessions were developed in various spheres of the economy, including engineering, although later on all these projects were halted. In my opinion, even under existing conditions, concessions can meet the interests of both the Soviet Union and foreign investors. Concessions can spread to mining, the timber industry, manufacturing, and services (for example, the hotel industry).

For this to work, it is necessary to have samples of such concessions, to show the usefulness of the projects to both the West and our industry. The best example is the production of commodities for the Soviet domestic market. We could guarantee the transfer of money dividends to a certain extent, provided that the concession was more profitable to us than importing the corresponding product.

In this connection, I would like to touch on the problem of convertibility of the ruble. It is often said that the basic obstacle to attracting foreign investments to the USSR is nonconvertibility. I believe that this may not be the case. The

basic obstacle is the same problem as that facing Soviet enterprises—the absence of a wholesale market and the absence of a money market. So it seems that (for both East and West) it would be expedient to stimulate foreign investments into the Soviet wholesale trade and banking. In that way, foreign investors could themselves help to create the conditions in which they could reinvest rubles in other profitable areas, including exports.

Convertibility of the Soviet ruble is a long-term task. History shows that countries introduce convertibility after having adjusted to the conditions of the world market. In my opinion, the most pressing problem at present is stabilization of internal money circulation—the restoration of confidence in the ruble.

Prospects for the Soviet Far East

The state program for economic development of the Far Eastern region, Buryat ASSR, and the Chita district up to the year 2000 was adopted in 1987. The plan calls for complex development.

This program would more than double industrial production by the year 2000 (an increase of 2.4-fold to 2.5-fold compared with 1985). The output of the machine-building industry would increase by 3.9-fold and that of agriculture by twofold. It is planned to invest about 200 billion rubles in the region by the year 2000.

In carrying out this plan we intend, of course, to lean on our own resources, but at the same time, the USSR will more actively use the advantages of the international division of labor. The program provides for significant growth in trade with countries of the Asia-Pacific region. Exports would increase more than threefold from 1987 to the year 2000. These are very big increases. During the previous fifteen years, exports increased by only 1.5-fold. These goals will be reached only with the active inclusion of the Soviet Union in the economic processes of the APR and with the development of trade and economic relations with all the countries of the region. The Soviet Far East should be considered as a natural zone for economic cooperation with APR countries. This goal is stressed in the plan, which sees the real economic opportunities of the Soviet Far East as being in enhancing the efficiency of its traditional direction. This is one of the short-term goals.

Up to the year 2000, the plan sees no cardinal change in the commodity structure of trade, even with the most favorable progress in all spheres including science. The marketing of manufactured goods, especially those of the machine-building industry, will be the least accessible to us. Active penetration into this market can come only after structural reconstruction of the Soviet economy (that is, not earlier than 2000).

Under these conditions, expansion (or preservation) of our position in the markets of the APR can be only in the areas of the processing of traditional fuels

and raw materials (timber, coal, oil, nonferrous and ferrous metals, building materials, etc.). To some extent, this also applies to exports of agricultural and ocean products.

The lack of labor resources in the Soviet Far East mandates the priorities. These are not to create powerful new productive facilities, but to reconstruct and modernize already available plants, maximizing labor-saving, efficient technologies. Help with this reconstruction and modernization could come from imports, cooperation, and scientific and technological relations with interested foreign partners. Joint ventures with foreign firms are being started. The best prospects are in timber processing, fisheries, "fish farming" and sea products, scrap processing, the building of cattle-breeding complexes, some food production, and hotels and tourism. Under favorable conditions, these could be joint ventures in resource-extracting industries (for example, the oil and gas industry, mining, etc.).

This kind of cooperation—joint ventures, industrial and scientific and technological cooperation, licensing and leasing of equipment—can be investigated locally. Territories and districts of the Soviet Far East have a degree of independence in relation to regional projects. As a rule, local executive organs and economic organizations know better than central industrial agencies about "small" forms of foreign economic relations. They can better solve emerging problems.

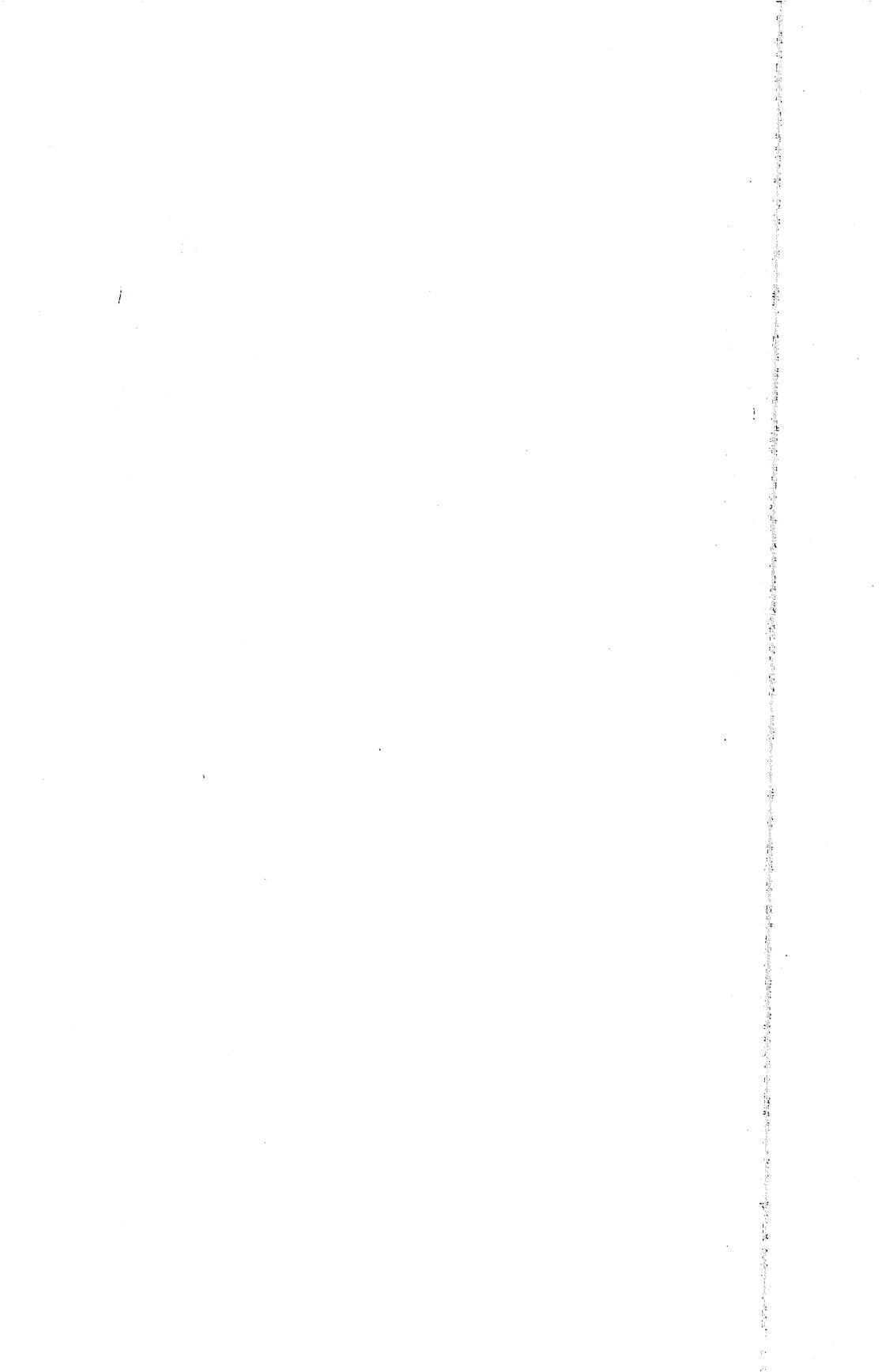
The decision has already been made to form special economic zones in the Soviet Union, including the Far East (the first zone has already been formed in the Nakhodka region). More such zones would favor USSR participation in the APR.

What is needed in the economic relations of the Far East is diversification. At present, the main trade partner is Japan, which takes 60–70 percent of the region's exports. The very structure of export production in the Far East was formed as a result of the orientation toward the Japanese market. It would be expedient to work with ASEAN and to expand direct economic relations with the new industrial nations of Asia, in particular with the Republic of Korea, Taiwan, and Hong Kong. In recent years, there have been noticeable attempts by Asia NICs to diversify by expanding relations with socialist countries. On the one hand, the Asian NICs export listings completely correspond to the internal demands of the socialist countries; on the other hand, the situation affords the opportunity for socialist countries to balance their trade, because the Asian NICs lack certain natural resources and are forced to import raw materials and fuels from abroad.

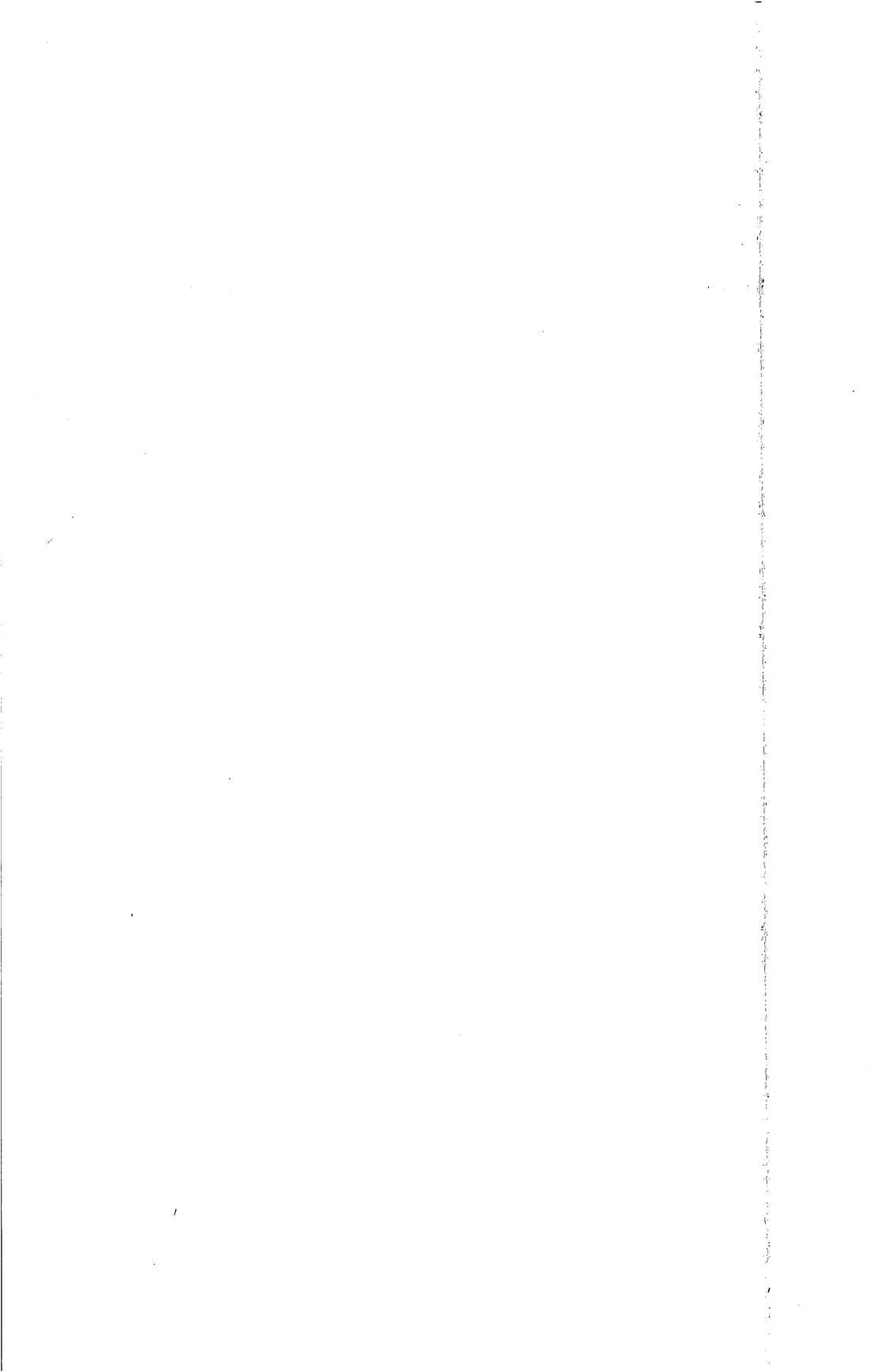
The Soviet Union is seeing a growing understanding of the need for international trade. Direct participation of Soviet enterprises and local authorities in foreign economic relations is emerging. The introduction of indirect

methods of regulating these relations helps the USSR in world markets. This direct practical interest tends toward participation in economic organizations which the USSR has not so far joined. The Soviet Union attaches serious importance to taking part in such multilateral regional organizations as PECC, ESCAP, the Pacific Basin Economic Council, the Asian Development Bank, and the Asia-Pacific Development Center. With this in view, we have not only to declare our interest in APR activity, but to develop a series of measures demonstrating our new approach toward the region. This is what we are doing.

We are well aware that improved political relations in Asia—and in the international situation as a whole—are necessary for economic relations between the Soviet Union and APR countries to grow. However, it seems to us intensification of economic relations can have a stabilizing feedback effect on these policies.



Part 3.
Military–Strategic Trends in the Region



10. Arms Control in the Vortex of the Pacific

ALEXEI G. ARBATOV

Most of the world's arms control experts gained their expertise in European or global negotiations—e.g., in Strategic Arms Limitation Treaty (SALT) talks. Hence they encounter many difficulties dealing with Asia, for the European experience is not only irrelevant in many cases, but even more: it serves as an illustration of how things cannot be done in the Asia-Pacific region (APR). If applied indiscriminately, the European model in Asia may at best prove to be worthless and at worst discredit the idea of arms control itself.

But first a definition of APR is necessary. *Asia-Pacific region* is too amorphous a notion to use without clarification. Central America's problems, for example, have little connection with the Persian Gulf's, although geographically both areas may be enveloped by "Asia-Pacific." In this paper, taking account of political and strategic interactions, the term will be used to cover Southeast Asia, Northeast Asia, and Western Pacific waters, with the focus of attention in the Far East.

Geopolitical and Geostrategic Framework

Military confrontation on the Asian continent and in the Pacific Ocean rates below that in the European region. Numerical levels of opposing armed forces are lower; the quantity and quality of weapons is lower; concentration of troops per area is lower; and the density of nuclear weapons at the potential theater of war is lower. For all that, the potential explosiveness of military confrontation in the APR is greater than in Europe because domestic political situations in many states of the APR, and political relations between them, are less stable. Many APR countries have territorial disputes; some are forever teetering on the brink of war or being embroiled in supporting rebel forces waging an armed struggle against a neighboring state. The origins of the hostilities—territorial, ideological, religious, economic, and political-moral—are to be found hundreds, even thousands of years in the past. And, unlike in Europe, the memories

of hostility are quite vivid in the minds of the peoples. Such relations all too often erupt into direct military conflicts.

In Europe, the military confrontation until 1989–90 had a distinctly bipolar character and a meridional configuration (north to south). The land forces and the air forces of the Warsaw Treaty Organization (WTO) and the North Atlantic Treaty Organization (NATO) were massed in the main zone of confrontation in Central Europe. This was complemented by the two alliances' naval interaction at the flanks — in the North Atlantic and in the Mediterranean. The two leading powers of the alliances, the United States and the USSR, while the main sources of forces and supplies, are in the deep rear of both sides, linked to their allies and the line of confrontation by ocean and land lines of communications.

Recent political events in Europe radically changed this geostrategic configuration. Consequently, the next state of arms control and security negotiations in Europe will require deep revision of traditional views and assumptions.¹ Still, even the success of the preceding period (the CSCE, CBMs, INF, and CFE-I agreements of the 1970s and 1980s, which limited continental ballistic missiles, intermediate-range nuclear forces, and conventional forces in Europe) was achieved by policies hardly applicable to the Asia-Pacific environment.

In the APR, the main zone of confrontation is a multipolar character and has a specific T-shaped configuration. The opposing fighting forces are massed in their separate regions. One confrontation area—that between the USSR and the People's Republic of China—runs latitudinally along their common border and then along the border between the PRC and Mongolia. Both land and air forces are deployed. Another area extends meridionally. On one side is the USSR (and to a smaller degree, the PRC); on the other, the United States and Japan. Here, naval and air forces are preponderant.

The APR also has two further subregional seats of military tension in which the great powers are involved—Southeast Asia and the Far East. Here, the intensity of the local conflicts, the military capability of the direct participants, and the degree of involvement of nuclear powers (the USSR, the United States, and the PRC) determine how potentially explosive these situations are.

It is not always realized how large are the armed forces involved in these “local” confrontations. For instance, the number of troops facing each other over the 200-kilometer-long border along the 38th parallel on the Korean peninsula is not much smaller than the number in Central Europe or along the 7,000 kilometers of the Soviet-Chinese border (although the troops along that border are not as well equipped).

¹ Michael McGwire, *Military Objectives in Soviet Foreign Policy* (Washington, D.C.: Brookings Institution, 1987), 164.

After the CFE-I reductions and the Soviet withdrawal from Central Europe, military confrontation on the Korean peninsula will be the most concentrated in the world. A similar comparison can be made to a large degree for the juxtaposition of land and air forces on the China-Vietnam border. Quantitatively, the land and air forces of North Korea, South Korea, Vietnam, and China (southern force—Guangzhou and Chengdu military districts) are comparable to, or even larger, than the troops and main weapons of Japan, the United States in the West Pacific, and Soviet forces in the Far East. True, the sophistication of weapon systems and quality of C3I of the Third World countries is much inferior. But recently, “local” military theaters in the APR have received supersonic combat aircraft and tactical ballistic missiles. There is a growing danger of nuclear and chemical weapons proliferation in these areas.

It is not easy to find a country in the APR that does not feel insecure in its actual or potential military-political encirclement by unfriendly states. Few nonaligned states are not embroiled, directly or indirectly, in the region’s international or internal conflicts. This cramps their freedom of action and compels them to take sides in the larger power struggles.

So we can see the immense complexity and contradictory nature of the military-strategic situation in the APR. Considerable difficulties beset the search for reduced military confrontation. Many positive aspects of the European experience are not applicable to the Asia-Pacific region; innovative, not imitative, ways of reducing the military danger and strengthening real security are needed.

A Tripartite Nuclear Equation

In contrast with the situation in Europe, nuclear confrontation in the APR is not distinctly bipolar, for the PRC is not a member of any alliance. Unlike the United States, Britain, and France (NATO members) and the USSR, China occupies an autonomous nuclear position, and the nuclear balance in the APR has the character of a tripartite equation.

The 1987 “global double-zero” treaty between the USSR and the United States markedly altered the military situation in the region. Back in the 1970s, the Soviet-U.S. accords (SALT I and SALT II) had an indirect bearing on the nuclear confrontation in the region, but they did not exert a direct impact on the strategic situation in the APR.² The “global double-zero” on intermediate- and shorter-range missiles is the first Soviet-U.S. accord on the elimination of two classes of nuclear weapons that will directly affect Asia. First, the Soviet-U.S. treaty included the dismantling in the APR of 162 Soviet intermediate-range

² See *Disarmament and Security Yearbook 1986*, 2:19.

and 140 shorter-range missiles capable of delivering up to 600 nuclear warheads in a single launch. The United States, for its part, will not deploy in Alaska 100 nuclear warheads on intermediate-range missiles and a number of additional shorter-range missiles.

When presenting statistics about a regional situation, it is not quite legitimate to include the overall, worldwide nuclear-balance figures, but they should be mentioned. The USSR and the United States still have immense strategic capabilities: 4,500 land-based and sea-based missiles and heavy bombers carrying a total of almost 25,000 nuclear warheads. About 20 percent of these launch vehicles and 25 percent of the nuclear warheads are deployed in the APR.³ An even greater part of the strategic arms can be retargeted into the region.

The nuclear balance in the APR at theater level (intermediate range and lower) after the implementation of the Soviet-U.S. INF Treaty will include the medium bombers of the Soviet long-range air forces, the U.S. and Soviet nuclear-armed sea-launched cruise missiles (SLCMs), and Chinese intermediate-range missiles, submarine-launched missiles, and medium bombers (approximately 170, 300, and 250 delivery vehicles, respectively).

At the tactical level, the nuclear balance in the region is distinctly bipolar (true, no information is available on the PRC systems of this class). On the Soviet side, the delivery vehicles are represented mainly by several hundred tactical aircraft. The United States has deployed in the Western Pacific region approximately 400 nuclear-capable aircraft (air force, navy, and marine corps) both land- and sea-based. In addition, both the USSR and the United States have tactical nuclear weapons in service with their ground forces and navies. According to the lowest estimates, the theater and tactical forces are in total equipped with more than 3,500 nuclear warheads. Some theater weapons (like SLCMs) are targeted at strategic targets; some strategic forces cover theater and tactical assets; some tactical systems are designed to attack strategic forces.

But the nuclear situation involves not only the three nuclear powers; other countries are deeply embroiled both as targets and in providing launching positions.

This complex and heterogeneous amalgam of the nuclear balance in the APR, involving such widely different types and classes of nuclear weapons, creates great difficulties for limiting and reducing nuclear confrontation. Obviously a single comprehensive solution to the problem satisfactory to all parties concerned is not possible. Nuclear confrontation will have to be dismantled bit by bit.

³ IMEMO's estimates.

But before addressing this problem it is necessary to pose a more fundamental question: Is it necessary to have nuclear arms control on the regional level in the APR? With war between the United States, the Soviet Union, and China seemingly improbable, the deterrent effect of theater and tactical nuclear weapons is more illusory than real. For the worst imaginable contingencies, strategic nuclear forces provide sufficient deterrence among the big three powers and ensure a U.S. umbrella over Japan. At the theater and tactical levels, nuclear weapons are largely detrimental. At best they are useless and at worst escalatory (in the naval balance) or they stimulate nuclear proliferation (as in Korea).

Total elimination of nonstrategic nuclear weapons in the region is hardly possible in view of the great geostrategic, operational, and technical asymmetries among the big powers. Immense verification problems, too, would be involved. It would, however, be possible and stabilizing to limit and reduce the nonstrategic nuclear forces of the three powers and, in the long run (after deeper reductions of U.S. and Soviet strategic offensive forces), include Chinese medium and intercontinental systems.

Indirectly, the strategic forces (of both the United States and, even more, the USSR) deployed in the APR will be reduced by the Strategic Arms Reduction Treaty (START) agreement. Similarly, the question of nuclear SLCMs on warships and submarines deployed in the Pacific is to be dealt with on a global, not regional, level. The latter will be accomplished with the 50 percent reductions of strategic offensive forces, which limit the number of cruise missiles aboard surface ships and on certain classes of submarines. However, since the United States declined to allow on-site inspection, especially on submarines, this limitation will not be verifiable. The cutback will look more like a joint declaration of intentions. This way to deal with the problem in the long run does not seem satisfactory.

Much more attractive is the idea of solving the problem within the context of separate negotiations on naval nuclear weapons (apart from submarine-launched ballistic missiles [SLBMs]), which is said to have originated with P. Nitze. A bilateral U.S.-Soviet treaty hypothetically could take several different forms, ranging from comprehensive to narrow. For instance, a comprehensive treaty would ban all naval tactical nuclear weapons (missiles, depth charges, torpedoes, artillery shells, bombs, mines) on all platforms (attack submarines, aircraft carriers, surface ships, land-based naval aviation). Storage ashore would also be banned. This option would most radically reduce nuclear confrontation in the oceans, including the Western Pacific. But it would involve tremendous difficulties—political, strategic, and operational—and would be hard to verify.

A narrow solution would be to ban only nuclear missiles (ship-to-ship, antisubmarine, antishore) on surface ships, leaving all the rest to further negotiations. The advantages of this approach is its relative simplicity of verification, which can be conducted both ashore and at sea, perhaps even with the help of remote sensors of the type used in the 1989 Black Sea experiment. The United States would gain by the greatly reduced threat to its conventionally superior navy from Soviet surface ships. The Soviet gain would be the elimination of the nuclear SLCM threat to its homeland from U.S. surface vessels. Expansion of the agreement could be left to later states of the talks.

In due course, theater and tactical nuclear force education may become a subject of arms control talks in the APR, especially if the talks on strategic nuclear forces (SNF) in Europe are quickly successful. But in Asia these measures will primarily involve not the Soviet-U.S. balance but that of the Soviet-PRC nuclear forces. It would probably be best to address questions about the reduction of the smaller nuclear weapons on the continent in the context of reducing land and air forces on the Soviet-Chinese border. As for U.S. nuclear forces (apart from naval nuclear weapons), these most probably should be dealt with as part of the security process in Korea and in bilateral negotiations between the United States and its Asian allies.

Continental Confrontation in Asia

In contrast to the recent improvements in Soviet-Chinese political and economic relations, the level of military confrontation between the two powers along the borders of the USSR, Mongolia, and China (stretching over 7,000 kilometers) remains high. On the Chinese side of the border there are three military regions: the Lanzhou (Western), the Beijing (Northern), and the Shenyang (Northeastern). Deployed in these regions are, according to some estimates, approximately 55 percent of all the ground and air forces of the PRC—800,000 to 900,000 regular troops. These forces are armed with up to 5,000 tanks, 7,000 artillery pieces, 1,500 armored personnel carriers (APCs) and armored fighting vehicles, and 2,500 tactical combat aircraft. On the Soviet side, up to 25 percent of the Soviet ground forces have been until recently deployed in the Central Asian, Siberian, Trans-Baikal, and Far Eastern military districts and in Mongolia. These add up to border-zone forces of more than 270,000 troops, 8,100 tanks, 820 tactical combat aircraft, 9,400 artillery pieces, and 10,200 armored fighting vehicles, tactical missiles, and air defense weapons.

Both sides have lately been taking unilateral measures to reduce the level of military confrontation in these border areas. In 1988 and 1989, China withdrew 100,000 troops from the border area. In 1989 and 1990 the Soviet Union withdrew (by agreement with the Mongolian government) one motorized

infantry division, two tank divisions, two air divisions, and several independent units. This was 75 percent of its forces in Mongolia. Altogether about 50,000 troops have been withdrawn from Mongolia, with 850 tanks, 1,100 personnel carriers, 820 artillery pieces, 190 aircraft, and 130 helicopters. At the Soviet-Chinese summit, Moscow expressed readiness to withdraw all remaining forces if Mongolia agreed.

The mutual reduction and withdrawal of troops would tangibly contribute to improved relations between the Soviet Union and China and would create a better climate for the solution of other questions. And to reinforce the principle that the Soviet-Chinese rapprochement is not directed against other countries, an agreement could be reached prohibiting redeployment of the troops to areas that might threaten Japan, Western Europe, Iran, and Afghanistan, or India, Vietnam, and Mongolia.

One possibility being considered is lowering military confrontation to pre-1965 levels. Such an approach is rational if regarded as moving toward the establishment of a fully demilitarized border between the two states. But it seems best, at first, to reduce land forces and tactical aviation of equal ceilings and then work down in phases.

In determining a reduction zone along the borders of the USSR, Mongolia, and China, certain proportions have to be observed. These countries have widely differing operational depths for troop withdrawal. For instance, all Soviet forces are deployed in a strip 120 to 200 kilometers wide along the border. North of the strip there is only sparsely inhabited taiga and tundra and no military infrastructure up to the shores of the Arctic (with the exception of Maritime Territory). In China, to the contrary, apart from a few border troops, there are almost no military forces in the area from the border to 300 kilometers south. All China's major forces, comparable to the Soviet troops, are in the strip from 300 to 700 kilometers from the border.

China is unlikely to agree to asymmetrical zones of reduction to allow for these differing principles of force deployment (i.e., much wider on the Chinese side). The area of confrontation is much closer to the main industrial complex of China in Manchuria than it is the Soviet economic heartland in European and West Siberia. If an equal and narrow zone for reductions is delineated (e.g., up to 300 kilometers on either side of the border), the Soviet Union will be unable to redeploy to the north and will be obliged to disband its forces. Redeployment to Europe is precluded by the Vienna CFE treaty, which reduced conventional forces in Europe, and to Central Asia by the "third party" inhibition. As for China, its forces would hardly be touched at all and may even be entitled to an increase. Even if such a build-up were to be rejected, reinforcement of the border area would be much easier for China than for the USSR in the case of a new conflict and abrogation of the treaty ("the breakout potential"). Thus, the

reduction zone should be wide enough to be militarily sensible and to accommodate asymmetrical security perceptions of the two sides.

In addition to this, the role of third countries should be considered. For instance, there must be political guarantees of Mongolia's security before the Soviet contingent can be completely pulled out of that country. In the Far East the Soviet Union is also opposed by other states. In the Far Eastern military district, according to the official Moscow version, the USSR has, apart from forces in the border area facing China, about 300,000 troops (including naval forces). A major part of its combat aircraft (about 870, including the navy) and of its ground forces (4,500 tanks, 4,100 APC, 7,000 artillery pieces), are deployed in the Maritime Territory and oriented toward the United States and Japan, not against China. Similarly, for China: large parts of the Chinese forces in the Shenyang military region are oriented toward the Korean peninsula, not against the Soviet Union. But if the zone is wide enough on both sides of the border, these forces will be included in the reduction requirements, even though they do not confront each other. Therefore, troop reduction measures for the Maritime Territory and the corresponding region on the Chinese side require a special approach. Possibilities include narrowing the reduction zone or, better, raising the level of allowable forces.

To speculate about such an accord: Both sides could agree to include on the Soviet side of the reduction zone parts of the Central Asian, Siberian, Trans-Baikal, and Far Eastern military districts. On the Chinese side the zone might include parts of all three northern military regions. Along both sides of the border the zone of reductions might be as wide as 500 to 700 kilometers. Each side could agree to limit forces in the above zone during the first three to five years to 300,000 troops, 5,000 tanks, 7,000 artillery pieces, 6,000 APCs, and 1,000 combat aircraft for each state.

To prevent concentrations of forces for surprise attack and large-scale offensive operations, the whole length of the zone might be subdivided into five sectors. In each of those not more than 20 percent of the aggregate forces would be deployed. An exception could be made for the Maritime Territory, which is more than 150 kilometers from the border, and the Liaoning military district. Here, the concentration limit could be not be more than 30 percent of the aggregate. Further reductions might be even more radical.

For both sides, armaments and combat equipment could be stored—mothballed—in stipulated areas; each could have the right to unlimited on-site inspecting on request. This might serve as a compensation to the USSR for the asymmetrical hypothetical capabilities for reinforcement. Broad confidence-building measures, such as prior notification of military activities, restrictions on military exercises and troop redeployment in the zone, invitations to

observers from the other side to attend field exercises, and so on can be very important in this region.

The logistical infrastructures could be retained inside the zone, especially defensive lines and installations serviced by minimal forces. It would be expedient to establish checkpoints along communication routes to make certain that troops are not returned to the reduction zones. Exchanges of information about the numerical strength and location of units (with on-site inspections) and also subsequent troop reduction by units would provide adequate verification.

Tactical nuclear weapons are a special matter. If these are not reduced in separate negotiations, the number of delivery systems could be reduced concurrently with the troop reductions on the border. Other approaches to the problem are also possible. Over the long term, a totally demilitarized zone should be established along the Soviet-Chinese and Mongolian-Chinese borders.

Another major area of continental military confrontation in the Far East is the Korean peninsula. The concentration of troops and weapons, calculated by square area and even by many gross quantitative parameters, is higher than deployments along the Soviet and Chinese border.

At the core of the problem is political antagonism and the lack of serious dialogue between North and South Korea. Without political accommodation, effective negotiation (as distinct from propagandistic overtures) on force reduction is hardly possible. It seems that "cross-recognition" and simultaneous admission to the United Nations is still a sound idea with good prospects although after the establishment of diplomatic relations between Moscow and Seoul, the Republic of Korea (ROK) may lose interest in it.

Given positive political changes, arms reduction agreements could prove to be an effective way to alleviate tension and provide for a measure of stability even before the fundamental political and social problems are resolved. Solution of all military problems should not be a precondition to political settlement. Arms control and confidence-building measures cannot facilitate the process of reunification, but they can create benign political and psychological conditions in both Koreas, in relations around them, and in Northeast Asia in general. And in the long run these will be conducive to reunification.

Realistically, only bilateral North-South talks can serve as the right format for negotiations. The USSR, China, and the United States must, of course, serve as guarantors of the agreement. U.S. force reductions, by agreements between Washington and Seoul, should happen concurrently, to encourage North-South negotiations.

To initiate the process, a 50 percent reduction of U.S. ground forces (including Lance tactical missiles) could serve to encourage North-South talks in view of North Korea's traditional preconditions. A U.S. commitment to total

withdrawal conditioned on the progress of the North-South security process would be a serious political challenge for Pyongyang.

At the first stage, the Democratic People's Republic of Korea (DPRK) and the ROK could probably agree to reduce their forces to 400,000 ground and airforce regular personnel, 1,000 tanks, 2,000 artillery pieces, 400 APC, and 300 combat aircraft. What is much more important than numerical ceilings, which are optional, is the problem of the disengagement of the forces facing each other across the demilitarized zone (DMZ).

At the follow-on stage, the United States may decide to withdraw its ground forces completely, in particular combat elements and the weapons of the Second Infantry Division (leaving support infrastructure and troops in place). The sixty American combat planes of the Eighth and Fifty-first Tactical Fighter wings might be retained until the follow-on North-South agreements. This would be a manifestation of U.S. commitments and a restraining factor for whichever side might consider starting hostilities.

But at the same time, total withdrawal of U.S. Lance tactical nuclear missiles would be the first step to establishing a reliable nuclear and ballistic nonproliferation regime on the Korean peninsula. The next stages of reductions could include total withdrawal of U.S. Air Force combat elements, the total denuclearization of Korea, and further reductions of North and South armed forces.

The disengagement question is complicated by the proximity of Seoul to the DMZ (40 kilometers; Pyongyang is 150 kilometers from it). That is why total demilitarization of the area adjacent to the DMZ is hardly possible (although the DMZ itself should be demilitarized as the first step in the talks). A possible solution might be to agree that no more than 30 percent of opposing ground forces may be deployed closer than 40 kilometers to the border, and no more than 50 percent closer than 150 kilometers. Comprehensive verification and inspection systems, in particular at the choke points, geocorridors, and airfields within a 150-kilometer zone on both sides of the DMZ, should be established. These systems preferably should include U.S., Chinese, and Soviet observers.

To turn briefly to Southeast Asia, eventual Sino-Vietnamese agreement to reduce forces in their common border area could play a useful stabilizing role in that region. The Vietnamese troop withdrawal from Cambodia politically opened the door for such negotiations.

The reduction of continental Asian confrontations is important not only for the stability and security of the APR itself. A major aspect of the strategic environment in the region is the USSR and U.S.-Japanese naval and air force confrontation in the Western Pacific. This is intimately linked politically, geostrategically, operationally, and even technically with the war contingencies on the continent, particularly on the Korea peninsula, and it is hard to

image that without agreements to limit ground and air forces substantial limitations on naval activities can be achieved in the Pacific. But the naval balance has its own specific complexities (and very big they are). It is by no means certain that naval agreements will automatically follow land agreements. The navy problem demands specific attention and solutions.

The Naval Rivalry

The rivalry between the naval forces of the great powers, saturated as those forces are with nuclear weapons, has an especially dangerous and destabilizing character. Globally, this sphere of the arms race—as distinct from the United States and Soviet strategic systems, intermediate-range and shorter-range nuclear missiles, and the armed forces and conventional armaments of NATO and WTO in Europe—has not yet been the subject of any negotiations, although there have been proposals by the USSR and some neutral and nonaligned states.

The arms race at sea is largely a global problem if only because of the indivisibility of the world ocean, the need to ensure freedom of the seas, and the high mobility of modern war fleets. But with respect to the APR, this question has a special significance. While in the waters surrounding Europe the Soviet-NATO naval rivalry has been mainly of a subordinate nature—the main confrontation being in central Europe—the situation is quite different in the APR. There, the counterdeployments of war fleets is central to the strategic situation and the balance of forces between the USSR and the U.S.-Japanese alliance.

Juxtaposition of navies on the seas between China and the United States and Japan and Taiwan is not as pronounced, both because of political changes in the region in the 1970s and because China's navy plays a relatively small role in its armed forces. The PRC navy has only 40 old warships of the main combat types (destroyers and frigates). Small coastal escort ships and seaward defense boats (about 1,000 units) are the most numerous of China's naval forces. There is also a relatively large number of diesel-powered submarines—more than a hundred. These have a limited cruising range. In the past few years, however, China has commissioned several nuclear-powered submarines (two with SLBMs and three attack submarines), a missile-carrying escort, and a frigate with a helicopter. Three amphibious vessels are also under construction.⁴

If this shipbuilding program continues, a Chinese navy may become an important new element in the picture, complicating it greatly. A Japanese navy, too, could emerge. This is an additional argument for not postponing a U.S.-Soviet dialogue on the subject indefinitely.

⁴ *Jingji ribao* [Economic daily], January 8, 19, 23, and 26, 1987.

At present, of course, the principal rivals on the seas in the APR are the Third and Seventh U.S. fleets and the Soviet Pacific Fleet. A substantial stimulus to the naval race in the region is provided by the divergent views on the strategic situation held by the two sides. There are significant asymmetries, both in the geostrategic positions of the two sides and in the strategic and operations tasks of their fleets, including their deployment, composition, and combat capability.

For the United States, the western part of the Pacific Ocean plays an important part in its military presence and influence in the Far East and Southeast Asia. It is also the closest base area for U.S. naval activity, via the straits to the Indian Ocean (where the United States normally deploys an aircraft carrier force comprising one aircraft carrier, 11 escort ships, three submarines, and 90 combat aircraft) and the Persian Gulf area. The main U.S. naval group in the Western Pacific is the Seventh Fleet, comprising two strike aircraft carriers, 29 fighting ships of the main classes (battleships, cruisers, destroyers, and frigates), 15 attack submarines, and 340 naval aircraft.

The Seventh Fleet is but the first echelon of the U.S. military presence in the Pacific. There are also three divisions (including one division of marines in Okinawa), approximately 1,200 warplanes (navy and air force), six aircraft carriers, 90 large warships, 32 amphibious ships, 40 attack submarines, and 12 squadrons (approximately 150 aircraft) of land-based, long-range antisubmarine warfare air units that serve with the U.S. Third and Seventh fleets.⁵

The United States and its allies also have more than 50 Japanese warships, 15 submarines, 80 long-range ASW patrol planes (P-2 and P-3 planes), and 300 fighters and fighter-bombers.⁶ All these forces are deployed close to the Far Eastern coast of the Soviet Union or can be moved there quickly in a crisis.

The USSR views this U.S.-Japanese capability as a direct threat of attack—including nuclear—from the sea against the Soviet Far East. In view of the geostrategic factors (the closed character of the Sea of Japan and the Sea of Okhotsk and the open access of the U.S. naval forces to the Kamchatka coast), the forces confronting the Soviet Union create a direct threat to its sea-based missile forces—an important element of the strategic equilibrium between the USSR and the United States and a key factor in strategic stability. The Soviet view is strengthened by the fact that, under the Lehman-Watkins naval strategy, the U.S. Navy has been charged with operating directly against Soviet nuclear-powered missile submarines (SSBNs). Japan also has a role to play in

⁵ *Whence the Threat to Peace?*, 1987, pp. 18–19; Caspar W. Weinberger, *Annual Report to the Congress, Fiscal Year 1988* (Washington, D.C.: Government Printing Office, 1987), 265.

⁶ International Institute for Strategic Studies, *Military Balance 1986–1987* (London: IISS, 1986), 157–58.

this in the form of “control over sea communications” within its 1,000-mile off-shore zone, which implies the development of its own antisubmarine warfare (ASW) capability.

These combined forces are confronted from the Soviet side by two air-capable Kiev-type ships, 53 large surface combatants, 90 attack submarines (including 48 nuclear), and 870 aircraft (including naval aircraft—mainly land-based) in its Far Eastern military district. In the Maritime Territory, apart from the forces in the Chinese border area mentioned above, the USSR has 4,500 tanks, 4,100 APCs, and 7,000 artillery pieces. Overall, this is about 326,000 troops deployed against the United States and Japan. This figure includes naval and air forces.

Officially, the United States rationalizes its naval presence in the Western Pacific by pointing to its commitment to guarantee the security of its allies there.⁷ In reality, the operational tasks of the Seventh Fleet are not quite limited to these proclaimed political goals. The U.S. Navy is ill-suited for the defense of the U.S. allies from a hypothetical attack from sea and air, or even for the protection of naval communications and shipping lanes. If the U.S. Seventh Fleet were “defense-oriented,” it would have many more escort ships for ASW missions and the air defense of convoys, and more ships and planes for the protection of Japan’s coast against sea and air attacks.

For some time the United States has been trying to transfer these functions to Japan. This attempt has included improvements to Japan’s fighter and ASW aircraft and Japan’s assumption of control over sea communications in the 1,000-mile zone. The U.S. Navy fighter and ASW defense is designed almost entirely for other purposes—to protect U.S. naval forces and provide combat support for the marines. One division, with support elements, is permanently based in Okinawa; an infantry division is in Hawaii.

The U.S. Seventh Fleet is above all charged with delivering carrier-based strikes against the USSR’s naval bases and airfields on the Pacific coast and against the Vietnamese port of Camranh Bay. Its other tasks would include sealing off the Soviet Pacific Fleet in the Sea of Japan and destroying it in that closed body of water. High priority (according to the maritime strategy) is given to searching for Soviet strategic deterrent forces in the Sea of Okhotsk and eliminating them.

Thus, the foremost mission of the Seventh Fleet is to prevent the deployment of the Soviet fleet in the open waters of the Pacific, where Soviet ships can fight off U.S. carrier aircraft, sea-launched cruise missiles (SLCM) ships, and submarines beyond their 1,000-kilometer range. This U.S. strategy created a major security concern for the USSR. The Americans could deliver strikes

⁷ Weinberger, *Annual Report*, 264.

against the Far Eastern coast of the USSR with impunity by using sea-based strike aviation and sea-launched cruise missiles, following this with amphibious assaults in selected areas—the U.S. strategy of “horizontal escalation.”

The operational missions of the Soviet Pacific Fleet include, first of all, protection of Soviet strategic submarines with submarine-launched ballistic missiles (SLBMs) in the Sea of Okhotsk and in transit from Kamchatka bases through the Bering Sea. Tactically, this includes giving attack-submarine escort to SSBNs, fighting off U.S. and Japanese ASW surface and undersurface vessels, and intercepting with AAD fighters the enemy’s ASW patrol aircraft.

The second Soviet task is to prevent (or make as costly as possible) U.S. strikes against Soviet naval bases, airfields, storage places, supply and maintenance infrastructure, and C3I facilities along the Vladivostok-Petropavlovsk-Anadyr-Providenia rim. Taking into account the range of carrier strike aircraft (A-6s, A-7s, and A-18s) and sea-launched cruise missiles (TLAM-Cs), the envisaged advanced defensive “barrier” of the Soviet navy runs from Tsushima Island along a line 150 to 200 kilometers to the east from Honshu, Hokkaido, and the Kuril chain to Attu and St. Laurence Islands in the Bering Sea. At these “barriers,” U.S. carriers, SLBMs, and submarines will be met and engaged by Soviet attack submarines, ships, and naval land-based bombers.

To fulfill this mission, the Soviet Pacific Navy, including attack submarines and bombers, will have to pass through Tsushima, Tsugaku, and Kuril straits. This, and not the Western sea-lines-of-communication (SLOC) interdiction, is the purpose of Soviet operations: to secure passage out of closed seas.

Of course, Soviet submarines and bombers, after getting out of the closed areas, could damage convoys from the U.S. mainland. But the rationality of launching such an operation is unpersuasive. Protracted conventional war between the United States and USSR is virtually unimaginable, even from a military-physical point of view. The USSR has neither the plans nor the capability to invade Japan. The United States and Japan have nothing of the kind in mind for Soviet territory (with the possible exception of amphibious landings on some of the Kuril Islands to secure for the U.S. Navy passage to the Sea of Okhotsk). So protracted conventional operations on land (from the West to keep the SLOCs open) or from the USSR (to interdict them) are even less probable in the Far East than in Europe. Furthermore, it is impossible to imagine a limited conventional U.S.-Soviet war in the Far East that is not a part of a global war—in which case, Pacific SLOCs would be of even less importance.

In a Korean war contingency, SLOCs would be necessary. North Korea is not capable of seriously threatening the sea lines with its twenty-one diesel submarines, but if China or the USSR (who are capable of threatening the SLOCs) were to get involved on the North's side, global war would follow with all the consequences that make SLOCs of little use.

This is not to say that U.S. and allied bases, airfields, and support infrastructure in Japan and South Korea would be "sanctuaries" if there were a major U.S.-Soviet conflict. The geostrategic positions of Japan and South Korea make them suitable as both forward springboards and barriers, and in U.S. offensive war plans and in Soviet defensive plans they are seen as such. What would happen to the springboards and barriers in the course of such operations is a matter of serious concern for both Tokyo and Seoul.

In particular, Japan's geostrategic position cannot be described as secure. As a forward U.S. springboard for a possible attack against the Soviet Union, the Japanese islands themselves become a priority target for Soviet retaliatory strikes. Japan views its own Self-Defense Forces (SDF) (240,000 troops) and the U.S. contingent (64,000)⁸ deployed on its territory as being rather small. Japan feels overshadowed by the Pacific military might of the USSR, and these notions fuel anti-Soviet feeling in Japan. Washington has been appealing to these feelings in a bid to have Japan step up its military efforts.

The fact that in 1987 Japan exceeded its traditional limit for military spending of 1 percent of its gross national product does not yet give grounds for speaking about Tokyo's plans for remilitarization, but it is an alarming symptom. Japan's immense industrial, scientific, and technology capabilities could create, within a very short period, military might comparable with that of the world's stronger powers, should certain political decisions be adopted. Over the long term, this possibility is perhaps the greatest threat to destabilization of the military-political situation, not only in the Far East or the APR, but globally. However, such a turn would not strengthen the security of Japan; it would evoke from other powers response measures, both military and political, that would deeply undermine Japan's security, as well as the security of many other states in the region.

Only political, not military, efforts can effectively loosen the intricate knot of military confrontation in the Western Pacific. International conflicts and territorial disputes in the region must be resolved by negotiation. Settlements must be mutually acceptable. So, too, with military confrontation, particularly in reducing activity in the naval sphere.

Unilateral steps, too, may be politically effective in paving the way for negotiated bilateral agreements. The USSR started this process in 1989 by

⁸ *Military Balance*, 28-30.

adopting the plan to reduce its armed forces in Asia by 240,000 troops—200,000 of them in Siberia, 120,000 of them in the Far East. The army will be cut by 12 divisions; 11 air regiments will be disbanded; 16 warships will be mothballed.

A much larger portion of ground and air forces should be demobilized unilaterally. The extensive Soviet deployments of ground and air forces in the maritime district, mentioned earlier, are difficult to justify as defense requirements against the United States and Japan. One hopes that many of these forces will be reduced in the framework of the Soviet-Chinese reductions. A large part of the USSR's Far Eastern force is involved in the proposed reduction zone. The rest of the Soviet air and naval forces in the Far East may eventually become subjects for Soviet-American negotiations (with the direct or indirect participation of Japan).

Are Naval Negotiations Possible?

For the Soviet Union, the navy is the most unfavorable sphere of military competition with the United States. The West, in addition to having superiority in naval inventory, enjoys two other significant advantages. One is determined by geography. The United States has open access to the world ocean, vast opportunities for mobilizing and reinforcing its fleets, and an extensive network of bases and strongholds in other countries, including the areas of possible naval operations. The Soviet Union has limited access to the world ocean: the straits and narrow waters around it are controlled by the United States and its allies. The four main Soviet fleets are divided by the Eurasian continent. To help each other, they have to cover huge distances in adverse weather conditions (the Northern Sea route) and pass through straits and narrow waters controlled by the West (e.g., Skagerrak, the Bosphorus, Strait of Gibraltar, Bering Strait).

The other major advantage held by the United States is that it has allies among the world's sea powers. Taken separately, their fleets are much smaller than those of the United States and the USSR, but together they represent a significant force, comparable to that of either of the two great powers. The Soviet allies possess no significant naval forces. The NATO allies of the United States and Japan have a total of 200 large combat ships and 160 attack submarines. The Soviet Union's Warsaw Treaty allies have one large combat ship and eight submarines. In addition, a comparison of the U.S. and Soviet navies reveals a considerable American superiority in aircraft carriers and air-capable ships: large VSTAL-capable amphibious ships (20 compared with 6); large combat ships of the main types (145 to 106); smaller amphibious ships and assault craft (160 to 86); combat naval aircraft and helicopters (2,530 to 1,040); marine troops (190,000 to 12,000).

The question naturally arises whether, in such a situation of obvious superiority, negotiations on limiting naval inventories and activities can be held at all. Judging by the experience of the strategic arms limitation talks, the starting point for an equal dialogue is best provided by an approximate parity of forces between the two sides. Does that mean that before starting serious talks the Soviet Union will have to reach parity with the United States in naval forces? Is a new class of Soviet air-capable ships in the aircraft carrier displacement class (Tbilisy-type) a step in that direction? Or, given the objective advantages of the West, will the Soviet Union have to achieve first a considerable superiority over the United States to establish an “essential parity”?

Such an arms race would never serve the national security of the Soviet Union and the United States, to say nothing of American allies in Europe and Asia. Whatever the global naval balance between the two superpowers, Japan, South Korea, Taiwan, and the states of the Association of Southeast Asian Nations (ASEAN) would not feel more secure with the Soviet Union getting deeper and deeper into competition with the U.S. over large carrier strike forces, self-reliant naval groups for remote seas, and large amphibious formations for sea-to-shore assaults.

At the same time, there is growing awareness of the limited opportunities for the use of naval power. Costs are rising; most important, there are competing requirements for the use of naval forces in Third World contingencies (such as within a U.N. framework). All these factors may pave the way to negotiations and future agreements, even with the current quantitative and qualitative disproportions in the naval forces of the two sides. Moreover, in view of the inherent asymmetries of the naval balance, naval stability measures may be based only on asymmetrical trade-offs.

Because of the high fleet mobility, regional agreement could be efficient, at least in the first stage—not so much for the limitation and reduction of naval forces as for scaling down their activity. In his 1986 speech at Vladivostok, Mikhail Gorbachev put forward a proposal to “start talks on reducing the activity of naval forces in the Pacific.”⁹ Again in 1986, during his visit to India, the Soviet leader suggested limiting naval activity and the number of naval vessels in the Indian Ocean.¹⁰ In an interview with the Indonesian newspaper *Merdeka* in July 1987, Gorbachev talked in a more specific way about the Soviet initiatives. He said that the Soviet Union was ready “for reducing the activities of the naval fleets of the USSR and the United States in the Pacific.” Trust in this area could be built. Examples of possible measures include the

⁹ *Pravda*, July 29, 1986.

¹⁰ *Ibid.*, November 28, 1986.

limitation of the scale of naval exercises (including naval air forces); early notification; mutual renunciation of maneuvers in international straits and adjoining areas, as well as of tests of weapons near traditional areas of navigation.¹¹

Some of these proposals may be criticized on strategic, operational, and technical grounds, especially in relation to verification, but extending the incident-avoidance agreement between the United States and the USSR to other Western Pacific states would not be very difficult. Both in European seas and in the Western Pacific (including the Bering Sea and the Gulf of Alaska) it would be useful to extend confidence-building measures to Soviet, Chinese, the U.S., and other Western navies, providing early prenotification of naval exercises (and maybe inviting observers). To take into account Western interests and the existing asymmetries, the trade-off might be notification of attack submarines deployment for land-based naval aircraft take-off. This would involve a given number of subs and planes in excess of everyday activity.

The limitation of antisubmarine activity is very important for strategic stability. In the interview with *Merdeka*, Gorbachev suggested agreement "to curb the rivalry in anti-submarine warfare systems [and] ban ASW activities, including from the air, in specified zones."¹² Reductions in ASW activity are particularly important as the United States and the Soviet Union cut their strategic offensive forces. The most dangerous for SSBN is a hunter-killer attack submarine waiting near a base to start tracking or conducting random search in the SSBN patrol area. Strategic stability would benefit if the operations of hostile attack subs were prohibited in such areas as the Sea of Okhotsk. What benefit is there in such an agreement for the United States, which is not concerned about its SSBN safety in the open Pacific? The United States has reason to worry about attack subs with SLCMs of Soviet SSBNs near its Western coast. Such deployment threatens American airbases and military, industrial, and command-control facilities with short-warning strikes. An asymmetrical trade-off could be to ban all submarine deployments in the Sea of Okhotsk and within 1,000–2,000 kilometers of the U.S. Western coast (thus eliminating SSBNs and attack submarines, including those armed with SLCMs). This kind of check is necessary anyway, because acoustic sensors cannot distinguish at long ranges among different classes and types of submarines.

Verification present serious problems. One way could be to rely on national verification systems (primarily acoustic) and to have the right to challenge and require surfacing of a designated submarine suspected of a violation. The order

¹¹ *Ibid.*, July 23, 1987.

¹² *Ibid.*

to surface would be transmitted, on challenge, by the state owning the submarine through its radio communication systems. Thus, the problem of "third state sub" would be avoided. This concept has its drawbacks but on balance seems beneficial to both sides.

However, strategic ASW is closely linked with tactical ASW, which involves the protection of sea routes against attack submarines. Both operations use similar inventory (ships, submarines, and aircraft), although their operational and tactical missions are essentially different. Consequently, the limitation and reduction of strategic ASW activities, which are obviously capable of being employed for offensive strategy, might cause Japan and the United States to worry about Pacific SLOCs, which might be threatened by Soviet nuclear-powered attack submarines. On the other hand, Soviet submarines and naval bomber deployments in the open Pacific are for the USSR the only way to fight off U.S. carrier task forces and conventional SLCM attacks against its bases.

The asymmetric trade-off is obvious: restrict the deployment of Soviet subs and naval bombers for those U.S. carrier and SLCM ships and subs. First to be negotiated would be notification; then numerical limitations could be set for exercises across a line of about 1,000 kilometers from the Far Eastern coast of the USSR. The verification system could include the challenge-surfacing procedure, thus alleviating Japan's concern about the submarine threat to the security of its sea lines.

Later, negotiations on limiting naval inventories might be possible. The clearly destabilizing aspects of the naval confrontation, the threat of a first strike, and the possibility of an uncontrollable escalation from local to global level (and from conventional to nuclear)¹³ require eventual reorientation of naval forces on the defensive principles of mutual reasonable sufficiency. The quantitative, qualitative, and operational factors are closely interrelated in this issue.

Of course, this kind of U.S.-Soviet agreement is in a more distant future. It may come after continental military confrontations on the Asian mainland are substantially lowered and after political and territorial disputes are solved or put under diplomatic control. Much of the present U.S. maritime strategy and grand strategy (in particular, "horizontal escalation," offensive SLOC protection, etc.) will lose ground and will have to be changed. Then numerical limits (and, later, agreed reductions) could be applied on a global scale. These would be some regional subceilings (in particular in the North Pacific) to U.S. and Soviet naval, marine, and air force combat aircraft, both land- and sea-based, and naval tactical antiship and land-attack missiles. Eventually, third states

¹³ See *Disarmament and Security Yearbook 1986*, 2:chap. 14.

(China and Japan) could become parties to multilateral limitations. Their security would certainly benefit from such agreements.

Conclusion

All the ideas mentioned above are still of a rather general and tentative character. They require detailed consideration at both scientific and diplomatic levels. And yet, despite the great complexity, there is no reason to regard arms control in the APR as qualitatively different from the problems of arms control and security in Europe, although quite different methods are required in Asia to solve the problems.

Even if the above proposals are considered to have merit, the question of how to start the process of the establishment of an Asia-Pacific security system is legitimate. Actually, the process has already started, both in the political and military dimensions of security. The list is a long one: Sino-America and Sino-Japanese political agreements of the 1970s, the Sino-Soviet and Soviet-South Korean breakthroughs of 1990, the Sino-Soviet talks on armed forces reductions in the border area, the first diplomatic exchanges on security issues between the DPRK and the ROK, the regional effects of Soviet-American arms control and political improvements—all these constitute building blocks of a possible security system in Northeast Asia and the Northern Pacific, however isolated and scattered they may be. The task is to fill in what's missing, to synchronize and accelerate the progress in building on what exists, rather than to start new processes from scratch.

In fact, Northeast Asia is a closely interrelated system of political and strategic interactions in which a change at one point inevitably brings a change at another. The task is to adequately understand this complex system and use it to induce the general transformation of the political and military environment in the direction of enhanced security, stability, cooperation, and restraint.

The crucial problem is to achieve a Soviet-Japanese breakthrough. Mikhail Gorbachev visited Japan for a summit in the spring of 1991, with the issue of the northern territories as the focus of the talks. A peace treaty based on the 1956 joint declaration (and the return of the two smaller islands) seems to be the best solution, with a commitment to further negotiations. Security (e.g., demilitarization of the southern Kuril Islands) and economic cooperation are possible areas of negotiation.

In addition, the establishment of diplomatic relations between the United States and Japan and North Korea would be important, just as would be those between China and the ROK. A U.S. declaration on a 50 percent reduction in its ground forces in South Korea might initiate a serious North-South security dialogue. And perhaps the United States and the USSR, with Chinese and

Japanese participation, could begin negotiations on naval CBMs when that subject is taken up at the next stage of the European security negotiations.

After the first Sino-Soviet and North-South Korean arms reduction treaties, the door will be opened to U.S.-Soviet talks on more tangible naval arms control, both global and regional, and on armed forces reductions and limitations in the North Pacific. In the follow-on stages of these talks, China and Japan could participate.

In conclusion, it is worth suggesting that if the forecast of the Pacific region becoming a world economic and political center in the twenty-first century is correct, it is all the more important that arms control be extended to the area. Security and stability will be a growing need in this dynamic part of the world. It is not too early to start thinking about it in practical terms right now.

11. Changes in Strategic Equations

RONALD J. HAYS

The presence of U.S. military force has been the ‘‘anchor to windward’’ for Asia’s strategic balance for the past four decades, yet few today would question that U.S. influence has declined and will continue to decline relatively. Japan, South Korea, China, and Australia increasingly exercise economic, political, and military muscle within the region. At the same time, anxiety exists about whether economic factors will jeopardize friendly relations, security treaties, or the U.S. military presence in the Western Pacific.

Today, there is in the Pacific the finest U.S. military force ever assembled in peacetime. The military hardware works, and the people are well trained, disciplined, and motivated. One-half of the U.S. Navy, two-thirds of the marine corps, three army divisions, and three numbered air forces impress friend and foe alike. Unlike in Europe, U.S. military forces in the Pacific are regarded as superior to Soviet forces—mostly because of the U.S. Navy’s capabilities for fighting a defensive war. Even though the Soviets have added state-of-the-art submarines, destroyers, cruisers, aircraft, and artillery to their Pacific forces, they remained outgunned by the U.S. Navy. U.S. forces have kept the peace in the Pacific and have created the environment that has allowed nations of the Pacific to prosper. U.S. forces in the Western Pacific (the future composition of which is still to be determined) along with increasingly capable Asian forces will be needed to satisfy future security interests.

As cuts in the U.S. defense budget affect its force structure, more responsibility for Asian stability will be shifted to Asia. Fortunately, a healthy network of friendly relationships and regional mutual security treaties—the five most important treaties being those with Japan, South Korea, the Philippines, Thailand, and Australia—is in place. Unfortunately, alliances tend to function best when danger is most evident. The evident danger in the past was the expanding warfighting capabilities of the Soviet Union east of the Urals. Today, that danger is less evident—some would say nonexistent. Soviet troop

reductions are actually occurring in Asia as pledged by President Mikhail Gorbachev, and further reductions have been promised. Such developments are indeed encouraging, but will the perception of a receding threat cause long-standing security relationships to deteriorate? In fact, what actually constitutes security and what elements should affect a security relationship? Conventional wisdom now says that security can no longer be judged solely—or even mainly—by the quality and quantity of military hardware or by the numbers of men and women in uniform. Today, with trade imbalances and debtor nation status, economics—not military posture—dominate national security.

Accepting the dominance of economics in the national security equation, however, would be a mistake that could lead to regional instability. Unquestionably, economic issues must be addressed, but including them in the military-strategic dialogue jeopardizes defense treaty relationships. For example, Australian wheat farmers insisted that unless the United States stopped selling subsidized wheat to the Soviet Union, important joint U.S.-Australian facilities should be closed and Australian port access should be denied to the U.S. Navy. Had the leadership of Prime Minister Bob Hawke not caused the notion to be rejected, the remains of the Australia–New Zealand–United States (ANZUS) alliance would have been wrecked. This otherwise flourishing alliance already experienced another risk illustrated by the loss of New Zealand from the ANZUS alliance. In this case a domestic political issue was allowed to dominate, and the result was a setback to regional stability and a weakened deterrent posture.

Fortunately, Australia filled the military void, and today, the military-to-military relationship between the two remaining partners of ANZUS could hardly be better. Contacts have increased, joint programs have been expanded, and Australia is embarked on a security self-sufficiency program compatible with U.S. strategic interests. There will be problems in trade, agricultural policies, and nuclear-free-zone proposals, but on balance, precedent, tradition, compatibility of personalities, and mutual strategic interests will safeguard the treaty for years to come. The vibrancy of the treaty will serve the best interests of East Asia.

Two other treaties that also bear on the security issue throughout the region are the mutual defense arrangements that the United States has with the Philippines and with Thailand. The treaty with the Philippines has become controversial because the United States maintains two strategically important bases on Philippine soil. Many Philippine leaders perceive that this treaty with its associated bases infringes on the nation's sovereign rights. Furthermore, these same leaders believe that the Philippines has no external enemies, although the same cannot be said about enemies from within.

The bases issue will likely never be settled to our complete satisfaction, although negotiations for a renewal of the agreement, which expires in 1991, are under way. It is expected that negotiations will succeed with a compromise package that entails a reduced U.S. military presence because too much is at stake for the Philippines, the region, and the United States for the issue to have any other outcome. In the unlikely event that the negotiations fail completely, there are suitable alternatives to the bases, perhaps not as desirable, but satisfactory.

The other U.S. ally in Southeast Asia, Thailand, has long been a frontline state for the Cambodian conflict. Thailand has borne the brunt of the refugee problem, has seen repeated military incursions across its border, and has suffered thousands of personnel casualties. In the face of such problems, Thailand's attitude has been resolute, and with the adversity, the relationship between the United States and Thailand has improved. With impressive economic growth, a well-equipped and trained military, and effective governance, Thailand's influence in Southeast Asia and the region at large will grow.

Of all the alliances, the treaties with Japan and South Korea are the nexus of U.S. security interests in Northeast Asia, where one finds two Communist giants, both of whom are undergoing great change and considerable turmoil. The conflict that occurred in Beijing in 1989 serves as a sobering reminder of the uncertainties in the world today, the speed with which change can occur in a single-party system, and the need to avoid precipitous change in the U.S. security posture. Nor should there be fundamental change in the U.S. policies toward China, despite the acts that were committed during the summer of 1989. Without condoning the massacre of prodemocracy demonstrators, U.S. leaders should recognize the importance of the U.S.-China strategic relationship. China is a vast country with more than a billion citizens, a nuclear power with a large conventional force. Because of China's influence in regional affairs and the likelihood that Communist reformers will take over in time, American and Asian attitudes toward China cannot be indifferent. The diplomatic initiatives by President George Bush to restart the U.S.-China relationship with the intent to maintain China's most-favored-nation status are well founded.

Steadfastness in the U.S. security posture will not be automatic, for damaging change will occur if we don't work to prevent it from happening. Those charged with the responsibility for security and regional stability have to be concerned about international economic and political developments even though, within the alliances, military preparedness is reassuring and military-to-military relationships have never been better. This problem is illustrated by a recent poll which revealed that the American people now believe Japan to be the greatest threat to our country. As a military commander, I have frequently pointed out that Japan has been the most important ally we have had in the

Pacific. I still believe this to be the case, but the U.S. trade imbalance and its growing impact on the American people is becoming intolerable. Charges that “Japan is getting a free ride,” “Japan has used funds that should have gone into defense to beat us in the marketplace,” or “Japan is unfair” are common. Clearly, these perceptions have the potential to unbalance what Ambassador Mike Mansfield calls the most important relationship in the world. An excellent security relationship, which serves the vital interests of both nations effectively, cannot endure when important congressional leaders, industrialists, and the general public condemn Japanese economic policy. If we combine this Japan bashing with improved Japanese-Soviet relations and a resolution of their northern territories issue, what happens to the U.S. security treaty?

The problem of economics may be most acute with Japan, but by no means is it limited to Japan. The economic dynamism of East Asia has also captured the imagination of Americans, many of whom believe proudly that post-World War II American policies contributed to its success. But pride in this accomplishment is turning to bitterness with real and imagined unfairness in competition. A mechanism that might help overcome some of the more troubling aspects of our bilateral trade relationships with the nations of East Asia, particularly with Japan, is needed. Prime Minister Hawke’s initiative to establish some kind of Asia-Pacific economic cooperation may well serve this purpose.

Putting economics aside, one has to be impressed by the Japanese Self-Defense Force. It is equipped with state-of-the-art military hardware, and the force is well led, well trained, and well disciplined. As a team joined in treaty, the United States and Japan can cover all aspects of security in Northeast Asia, from nuclear deterrence to conventional defense. Many goals and aspirations are held in common, and the military-to-military relationship is as good as the economic one is bad; to allow the negative aspects of the relationship to prevail would produce catastrophic consequences.

The treaty between the United States and South Korea has produced the finest combined fighting force in the world, and Korean and American forces have jointly achieved its purpose—peace on the peninsula. Despite this success, there also exists the risk of precipitous change in the two nations’ relationship. In addition to the economic issues discussed above, there is in South Korea some anti-American sentiment (which receives an unjustified amount of publicity in the press of both nations). There is also the issue of South Korea’s ability to defend itself. With steadily expanding military capabilities in the South Korean forces and a stagnating economy in the North, a crossover point in South Korea’s military capability will doubtless occur. When this point is reached, U.S. forces will no longer be needed for peninsula stability, and

they can then be restructured to address regional issues only. But in contemplating such a change, the wise approach is one of caution.

Precipitous change in U.S.–South Korea relations could also be brought about by the U.S. Congress, although I don't think it will happen. The realities of a crushing federal deficit plus the sweeping changes in the Soviet Union and Eastern Europe are forcing U.S. military services to face inevitable major reductions in military spending. Already, administration plans are in place to reduce the defense budget by about two percent after inflation per year—about \$150 billion over the next three years. Moreover, Congressional appetites will not be satisfied with the administration's position. The defense portion of the gross national product (GNP) has plunged from 6.6 percent in fiscal 1986 to an anticipated 5.0 percent in fiscal 1991—the lowest since President Jimmy Carter left office. All four defense services are talking about the elimination of force structures; fortunately, there is a focus on the preservation of combat readiness for forces that survive the cut. No military man likes the idea, but given the less-threatening world environment, we can live with the reduction, without jeopardy to American national security interests.

Gorbachev is having a profound impact on the U.S. military budget, but so did his predecessors: the perceived threat of the Soviet Union has shaped U.S. military posture over the years. Any other justification for our military forces was a lesser consideration. For thirty-eight years, I trained and prepared to fight the Soviets. During that entire period we maintained a forward defense strategy that deployed forces in Europe and Asia. In the future, although elements of deployed forces and access to foreign bases may change, the forward deployment strategy is likely to remain constant.

Despite our victory in the Cold War, we live in an unstable world, and there will always be a need for a leading power to have a military capability. But if the Soviet Union is not perceived to be and would never again be a threat to our vital interest, the U.S. military force structure would be dramatically different. However, military force structure change should not attempt to match political change. In an authoritarian society, change, either good or bad for our security, can occur instantaneously.

President Mikhail Gorbachev may be the most popular leader in Europe, but he remains a Communist and a proud Russian nationalist. The Soviet Union remains a strong nation militarily with an uncertain foreign policy. The much heralded policies of *glasnost* and *perestroika*, which might lead some to conclude otherwise, are initiatives crafted to save a Communist nation. Both respond to the realities of a destitute economy and a demoralized citizenry that is slipping increasingly behind the rest of the world. The outcome and the resulting political philosophy are far from certain. The uncertainty is caused not only by a Soviet economy that continues to deteriorate under *perestroika*,

but also by the crumbling of an empire designed to protect the motherland and by the rising expectations of ethnic and nationalist minorities. Also of concern must be the likely disgruntlement within the powerful Soviet military and among its hardline conservatives. Moreover, there is the question of effectiveness of a revised reform approach that only nibbles away on the periphery of a flawed economic philosophy. Less than two years ago, Gorbachev was out in front of the Warsaw Pact nations with his revolutionary ideas and faced resistance from the satellites; today the satellites have far outrun the Soviet Union with revolutionary change. It is indeed ironic that *glasnost* and *perestroika* have changed the world more than they have changed the Soviet Union.

Whether Gorbachev succeeds or not, recent developments make it unlikely that the Soviet Union would attempt to overrun Europe, take on the United States in the Pacific, or initiate a nuclear attack in the next few years. But for the longer term, there is no evidence beyond declaratory statements that the Soviet thrust for world domination is permanently in abeyance. The quantitative measurements for military hardware and people remain at an unfavorable ratio of two to one, and only very recently have the Soviets taken measures to reduce their manufacture of submarines, ships, tanks, and aircraft. The commitment to its military on the basis of GNP remains at a level more than twice that of the United States. As to the strategic equation, even assuming that a successful strategic arms reduction treaty is negotiated, the Soviets will be left with sufficient nuclear weapons to destroy the United States and its allies. The same, of course, can be said about the United States, so a principal element of deterrence will be intact.

The capabilities of modernized Soviet strategic and conventional forces are greater today than when Gorbachev came to power. Gorbachev apparently intends to change that by shifting resources from the military to civilian causes. But regardless of his success in that effort, the U.S. security objective is simple: to maintain sufficient strength to deter aggression against our interests, wherever they may be or whoever may threaten them. Surprisingly, Asia's Communists have not yet realized that the practice of orthodox communism fails to satisfy human needs, but it is only a matter of time before they do. Realization of this failing will have profound impact in East Asia, politically, economically, and in security affairs.

The post-World War II order has come undone, and many of the old stereotypes of that order have been blown away. Democracy and free enterprise are in vogue, the Cold War is history, and breathtaking change is occurring in the Communist bloc. We can face the challenges posed by these events knowing that the U.S. military-strategic trends are favorable.

12. East Asian International Relations in the 1990s

BYUNG-JOON AHN

At the beginning of 1991 we find an overall trend in East Asia toward strategic asymmetry and political uncertainty, especially in such countries as the Soviet Union, China, Cambodia, North Korea, and the Philippines. The ending of the Cold War in Europe, the advent of German unification, and collapsing communism in Eastern Europe are all having a positive impact on the major power relationships and on regional conflicts in Asia. But the strategic trends here seem to be different from those in Europe: Asia is facing its own decade of transition in political and economic fields.

Strategic Asymmetry and Political Uncertainty

It is a central theme of this survey that as the balance of power shifts—from a bipolarity to a triangle, and then to a *rectarchy*—superpower confrontation is being diminished, and regional and local conflicts are replacing the Soviet and Chinese threats as major sources of security problems. A corollary to this is that the growing degree of economic interdependence and regionalism is mitigating the rivalries and conflicts that have existed in the Asia-Pacific region. As a result, the distinction between what we call Northeast Asia and Southeast Asia is becoming blurred. The countries in these two subregions are being integrated into a complex network of economically and even politically interdependent relationships.

In East Asia, three nuclear powers (the United States, the Soviet Union, and China) and an economic superpower (Japan) are contending for influence. In addition, some smaller states (the two Koreas, Taiwan, and the Southeast Asian subregion of ASEAN and the Indochinese states) are rapidly emerging as most dynamic economies. Indeed, the world's strategic and economic gravity is shifting from the Atlantic to the Pacific.

In examining the strategic trends in East Asia, five observations are in order. First, the strategic environment in Asia is different from that in Europe.

In Asia there is asymmetry, coupled with political uncertainty and regional conflicts. In Europe there is symmetry, coupled with political pluralism and the settlement of most territorial disputes.

Second, if we consider each participant's specific situation, the emerging trends in Asia are diverse. In relative terms, the United States and the Soviet Union seem to be on the decline; China is preoccupied with domestic crises; and these factors give rise to Japan's growing power. The impact of these changes on regional conflicts has been to localize them. The primacy of economics and the movement toward regionalism—outstanding in themselves—give rise to more and more economic frictions.

Third, the major power relationship in Asia tends to develop among bilateral lines. From this interaction is emerging a strategic "rectarchy" involving the United States, Japan, China, and the Soviet Union. Economically, however, the trend is toward regionalism, and multilateral transactions are increasing not only among the major powers but also among two other important groupings—the newly industrialized countries (NICs) and the members of the Association of Southeast Asian Nations (ASEAN).

Fourth, the ending of the Cold War between the United States and the Soviet Union and of hostility between the Soviet Union and China is having the effect of localizing regional conflicts. Consequently, North and South Korea have resumed a dialogue at government level; negotiations have also begun between factions in Cambodia; Japan and the Soviet Union have agreed to discuss the Kuril Islands issue; and even China and Taiwan have increased exchange and cooperation in personnel and trade.

Fifth, under these conditions it will be difficult for Asian countries formally to institute a Conference on Security and Cooperation in Asia (CSCA). Bilateral efforts at confidence-building measures and arms control will be made, but a better prospect is in the growing interest in launching informal forums for security cooperation. Gradually, APEC (Asia-Pacific Economic Cooperation), which started as a multilateral economic forum, will take up security issues. This will lead to a sort of CSCA sometime in the next century.

Unlike Europe, where there is the North Atlantic Treaty Organization (NATO) and the Warsaw Treaty Organization (WTO), there is no multilateral alliance in Asia—because there is no common threat perception. Nor is there a clearly drawn military line and buffer zone (as was East Europe).¹ The prevailing pattern of international relations here is bilateral. There was a basic asymmetry between the Soviet Union, as a continental power deploying an

¹ Seizaburo Sato, "Convergence and Divergence in East Asian and Western Security Interests: Part I," Adelphi Papers, 216, *East Asia, the West and International Security: Prospect for Peace*, Part I (Spring 1987):21–29.

array of conventional forces, and the United States, as a maritime power deploying superior naval forces, necessary to protect the sealanes on which its supply of vital resources depends.

Further, Asian states lack even such homogeneity as exists in Europe. There is little that can bind them in a “common Asian home,” as Western Europe has been bound in the European Community (EC). More important, unlike Europe where the Helsinki accords sanctioned the existing borders, there are still unsettled territorial disputes—in Korea, the northern islands off Japan, Taiwan, and Cambodia.

Political uncertainties are exacerbated by societal and generational changes in China, North Korea, Cambodia, Vietnam, and the Philippines. Asian Communist countries are still hanging on to Marxist-Leninist ideology—unlike East European countries, where civil society is being resurrected with pluralism and markets. This tradition is absent in Asian countries. Whenever state authority has been seriously challenged there has been a tendency for civil order to deteriorate. Thus, regional and domestic conflicts are becoming the major sources of security problems in Asia.

This is not to say that the European experience is irrelevant. In fact, such European concepts as balance of power, democracy, and regionalism are being experimented with in Asia. But we now turn to different trends visible on the Asian horizon.

Six Diverse Trends

As of June 1991, it is possible to ascertain six national and regional trends that would be crucial in shaping the strategic environment in the Asia-Pacific region:

1. The Soviet peace offensive
2. China's domestic crises
3. U.S. strategic review and contraction
4. Japan's enhanced role
5. The localization of regional conflicts
6. The primacy of economics and regionalism

The Soviet Peace Offensive

Since he set out to project a new Asia policy in his speeches at Vladivostok in 1986 and Krasnoyarsk in 1988, Soviet leader Mikhail Gorbachev has been carrying out a series of peace offensives by signaling a departure from the Brezhnev legacy of building military power. Gorbachev's goal seems to be to reduce military threats from China, the United States, and Japan and to integrate the Soviet Far East into the East Asian network of economic

interdependence. In support of this policy, Foreign Minister Eduard Shevardnadze, in a speech at Vladivostok in September 1990, called for “a pan-Asian forum” of foreign ministers to be held in 1993.

In support of this peace offensive, the Soviet Union has made a number of successful diplomatic overtures toward its erstwhile adversaries. At the summit with Chinese leader Deng Xiaoping in May 1989, Gorbachev agreed to normalize relations with China. On June 5, 1990, he met with South Korea’s President Roh Tae Woo in San Francisco. Shevardnadze visited Tokyo in September 1990 and left the impression that Gorbachev will discuss territorial issues with Prime Minister Toshiki Kaifu on his visit to Tokyo in April 1991. It cannot be ruled out that Moscow will propose a long-term plan for demilitarizing and eventually returning at least some of the Kuril Islands to Japan. On September 30, 1990, Shevardnadze signed a joint communiqué with South Korean foreign minister Choi Ho Joong on establishing diplomatic relations between Moscow and Seoul. President Roh and Gorbachev met in Moscow in December 1990 and on Chifu Island in April 1991.

Clearly, Moscow is trying to extend détente from Europe into Asia. Equally clear is its wish to cut Soviet forces in the region. Shevardnadze promised that they will be reduced by 200,000 in 1991—including twelve land divisions, eleven air force regiments, and sixteen warships.² Japan, while pointing out that many of the weapons systems under this plan had been replaced with newer and more capable models, in a Defense Agency *White Paper* for 1990, dropped its longstanding declaration that Soviet forces in the Far East pose a continuing military threat.³

Thus Moscow, filling the domestic need for *perestroika* and *glasnost*, is busy applying Gorbachev’s New Thinking to Asia, too. To this end it is renewing proposals for “an Asian security forum,” with nuclear-free zones and naval arms control for the USSR, the United States, and Japan. As a result of these initiatives, fears of a Soviet threat are diminishing.

China’s Domestic Crises

Since the Tiananmen massacre in June 1989 China has been preoccupied with domestic crises, trying to sustain political stability and at the same time to generate enough economic development to satisfy popular demands for a better standard of living. With uncertainty hanging over who will succeed Deng Xiaoping, the economic reform programs in abeyance, and worsened relations

² Statement by Eduard A. Shevardnadze at Vladivostok II, September 4, 1990; mimeo, 11.

³ *International Herald Tribune*, September 19, 1991.

with the United States and other Western powers, China's ability to play the role of a regional power is being severely limited.⁴

Although Washington resumed high-level contacts after Beijing lifted martial law in January 1990, the era when China commanded a wide-ranging popular support in American domestic politics is over. Tokyo, hoping that China will remain a stabilizing force in Asia, lifted economic sanctions on Beijing after the Houston summit in July 1990.

Indeed, Beijing has been cooperative on many international issues. It agreed to resume diplomatic relations with Indonesia and Saudi Arabia and in August 1990 supported UN Security Council resolutions authorizing an embargo against Iraq. Beijing also began to sever military aid to the Khmer Rouge guerrillas in Cambodia; and Li Peng tried to allay concerns in Southeast Asia about Beijing's intentions regarding the disputed islands in the South China Sea. Furthermore, Beijing resumed negotiation with Hanoi—and most important of all, in September–October 1990, did its best to make the Asian Games a success.

Despite these efforts, there is no guarantee that China will find a smooth way to combine stability and development. China will probably be concerned primarily with domestic affairs for some time to come; and the People's Liberation Army (PLA) will be involved in the task of keeping peace and tranquility at home.

Strategic Review and Military Contraction in the United States

Faced with budgetary and trade deficits, the United States is carrying out "adjustment" in its forward deployment in Korea, Japan, and the Philippines, especially in response to the Nunn-Warner amendment to the Fiscal 1990 Defense Authorization Act. This strategic review will inevitably cause a contraction of U.S. forces, particularly against the background of the ending of the Cold War and the cessation of hostilities in the Persian Gulf crisis.

According to this review,⁵ Washington is planning to cut at least 10 percent of its 135,000-strong forces in East Asia—including 7,000 in South Korea—by 1993 and is asking Asian countries to shoulder more of the burden for maintenance of American troops. In addition, the turn of domestic politics in the Philippines is making it unlikely that the United States will renew the treaty for the Clark and Subic Bay bases in 1991. In a three-phase scenario, the United States is committed to making South Korea assume the leading role for

⁴ Winston Lord, "China's Big Chill." *Foreign Affairs*, Fall 1989:1–26.

⁵ *A Strategic Framework for the Asian Pacific Rim: Looking Toward the 21st Century*; report of the Defense Department to the U.S. Congress, April 1990.

deterrence and defense and will itself assume only a supporting role by the end of the century.

With the Soviet threat rapidly dissipating, the role of the United States is shifting from that of a hegemonic power containing Soviet expansionism to that of "a regional balancer, honest broker and an ultimate security guarantor," in the apt words of Undersecretary of Defense Paul Wolfowitz.⁶

Japan's Enhanced Role

The internal and external difficulties of the Soviet Union and China and a contraction of the U.S. role are prompting Japan to play an enhanced role, not merely in economic affairs but also in political and security areas. Until recently, Japan has shied away from such roles because of domestic constraints and the fears, held by other Asian states, of resurgent Japanese militarism. Hence, Japanese foreign policy has been based on reaction rather than taking the initiative.⁷ But now, Tokyo is being almost forced to take more initiative by its growing economic clout and by the changing regional configuration of power.

With a defense budget of more than \$30 billion in 1990, Japan began gradually to shed its pacifism and to increase its security role. Japan offered an aid package of \$2 billion to East European countries. In May 1990, Tokyo hosted South Korean President Roh, and at a state banquet for him the new emperor, Akihito, expressed his "deepest regret" for Japan's past wrongdoing. With this apology, the emperor seeks to project the image of a new Japan. To further that aim, he is planning a state visit to South Korea and other Asian countries.

At the summit of the major industrial powers (the United States, Japan, Germany, Britain, France, Italy, and Canada; this group of nations is commonly referred to as the "group of seven" or "G-7") at Houston, Prime Minister Kaifu made other participants respect his decision to lift economic sanctions against China. In the Gulf crisis, Tokyo pledged to provide about \$13 billion in financial aid; and Kaifu decided to send a group of minesweepers, including Self-Defense Forces (SDF), to the Gulf because Japan must contribute "not only dollars but also sweat and manpower."⁸ To this end, he sought a revision of the Self-Defense Force Law. On September 28, 1990, a group of Liberal Democratic and Socialist Dietmen led by former Deputy Prime Minister Kanemaru signed an agreement in Pyongyang on normalizing Japan's diplomatic relations with North Korea, and this process will continue. This is another attempt by Tokyo to play a regional role in Northeast Asia.

⁶ *Far Eastern Economic Review*, May 3, 1990, 10.

⁷ *International Herald Tribune*, September 24, 1990.

⁸ *Ibid.*

With the line between civilian and military technology increasingly blurred, Japan is in a position to influence the military capabilities of other powers. As the world's largest creditor nation, Japan is capable of using this influence effectively.

Localization of Regional Conflicts

The major powers, now primarily concerned with internal problems and their external relations with each other, are tending to stay away from regional conflicts. As a result, these disputes are being "localized" in that the parties are now trying to resolve them among themselves. This shows in the efforts at negotiation in the Korean peninsula, in Cambodia, between the two sides over the Northern Territories, and over the Taiwan Strait.

Gorbachev's new Asia policy in particular has contributed greatly to the phenomena of *cross-recognition* of the two Koreas by the major powers and *Koreanization of the Korean question*. The sea change in the international setting and South Korea's spectacular success with its *Nordpolitik* prompted North Korea to engage in talks with South Korea at the prime minister level in September–December 1990. Significantly, both sides presented proposals for confidence-building and arms control measures, raising hopes for the opening of a new era of negotiation.

In Cambodia, too, there seems to be localization—some *Cambodiazation*. After the United States withdrew support from the Cambodian resistance coalition at the United Nations, the four factions agreed to create a supreme council, preceding a UN-sponsored election. And the Japanese and Soviets have discussed the Northern Territories as part of the negotiation for a peace treaty.

Peace and stability at these trouble spots are important to the whole of East Asia, and it is hoped that the states involved settle their differences peacefully, without involving third parties.

The Primacy of Economics and Regionalism

Assuming that war is unlikely, not only between the major powers but also between the parties in the regional conflicts, the primacy of economics will increase. States will be free to attend to their domestic problems. Coupled with the dominance of economics is the trend toward regionalism. This kind of cooperation results partly from the growing volume of intraregional trade and partly from concerns about the rising tide of protectionism apparent in the European Community (EC) and exhibited in the American-Canadian free trade agreement.

As countries have sought to resolve the problems of economic interdependence through domestic actions, international frictions have arisen. A case in

point is between the United States and Japan, where the two independent nations have sought to intervene in each other's domestic affairs, as demonstrated by the Structural Impediments Initiative negotiations. As the Cold War yields to a global economic struggle, domestic factors become the crucial determinants of security. The most important of these factors is the extent to which the state can preserve adequate economic development and political stability.

With the Cold War no longer enforcing peace and order, we can expect more civil wars and disorder in the developing world. When a state fails to develop economically, for example, latent ethnic rivalries and political conflicts may be rekindled. Economic war is likely to occur within and without many Asian countries. This possibility seems to be higher in countries where political uncertainties exist.

East Asian countries, having generated the world's most dynamic economic growth in the past two decades, have also shown interest in developing regional cooperation. Among their efforts, the most important has been the formation of APEC—Asian Pacific Economic Cooperation. Launched at a twelve-member ministerial meeting at Canberra in November 1989, APEC, at Singapore in July 1990, agreed to review members' negotiating positions at the Uruguay Round of tariff negotiations and to work toward an outward-looking, dynamic economy. Because members of APEC account for 46 percent of world production and one-third of global trade,⁹ APEC shows promise of representing a formidable economic region in years to come.

Strategic “Rectarchy” and Economic Regionalism

These six broad trends show the overall thrust toward a strategic “rectarchy” among the four powers and toward a multilateral economic regionalism.

Strategically, the bilateral relationships became a triangle during the 1970s and a “rectarchy” during the 1980s. Economically, they tended to become more multipolar, because other important participants—such as the NICs and the ASEAN countries—became involved.

Bilateralism

Bilateralism has been the dominant form of international relations in Asia. In recent years there have been substantial improvements in all bilateral relations; signs of thaw have appeared even in those between Japan and the USSR and between North and South Korea. As the postwar, bipolar world

⁹ *Ibid.*, July 30, 1990.

gradually became multipolar, bilateral relations, too, underwent drastic change.

It should be recalled that most bilateral alliances were formed during the Cold War. The United States, for example, concluded five bilateral security treaties with countries in the Asia-Pacific region: with Japan, signed in 1952 and renewed in 1960; with South Korea in 1954; with the Philippines in 1947 and 1951; with Australia in 1951; and with Thailand in 1962. The Soviet Union signed four alliance treaties: with China in 1950 (although this treaty expired in 1980); with North Korea in 1961; with Mongolia in 1966; and with Vietnam in 1978. China, too, signed a bilateral treaty—with North Korea in 1961. Of these treaties, the Sino-Soviet and U.S.-Japanese represented the most important Cold War alignments in Asia during the 1950s and 1960s. But now the nature of this treaty system is beginning to unravel.

Triangle and "Rectarchy"

The deepening of Sino-Soviet conflicts in the 1960s and the subsequent Sino-American rapprochement caused the initial change in the bipolar system—first into a strategic triangle during the 1970s and then into a loose "rectarchy" during the 1980s.

The "iron triangle," involving the United States, the Soviet Union, and China, emerged when the Nixon administration practiced triangular diplomacy in 1971–72, seeking to play a swing role in the worsening Sino-Soviet relationship. Both Beijing and Moscow were eager to cultivate better relations with Washington to counter the other's leverage. Mao Zedong and Zhou Enlai welcomed President Richard Nixon and National Security Adviser Henry Kissinger to counter the "polar bear," in the ancient tradition of "controlling barbarians with other barbarians." This balance-of-power negotiating enabled Washington to accomplish rapprochement instead of confrontation with Beijing in February 1972. To avoid a possible two-front war, Soviet leader Brezhnev invited Nixon to Moscow that May and signed the first Strategic Arms Limitation Treaty (SALT I). By enjoying a pivotal position in this triangle, the United States was able to extricate itself from the Vietnam War.¹⁰

This "iron triangle" gradually yielded to a "flexible triangle" after Beijing began to distance itself from the United States and to improve its relations with Moscow, seeking an independent foreign policy—not tilting to one side. Seeing that the U.S.-Soviet relationship was deteriorating after Ronald Reagan assumed office, and that the Soviet Union was entangled in Afghanistan, China

¹⁰ Byung-joon Ahn, "The Sino-Soviet-American Triangle and the SDI: Their Implications for Asian Security," in Jae Kuy Park and Byung-joon Ahn, eds., *The Strategic Defense Initiative: Its Implications for Asia and the Pacific* (Seoul: Westview Press-Kyungnam University Press, 1987), 85–98.

now set out to play a swing role.¹¹ The United States, however, took a flexible attitude toward Sino-Soviet rapprochement, knowing that its many links with China far outnumbered China's new ties with the Soviet Union.

The rise of Japan as an important player prompted the triangle to turn into a "rectarchy." Contributing factors were that the political use of nuclear power was lessening and other powers were beginning to appreciate the primacy of economics and technology. In fact, all other powers now actively seek Japan's economic cooperation. Since Japan is subsidizing the U.S. economy, it is natural for Washington to stress "a global partnership" with Tokyo. China is receiving the largest amount of investment from Japan. And the Soviet Union is interested in normalizing relations with Japan to attract capital and technology. The Japan factor is certainly making the strategic balance in East Asia increasingly quadrilateral.

From Triangular to Multipolar Trade

The trade pattern is also shifting, from a triangle involving the NICs, Japan, and the United States to a multipolar activity. The triangle appeared in the early 1970s. Such countries as South Korea, Taiwan, Hong Kong, and Singapore imported capital, machinery, and intermediate goods from Japan, used them to produce manufactured goods, then exported the goods to the United States. Result: the United States served as the largest absorber of imports and the other states enjoyed surpluses in their trade with the United States.

The evolution into multipolar trade was prompted by a number of factors, among them the exchange rate realignment; shifts in comparative advantage; and the increasing participation of other states—the ASEAN countries, China, and the Soviet Union. Since the Plaza agreement in September 1985, Japan has slowed increased imports from other countries; and South Korea and Taiwan have increased their investments in Southeast Asia. As a result, a horizontal division of labor is growing among Asian countries, and intraregional trade has reached about 60 percent.

A U.S.-Japanese "Bigemony"

As both security and economic relations undergo a major realignment in the Asia-Pacific region, who is going to exercise leadership in this pluralistic order? Now that the United States is not in the position to exercise hegemony, some suggest that it should share this position with Japan. This is what we mean by "bigemony."¹² In other words, the United States and Japan can divide the

¹¹ Yufan Hao and Guocang Huan, eds., *The Chinese View of the World* (New York: Pantheon Books, 1989), 42–56.

¹² Takashi Inoguchi, "Four Japanese Scenarios for the Future," *International Affairs* 65, 1

role of sharing such “international public goods” as security, liquidity, resources, and markets.¹³

As for guarantees of international security, there seems to be no power to rely on other than the United States, as was demonstrated in the Persian Gulf crisis. In Asia, too, no other power is able to play this role without threatening the very stability of the region.¹⁴ The U.S. military presence in Asia is necessary to keep Japan from becoming militarized. This, in turn, makes that presence possibly in the interests of China and the Soviet Union, too.

Japan can play the role of the “lender of last resort,” providing capital, aid, and technology. Japan can supplement the United States by absorbing more imports from other Asian countries. But, of course, Japan can also demand power sharing when it accepts burden sharing. There are growing voices in the United States for linking security with trade issues in relations with Japan. Japan spends less than 1 percent of its gross national product (GNP) on security, and critics complain about Japanese “free riding.” The United States meanwhile is sacrificing enormous human resources on security and spending about 6 percent of GNP.

It is against this background that Tokyo’s influence in coordinating macroeconomic policy and even security policy is bound to grow. Washington, for its part, regards its relationship with Tokyo as “the critical linchpin” of its Asian security strategy.¹⁵ To the extent that Japan can compensate for the declining U.S. capability in the region, the United States and Japan will share leadership in managing security and economic questions and have a “new special relationship.”¹⁶

Can There Be a European-style CSCA?

Considering the strategic trends reviewed thus far, can there be a European-style CSCA? Numerous leaders have spoken to the question. Australian Foreign Minister Gareth Evans raised the question and answered that initially an informal dialogue is needed and possible in Asia. Canadian Secretary of State for External Affairs Joe Clark proposed a dialogue on security in the

(Winter 1988–89):26.

¹³ Charles P. Kindleberger, “Dominance and Leadership in the International Economy, Public Goods, and Free Ride,” *International Studies Quarterly*, no. 25 (June 1981):242–254.

¹⁴ Robert Manning, *Asian Policy, the New Soviet Challenge in the Pacific* (New York: Priority Press, 1988), 14–15.

¹⁵ *Strategic Framework*, 6.

¹⁶ Peter Tarnoff, “America’s New Special Relationships,” *Foreign Affairs*, Summer 1990, 67–80.

North Pacific to bring an end to the Cold War in Asia.¹⁷ Indonesian Defense Minister Benny Murdany proposed that “a forum” be established for regional states to discuss a post-Cold War security order.¹⁸ Soviet Foreign Minister Shevardnadze similarly called for “a multilateral negotiating mechanism.” And South Korean President Roh proposed in 1988 a consultative meeting on peace in Northeast Asia.

Given strategic asymmetry, along with bilateralism, pending territorial disputes, and the absence of common values, however, it may be too early for Asian countries to launch a formal CSCA. But informal forums, of scholars, officials, and others, to discuss confidence-building and arms control measures are highly desirable and should be feasible. When a consensus emerges from these discussions, it can become the basis for a formal conference. Despite ASEAN’s objections, it will be almost impossible for APEC to avoid discussing security issues, and as this forum further expands to involve China and the Soviet Union, it may well lead to a CSCA-style gathering.

Meanwhile, formal negotiation on arms control in Asia will be undertaken bilaterally. The only place where the European ground context is applicable is on the Korean peninsula, but here, too, “transparency-style” confidence-building measures and arms control can be negotiated mainly between the North and South.¹⁹ As for naval arms control, which the United States is reluctant at present to have, it has to be negotiated between the United States and the Soviet Union, or between Japan and the Soviet Union.

The easing of the Cold War confrontation is making Northeast Asia and Southeast Asia become more and more interdependent—more integrated both strategically and economically. ASEAN used to advocate a “Zone of Peace, Freedom, and Neutrality.” But in the current Asian security equation, the term *neutrality* has become meaningless. Indeed, other such terms—“nonalignment” and “the Third World”—have lost their original meaning.

In the economic realm, too, the APEC process is facilitating a common forum for Northeast Asian and ASEAN states. South Korea, as the only middle-ranking country excluded from ASEAN’s postministerial meeting, is “bridgebuilding”; it has been entrusted with the task of tackling the membership question of three Chinas (PRC, ROC, and Hong Kong) at the Seoul meeting in 1991. The prospect for multilateral economic cooperation—in contrast with the security realm—is promising. APEC and PECC (Pacific Economic Cooperation Conference) have substantial potential to develop into

¹⁷ Gareth Evans, “What Asia Needs Is a Europe-Style CSCA,” *International Herald Tribune*, July 27, 1990. For Clark’s remarks, see *Korea Herald*, September 21, 1990.

¹⁸ *International Herald Tribune*, May 28, 1990.

¹⁹ *Strategic Framework*, 24.

an organization similar to the Organization for Economic Cooperation and Development (OECD), generating information and conducting policy coordination.

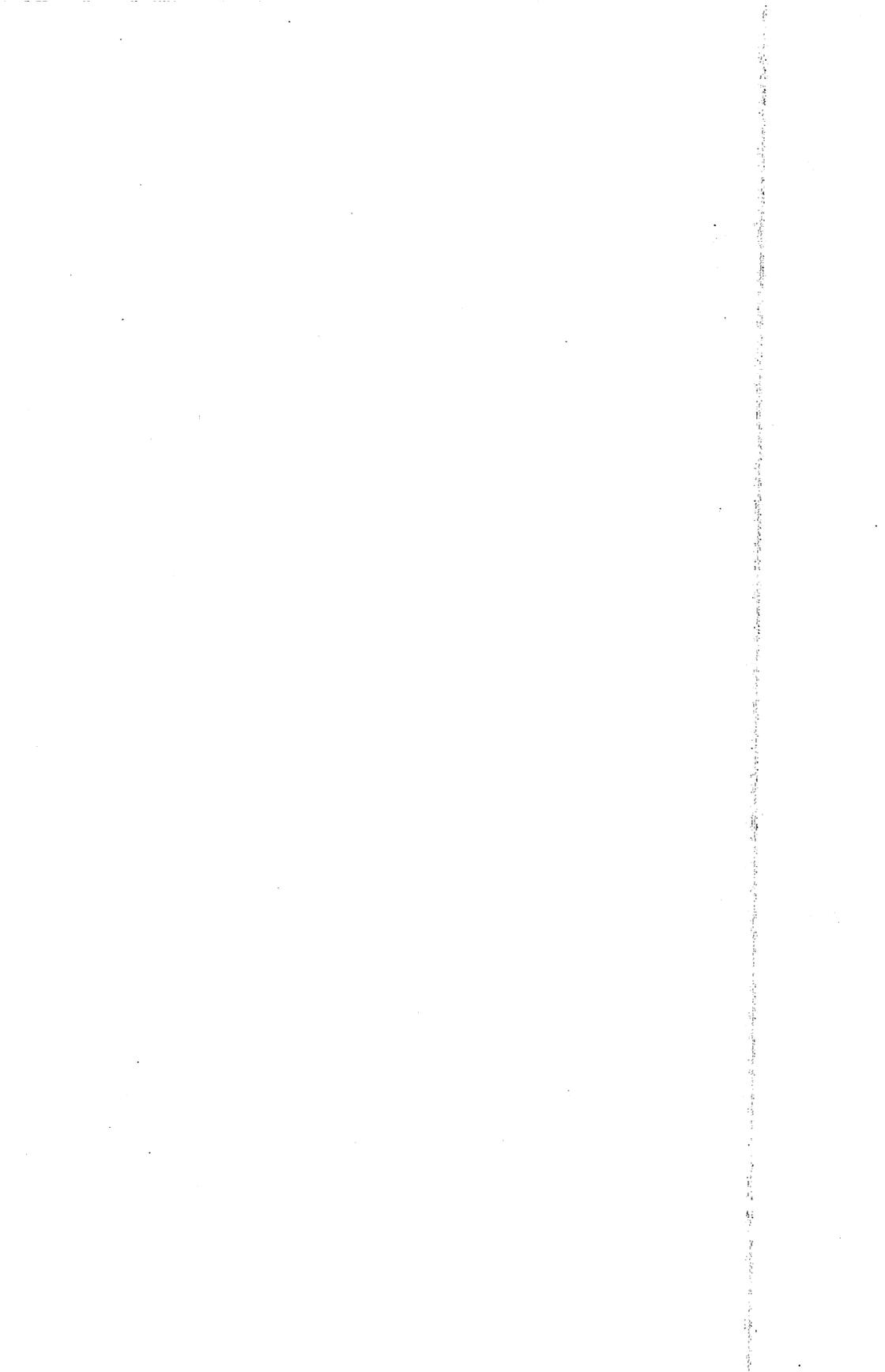
On balance, the strategic trends in East Asia lead us to be cautiously optimistic in hopes for peace and stability. In meeting security challenges posed by the changing global security equation, however, two schools of thought are emerging. One of them—articulated by Malaysia's Prime Minister Mahathir and others—is that regional states should increase security cooperation among themselves, without relying on outside powers, and try to settle disputes through negotiation.²⁰ The other view—expressed by Singapore's Prime Minister Lee Kuan Yew—is that the American military presence should be maintained in Asia to provide peace and stability.²¹

Northeast Asian perspectives, such as they are, come closer to the latter view, especially because the U.S. presence is seen as the most effective constraint on Japanese military and economic ambition. The United States has a historic chance in this transitional decade to exercise wise leadership, along with its friends, in fashioning a more peaceful and cooperative order in the Asian Pacific region.

²⁰ *International Herald Tribune*, September 13, 1990.

²¹ *Ibid.*, May 28, 1990.

Part 4.
The Future of the Korean Peninsula



13. Prospects for Peace and Unification on the Korean Peninsula

HAN SUNGJOO

Since the three-year Korean conflict ended almost forty years ago, there has not been a war on the Korean peninsula. But the peace has been an uneasy one, often punctuated by incidents and clashes that could have escalated into a major conflict. Both the Democratic People's Republic of Korea (DPRK; North Korea) and the Republic of Korea (ROK; South Korea) have lived with the fear that the other side might be inclined to provoke a war.

This anxiety and sense of insecurity can be seen as the source of the arms buildup and of the alliance relationships that have evolved on both sides. The peace has been precariously maintained by a balance of defense and deterrence capabilities.

Now, at the beginning of the 1990s, the Korean people on both sides of the demarcation line that separates them have a historic opportunity to make that peace more durable and unification of their divided country a reality. The objective circumstances, both domestic and international, are such that the two sides can now begin to build bridges of exchanges, to open channels of communication, and to devise means of cooperation that will make the relationship less dangerous and more productive, as well as conducive to peaceful unification, which is the aspiration of every Korean.

But that will happen only if the two sides change their old ways of confrontation and rivalry and instead adopt new ways of accommodation and cooperation. That means refraining from mutual recrimination and accusation, from trying to take advantage of each others' internal political dynamics, and from laying artificial obstacles and preconditions to constructive talks and exchanges between the two sides.

The international situation today is ripe for a breakthrough in the Korean situation. The major change, which started showing itself at the end of the 1980s, is taking place both in form and in substance. Both the major powers and the smaller countries are showing a preference for accommodation rather than

confrontation. Increasingly greater importance is being placed on economic advancement rather than on political or military goals. All this is evidenced not only by improvement in major-power relations, but also by improved relations between traditional rivals in Northeast Asia—improvements we can already see or which are in prospect. If only North and South Korea can set aside their differences, other countries are not likely to object to, much less obstruct, the development of a constructive and productive relationship between them.

In any case, the rapid political change and economic development that South Korea has gone through in the past several years would make it necessary to expand exchanges and cooperation with North Korea. Indeed, South Korea's political transformation makes it receptive to any reasonable proposals for improving North–South Korean relations that North Korea can offer. Economically, South Korea, which has had double-digit economic growth during the past years, is becoming a net-creditor nation. This presents both North and South Korea with an extraordinary opportunity to cooperate for the common prosperity of all the Korean people. As they cooperate; work together; travel back and forth; and conduct economic, cultural, sports, and other exchanges, the chances of peace and ultimately of unification will be enhanced.

Unification of the country is the best way to achieve a permanent peace on the Korean peninsula. Even as Koreans strives for peaceful unification, however, they have to recognize that it is not going to be an easy and quick task. On both sides, distrust pervades the relationship. There are differences in ideological orientation, in socioeconomic structure, and in political system. It will do no good to wait for the day of unification to expand exchanges and cooperation.

The two Koreas should adopt a gradual and simultaneous approach. As they work on the grand design of unification, they can also work for the gradual reduction of tension, through arms-control talks and confidence-building measures. At the same time, they can and should try to build a structure of peace based on an agreement between North and South Korea—call it a peace agreement or any other name—that will lead to the replacement of the present armistice structure.

Trust is what is most urgently needed. It has been lacking on the Korean peninsula ever since the outbreak of the Korean conflict in 1950. Rather than talk about the symptoms of tension, such as weapons systems and deterrence capability, both sides have to go to tension's causes, which are intentions and anxieties. As confidence and trust build, it will be possible to restructure the security arrangements.

Two Previous Dialogues

Twice since 1953, when the Korean War ended with the signing of an armistice, North and South Korea have been engaged in a serious dialogue to improve their hostile relationship. The first dialogue took place during the years 1972 and 1973, when the North–South Korean Red Cross met to discuss the possibility of reuniting family members separated by the line on the map. Subsequently, the two sides agreed to establish a North–South Coordinating Committee to discuss reconciliation and possibly reunification, only to see the dialogue discontinued in 1973 when Pyongyang refused to deal with Seoul. The second period of dialogue was in 1984 and 1985, when North–South Korean talks took place in four different areas—Red Cross/family reunion, economic cooperation, political discussion between parliamentarians, and sports. By examining why the conciliation talks of the mid-1980s failed to produce positive results, we can diagnose the problems of the present relationship and prognosticate its future.

In 1984, hopes of North-South reconciliation arose when North Korea made, and South Korea accepted, an offer of relief supplies to aid victims of that September's flood. The offer opened the way for economic talks, the first between high-ranking representatives of the Pyongyang and Seoul governments since the division of the country, as well as meetings to discuss issues related to family reunion and possible North Korean participation in the 1988 Olympics. The Red Cross talks (in 1985) led to an exchange of meetings in Seoul and Pyongyang and also of visits by fifty separated family members from each side to "the other area," where many of them met their kin and relatives.

However, Pyongyang's seemingly conciliatory gestures in 1984 and 1985 were merely an attempt to refurbish its international image, which had been badly tarnished by the "Rangoon bombing" in 1983. Pyongyang had apparently concluded that talks with Seoul would be a necessary step in establishing ties with Western powers, particularly the United States and Japan. It also saw talks with Seoul as a necessary means of realizing its proposal for "tripartite talks" among the United States, North Korea, and South Korea, inasmuch as the United States was insisting that direct inter-Korea talks should precede any multilateral negotiation.

North Korea also had an economic motivation for opening channels of dialogue with South Korea. Recognizing that its economy was hopelessly lagging behind the South, it wished to move out of its political and diplomatic isolation and regain its ability to borrow from abroad and trade with other countries—an ability that had been seriously damaged by debt defaults. By starting dialogue with South Korea, Pyongyang hoped to open the possibilities

of starting or otherwise expanding economic exchanges with non-Communist countries such as the United States, Japan, and Western European countries.

Political motives were also involved. North Korea wished, on the one hand, to demonstrate to the South Korean people its supposedly positive attitude toward reunification and to project its peaceful intentions. On the other hand, with its own people, Pyongyang wished to use the reunification issue as a means of building up a statesmanlike image for Kim Jong Il, who was being groomed by his father, Kim Il Sung, as successor. Rather than seriously seeking an improvement of relationship with the South, Pyongyang was merely intent upon using the talks for other—mostly political—purposes.

The South Korean government had its own political motives for welcoming Pyongyang's willingness (short-lived as it was) to engage in talks. For one thing, as the host country for various upcoming major international events—including the Olympic Games—it was eager to secure North Korean acquiescence, if not cooperation. At the same time, Seoul viewed improvement of North–South Korean relations as a necessary step to opening its own relations with the Soviet Union and China, possibly leading eventually to cross-recognition of the two Koreas by the major powers. Seoul also hoped that the North–South Korean dialogue and exchanges would help counter the criticism that the South Korean government was content with the status quo and lacked the will and desire for unification.

Renewed exchanges in the mid-1980s led nowhere. Several obstacles kept Pyongyang from seriously pursuing accommodation with South Korea. Pyongyang was constrained by its own ideology and the political requirements of the leadership structure. It was also keenly aware of the adverse political consequences of opening up its society to the outside world, even to a limited extent, after four decades of isolation. In addition, Pyongyang was not about to reduce its military pressure on the South. It not only maintained but continued to build up its already formidable armed forces, particularly as it was warming up relations with the Soviet Union, which showed greater willingness than China to help North Korea with the military build-up. It also seemed to be repositioning its forces more threateningly toward the South. In short, Pyongyang wanted to maintain the military advantage.

For Pyongyang, dealing directly and officially with South Korean “authorities” was tantamount to accepting the “two Koreas” formula, which it had opposed all along. At the same time, it could not give up its long-standing objective of “liberating” the South, for that objective remained a primary source of justification for the sacrifices it was imposing upon its people. Furthermore, it did not wish to make it easy for Seoul to successfully stage the 1988 Olympic Games. It was afraid that the participation of North Korea's allies in the Games would enhance South Korea's prestige.

Under these circumstances, when the South Korean domestic political scene became increasingly volatile and unpredictable, Pyongyang decided, at the end of 1985, to suspend all talks using as an excuse its objection to a U.S.-ROK joint Team Spirit military exercise. Inasmuch as the exercise had been an annual event, it was clear that North Korea had concluded that the dialogue would no longer serve its own interest. Dialogue, Pyongyang decided, had to be suspended until the political situation—in both South and North Korea—was sorted out. North Korea was undergoing a process of succession, and the possibility of a serious policy debate within its leadership could not be ruled out.

In the final analysis, the second period of North–South Korean dialogue came to an end because neither side had a genuine interest in a productive outcome. Pyongyang was afraid of “conferring legitimacy” on the South Korean government and also of facilitating South Korean expansion of relationships with the Soviet Union and China—its own allies. Pyongyang was hoping that the South Korean polity would collapse of its own weight of internal division: from lack of legitimacy and the resulting political instability. The South Korean government, meanwhile, was afraid that a false sense of security that might result from superficial reconciliation with its northern adversary might lead to the weakening of the United States security commitment in Korea. Both protagonists recognized the usefulness of the status quo and of the absence of a major breakthrough in inter-Korea relations, at least for the time being. In short, inter-Korea talks were not really seen, by either Pyongyang or Seoul, as a means to achieve a genuine improvement of relations. It came as no surprise when the talks produced no positive results.

North Korea stayed away from the Seoul Olympics altogether, concentrating instead on staging a successful international youth festival (held in June 1989). Pyongyang, intent upon bypassing the Seoul government and taking advantage of the pluralistic nature of the South Korean polity, invited South Korean student activists to the event. The South Korean government for its part insisted that the visits and exchanges should be undertaken within a framework agreed upon by Seoul and Pyongyang.

Unproductive as they may be, talks nonetheless continue in a sporadic fashion between North and South Korea in several areas, holding out a slim hope that one day a breakthrough in North–South Korean relations might take place. They include Red Cross meetings, talks on sports cooperation, and negotiations for parliamentarians’ meetings.

Meanwhile, Seoul and Pyongyang have continued to exchange unification proposals. In response to Pyongyang’s call for a Washington-Seoul-Pyongyang tripartite meeting to discuss military matters and the withdrawal of U.S. troops, Seoul proposed North–South Korean discussion on a peace agreement,

confidence-building measures, and arms reduction. In addition, Seoul been eager to open economic and trade relations with the North, removing restrictions on inter-Korean trade and thus making it possible for South Korean companies to engage in direct transactions with North Korea and to import North Korean goods.

New Elements

In the second half of the 1980s, domestic and international developments brought both new dilemmas and new options to the United States, the ROK, and the DPRK, promising changes in the triangular relations among them. In the international arena, the most notable development was the superpower détente between the United States and the Soviet Union that resulted from Gorbachev's new political thinking and accommodation policy. It led not only to the signing of a treaty on intermediate nuclear forces (INF), but also caused a reassessment of U.S. strategic requirements and plans in both Europe and Asia. Although the United States is yet to be persuaded that the Soviet military threat is actually decreasing, the U.S. conviction that it needs to counter the Soviet Union militarily throughout the globe and on all levels is weakening. Should the U.S. perception of threat and challenge change, it is certain to affect the U.S. view concerning the strategic value of the Korean peninsula—and with it the value of the presence of U.S. troops in Korea.

The Soviet Union has extended its conciliatory hand not only to the United States but also the U.S. allies. For South Korea, which has been seeking to establish and expand relationships with socialist countries, the Soviet initiative was a welcome opportunity. The United States, having no justifiable reason to object to an improvement in relations between the Soviet Union and South Korea, can even view it as an incentive to itself seek improved relations with North Korea.

Another major element that could cause a change of U.S. policy toward the two Koreas is the emergence of political change within South Korea. A process of democratization began in earnest in the summer of 1987, and it has resulted in an explosive expression of hitherto suppressed negative sentiments against the United States, albeit by a relatively small minority of South Koreans. Many Americans, including some in the Congress and the administration, tend to regard Korean nationalistic expression as acts of ingratitude and betrayal, but South Korea's younger generation does not remember the Korean War, with the critical role played in it by the United States. Democratization has also made Koreans, both in and out of the government, more assertive in their relationship with the United States. This attitude, applied to policy making and implementation, often conflicted with the need for closer consultation and cooperation and annoyed the United States.

Another element with important bearing on U.S. policy toward South Korea is the enormous U.S. deficit in budget and trade. In the face of a critical need to cut (or at least slow down the increase of) its defense budget, the United States has emphasized “burden sharing” by its allies, in Asia as well as Europe. But the temptation is to resort to “burden *shedding*.” Ironically, it is in those countries with which the United States has the largest trade deficit—Japan, West Germany, and South Korea—that the United States maintains large overseas contingents. There may very well be a reduction of the U.S. military presence in those countries. Many Americans are beginning to wonder whether the United States should continue to assume the main defense role for countries that draw a large surplus from U.S. trade—particularly at a time when U.S. strategic requirements seem to require reassessment.

While so many changes have taken place in part of the Korean peninsula and the world around it, North Korea continues to have basically the same leadership, system, rhetoric, and goals that it has had for more than four decades. The changed environment presents a serious policy dilemma to Pyongyang. Does it open up the country, reconcile with South Korea, and risk fomenting political challenge to the leadership and the regime; or does it maintain its isolation and intransigence, at the cost of further lagging behind the South in economic growth and status? Pyongyang’s insistence that “the Korean question” be resolved only on its own terms presents Seoul with a dilemma of its own: how to maintain a strong military posture while working for reconciliation. However, the fluidity of the situation presents both Seoul and Pyongyang with policy options that were not available before. Significant change in the relationship is possible, even without a fundamental change of leadership or policy in the North.

Policy Dilemmas, Policy Options

North Korea

The critical policy question for Pyongyang, as pointed out above, is whether to take the political risk involved in opening up the country, even partially, and forgoing its old goal of driving the South Korean government out of existence. So far, it has shown virtually no indication of softening on this question, although it could do so in the future. But Pyongyang also has choices on other, more concrete and specific, foreign policy issues.

Pyongyang’s existing policy regarding South Korea and the United States consists of three key elements: a proposal for a confederation between North and South Korea, namely, the Democratic Confederal Republic of Koryo; a call for a tripartite conference of the two Koreas and the United States; and a demand for the withdrawal of U.S. troops.

The confederation proposal is part of Pyongyang's united front strategy intended to take advantage of the pluralistic nature of the South Korean polity. As preconditions for its implementation, the proposal calls for the signing of a peace agreement between North Korea and the United States and the withdrawal of foreign (U.S.) troops from Korea. From Pyongyang's point of view, it is a useful proposal, not only because of the political advantage monolithic North Korea would have were the confederation actually to be realized (an unlikely event) but also because of its propaganda value in demonstrating Pyongyang's desire for peaceful reunification. It also puts pressure on the United States to terminate its military presence in Korea.

Pyongyang's proposal for a tripartite conference calls for discussion among the three parties—the United States, North Korea, and South Korea—on the withdrawal of the U.S. military force, on arms reduction for North and South Korea, and on verification, of both the U.S. withdrawal and Korean arms reduction. According to the proposal, bilateral negotiations will be held concurrently between the United States and North Korea for a peace agreement and between North and South Korea for a nonaggression declaration. When Pyongyang first proposed the tripartite format in 1983, it probably did so at least in part in response to Beijing's urging that Pyongyang moderate its adamant stance on the exclusion of Seoul as a negotiating partner. More important, perhaps, Pyongyang hoped to sow seeds of discord between Washington and Seoul. It could very well have expected that the United States would be more favorably disposed to such a format. In 1979, U.S. President Jimmy Carter had persuaded a reluctant President Park Chung Hee to join him in proposing a similar conference. The Reagan administration, however, went along with South Korea in rejecting the tripartite proposal, suggesting instead a four-party format (which would have included Beijing).

The third element in Pyongyang's policy, the removal of U.S. troops and nuclear weapons, has been a demand of North Korea's ever since the end of the Korean War. Until recently, immediate and total U.S. withdrawal has been the key precondition for any settlement of the Korean question. In 1988, however, Pyongyang began to demonstrate some flexibility on this issue. It indicated willingness to accept a phased withdrawal, following other measures such as a peace agreement with the United States and a nonaggression declaration between North and South Korea.

The North Korean insistence on U.S. troop withdrawal is understandable. It was U.S. intervention that prevented the military conquest of the whole peninsula in 1950, and it was the presence of U.S. troops in the South that prevented North Korea from launching another "war of liberation." Pyongyang is probably convinced that the South Korean government is so dependent upon U.S. support that a substantial reduction of its troops from

Korea would bring down the government and the polity itself. North Korea may even feel threatened by the U.S. military presence.

Nonetheless, there are several reasons why the withdrawal of U.S. troops may not be in the best interest of the Pyongyang regime. For one thing, the U.S. presence is a political liability to the South Korean government at a time when nationalistic sentiments are finding unrestrained expression. Pyongyang exploits this situation to the fullest. The U.S. military presence and the presumed threat it poses also provide Pyongyang with much-needed justification for keeping North Korea under a highly oppressive regime. At the same time, the U.S. presence virtually eliminates the possibility of South Korean armed forces initiating military action against the North. On several occasions in the past twenty years, the United States has played a restraining role when the South Korean military was inclined to take punitive action against the North for provocative acts. A premature U.S. withdrawal will certainly trigger rapid acceleration of the arms race between North and South Korea. Should this happen, North Korea would not be able to keep up with the South's military spending. Thus, on the U.S. troop issue, Pyongyang has a winning game going, benefiting from the presence of U.S. troops in the South and reaping political advantage by demanding their withdrawal.

On another issue, but one related to North Korean intransigence, the international youth festival held in Pyongyang in 1989 must have given North Korea confidence that contacts with the outside world can be made in a controlled way, with minimal political risk. Still, the June 1989 Tiananmen incident in Beijing and political upheavals in Eastern Europe must have served as warnings to the North Korean leaders that the political risk of opening up is high. Their fear, coupled with Pyongyang's perception of South Korean political vulnerability, will incline the North Korean leadership to maintain its intransigence for the foreseeable future.

South Korea

Seoul's main policy dilemma is how to keep its security posture intact while actively pursuing its *Nordpolitik* and seeking accommodation with North Korea. Seoul's northern policy is aimed at improving relations with the socialist countries, including the Soviet Union and China, while attempting to implement the July 7, 1988, declaration, aimed at promoting exchanges with North Korea. The Seoul Olympics in 1988 provided a timely boost for *Nordpolitik*. Seoul's active approach toward the socialist countries, which had not recognized the South Korean government, has shown dramatic results. The Soviet Union and East European nations sent large contingents of athletes and officials to Seoul for the Olympics. Since then, talks on trade and other

economic exchanges have flourished. Trade offices and new lines of communications have been opened with the Communist world, including with the Soviet Union. Major trading companies have opened formal liaison offices in major cities in China, the Soviet Union, and Eastern Europe. Hungary, Poland, and Yugoslavia have established full diplomatic relations with South Korea, and other East European countries are expected to follow.

This extraordinary success in expanding relations with the socialist countries has had its political cost, however: it made the embarrassed Pyongyang more hostile toward South Korea. Furthermore, coupled with the July 7 declaration calling for more exchanges and an end to competition and confrontation, the *Nordpolitik* produced unexpected and unwarranted euphoria in the South Korean public about North–South Korean relations and fostered a false sense of security and complacency.

Changes in the nature of South Korean politics, too, have created a dilemma for the Seoul policy makers. Democratization has not only brought about an explosion of public nationalistic sentiment but has also made the government more sensitive to public opinion and attitude. In matters ranging from trade to burden sharing, the government is under enormous pressure to appear to be more assertive. Both inside and outside the government, those who emotionally emphasize national pride and self-respect tend to prevail over the pragmatists, who urge a course of reason and national interest.

All these changes in the circumstances under which the U.S.-ROK security alliance was formed would be unreservedly welcome—if the Korean security problem had vanished along with them. But, given North Korea's ideology, strategy, military capabilities, and close military cooperation with its allies, Seoul feels that South Korea still needs U.S. security support and military presence. Therein lies South Korea's major policy dilemma.

Seoul's New Unification Formula

Ever since Korea was divided after World War II, Koreans in both parts of the country, North and South, have been preoccupied with finding a formula that would bring them together again as one state and one nation. Pyongyang's proposal for a Democratic Confederal Republic of Koryo calls for a dual structure of government with a unified governing body and two separate governments for North and South. For its part, Seoul, until recently, advocated a "national unity, democratic government" formula, calling for cooperation and exchanges between the two Koreas to facilitate ultimate reunification.

Both proposals were incomplete and unrealistic. Pyongyang's formula provided only for the end product of a unified Korea, not elaborating how it would be achieved. The South Korean proposal, by contrast, focused primarily

on the process by which the two sides would reestablish contact and common identity, not specifying that kind of unified state was envisaged.

Pyongyang's confederal proposal (discussed above) is especially problematical. It is unrealistic because it is predicated upon a degree of trust and cooperation that does not exist at present between the two sides. Pyongyang itself has adamantly refused to recognize the governmental authority of the South. Thus, it sets obstacles to a North-South Korean dialogue and exchanges. Pyongyang's highly propagandized proposal, instead of providing ways and means of getting to the confederation, argues only that both sides should simply accept the formula.

The confederal proposal is also incomplete in that, even in the unlikely event that the plan be realized, Korea as a nation would still have two governments, with respective autonomous jurisdictions and socioeconomic systems. Since, under this plan, the two separate governments would be joined by a supragovernment, which would handle such overarching matters as external and military affairs, the confederation would immediately face serious differences of interests and views, with no institutional mechanism to maintain harmony and unity. Simply put, it is unworkable, however useful it may be to North Korea as propaganda or as a political bargaining chip.

Any unification "formula," no matter which side offers it, starts out with a formidable handicap. North-South Korean relations being what they are, when a formula is proposed by one side, it is taken by the other as a propaganda ploy at best and maybe even a recipe for subjugation. North Korean proposals have in fact contained elements that justify South Korean suspicions. And South Korean proposals more often than not have been defensive responses to North Korean initiatives rather than well-thought-out blueprints for unification or scenarios leading to it.

But even a balanced, systematic, and realistic formula would have had only limited usefulness. Peaceful unification by definition requires mutual willingness and the cooperation of both sides. Indeed, it is not the absence of such a formula that has prevented progress toward unification. It may even be argued that, were one side to be sincere about bringing about unification, the most useful and effective steps it could take would be unilateral, while awaiting a more favorable environment for dialogue.

Indeed, a dramatic breakthrough in North-South Korean relations, leading to mutual adoption and realization of a peaceful reunification plan, is highly unlikely. Even if an agreement is reached in principle, numerous difficulties and obstacles will get in the way of actual reunification. Until recently, the best-known formula for Korean unification was the one offered by North Korea. North Korea was intent on making propaganda and political hay with its trap-laden proposal: Seoul's recent response is a comprehensive and workable plan,

a demonstration that a unification formula does not have to be a political offensive.

The new South Korean proposal, known as “the Korean National Community Unification Formula,” is, properly speaking, a dual-track plan. First, it calls for the reuniting of the Korean people. Second, it proposes the restoration of a unified state. The first phase—the “Korean commonwealth,” with all its related organizational paraphernalia—is intended to promote the reunification of the people. The plan goes on to envisage the eventual establishment of a “unified democratic republic,” which would follow the adoption and promulgation of a constitution.

To compare the plan for Korea with the German experience, this proposal resembles the “German formula” most closely (although the Germans themselves never had an explicitly agreed-upon plan). While this scenario is the one most preferred by Seoul, it is also the one that has been rejected, indeed feared, by North Korea. Taking the German experience as a pointer, for the scenario to become a reality, certain preconditions should be met.

The first precondition would be a prosperous economy and stable political situation in South Korea. It is difficult to expect Pyongyang to negotiate with Seoul with any degree of sincerity so long as it feels that South Korean society is fragile. Rather, Pyongyang would have to conclude that it would be futile to hope for the collapse of South Korea from internal instability.

The second precondition would be sociopolitical change within North Korea. As long as North Korea maintains a thoroughly controlled society, its government will be reluctant to expose the populace to the outside world. Pyongyang is particularly determined to keep its people from exposure to South Korea, fearing what this would mean for the present leadership.

The third precondition would be that the South Korean security posture not be seen as vulnerable—by either the North Koreans or the South Koreans. If Pyongyang were to conclude that it was no match for South Korea in the economic and diplomatic fields, the temptation to resort to military action would—for the short term—increase. Pyongyang could, in fact, feel so threatened as to believe that only a preemptive military action could prevent its being completely overwhelmed. On its part, a militarily insecure South Korea would be less likely to be open and flexible in its dealings with the North.

Finally, for North and South Korea to improve their relations as envisaged in the new South Korean formula, the major powers—the United States, the Soviet Union, China, and Japan—would have to render cooperation and support. They have to encourage, at a minimum acquiesce to, a process of improved and expanded relations between North and South Korea.

Some of these preconditions, such as the first and the last, are already being met. The key question, then, is whether North Korea will change sufficiently to

reconsider its long-standing rigidity toward the South and its isolation from the outside world. The day must come when both Koreas recognize that the choice is not between permanent division and overnight reunification but between gradual improvement in their relationship and continued rivalry.

Conclusion

For peace, and the reunification of Korea, the Korean people and their governments must play the leading role, but they will need help from other countries—in particular from the major powers, such as China, the Soviet Union, the United States, and Japan. These nations can help, not only by serving as intermediaries and offering their good offices, but, of equal importance, by positively responding to and taking initiatives in establishing and expanding multifaceted contacts and exchanges. This is true especially in the economic area.

The major countries surrounding Korea have an obligation to see that peace be maintained in Korea and that Koreans achieve unification. Both the United States and the Soviet Union must share the blame for the 1945 division of Korea. Japan, which ruled Korea for thirty-five years as a colony, must bear the responsibility for subjecting Korea to Soviet and American occupation after the end of World War II. Now, it seems, Korea's neighboring powers are prepared to help Koreans resolve their differences. Koreans, of both North and South, have to take advantage of the favorable circumstances.

In the Korean peninsula—as perhaps everywhere—peace must be a matter of the highest priority. The Korean conflict of the early 1950s was destructive and tragic enough; it caused several million casualties and virtually reduced the country, North and South, to ashes. But today, more than twice as many people live on the Korean peninsula as did then. More than 1.5 million men are now in arms. Both sides have arms and firepower several times more destructive and awesome than before. Enormous and unimaginable havoc and tragedy would result from a renewed conflict. There would be no winners, only losers. And the losers would be the Koreans. A war on the Korean peninsula would also have devastating effect on neighboring countries and would seriously disturb regional and international peace and order. For these reasons, everybody, Koreans and their neighbors alike, have to make absolutely certain that war does not break out in Korea, either by miscalculation, misunderstanding, accident, or design. For these reasons, communications, exchanges, confidence-building measures, and cooperation are necessary, not only between North and South Korea, but also between the Koreas and all other countries. All must move away from and come out of wasteful and dangerous rivalry and start building a durable structure of peace.

14. North and South Korea at a Crossroad

CHONG-SIK LEE

Much has happened on the Korean peninsula during the past several years, giving rise to the expectation that North and South Korea are about to reconcile their differences and proceed to establish normal relations. Indeed, many Koreans hope that unification is near at hand. Given the rapid improvement of relations between the two superpowers and the bewildering pace of development in Europe, including German reunification, such hopes are not surprising.

And yet, as of late 1991, the two Koreas remain as far apart as they had been since the two states were created in 1948. In spite of the frequent contacts maintained between the two governments since 1988 (which culminated in three rounds of premiers' talks in late 1990), the gulf separating the two sides has not been narrowed. Why do the two regimes appear to be contemptuous and conciliatory at the same time? What factors separate the two sides, and what is the likelihood of narrowing the gap? Will it be possible for the two Koreas to improve their relations in the 1990s? Is unification feasible? These are the questions I wish to address here.

Paradoxical as it may seem, the last and the most grave question for the Koreans can be answered most easily. Given the political reality on the Korean peninsula today—that neither North nor South Korea could prevail over the other, either through peaceful or violent means—Korea cannot be unified either through the German or the Vietnamese formula. Developments since 1953, when a truce terminated the Korean War, attest to this. None of the conditions that brought about the German and Vietnamese unification is present on the Korean peninsula.

There is no denying that North Korea's command economy suffered very serious economic problems in the 1980s, but the monolithic or "unitary" political system in the North will not permit it to be overwhelmed by South Korea as East Germany was overwhelmed by West Germany. On the other hand, while the South Korean government has had to contend with a volatile

political scene and is vulnerable to subversive movements both internal and external, it cannot be overthrown through guerrilla or frontal warfare as happened in Vietnam. There is, of course, absolutely no chance that South Korean voters will elect a Communist government. Unification can be brought about only through the improvement of relations between the two Korean states. It is important, therefore, to examine the factors that divide them.

The Dividing Issue

Given that the premiers of North and South Korea held official talks in 1990 and that each exchanged cordial greetings with the president of the other side during the talks, one might assume that the two sides are well on their way to finding means of improving their relations. And, since the presidents of both sides repeatedly reaffirmed the need for peace and unification, one might also assume that they are in agreement about peaceful coexistence.

But the situation in Korea is far more complicated than that. The two sides collided at the premiers' talks not on tangential issues but on the very idea of peaceful coexistence and on what constitutes an improvement in the relationship between the two Koreas.

The issue was deceptively simple. The South proposed that the two sides start the peace process by recognizing "reality" (*silch'e injöng*) and proceeding to take measures to build trust, including the signing of a nonaggression pact. The North found this proposal objectionable. While the North did not deny that Korea was separated in reality and that two governments exist on the Korean peninsula, it did not wish to start the negotiations by reaffirming the facts. To do so, in the North's view, would be to legitimize and perpetuate the division. Instead, the North called for the conclusion of a nonaggression pact. Only when the military tension was reduced, the North side argued, could trust be built. These have been the stated positions of the two sides for more than two decades.

It may appear at first glance that the two premiers prolonged the agony of the citizens on both sides and extended the tension over the Korean peninsula by quibbling over minor procedural matters. If North Korea acknowledges the division of Korea, why does it reject the South Korean proposal? If South Korea is indeed willing to sign the nonaggression pact, why does it refuse to sign it forthwith and proceed to take confidence-building measures?

But the issue involved is far from minor. The South's proposal for the recognition of "reality" would have required a major change in North Korea's ideology and its strategy toward South Korea. North Korean President Kim Il Sung would have had to redefine his concept of "peaceful unification" and his attitude toward the South Korean government. He was clearly not prepared to do so in 1991. The South could not accept the North's proposal because, as will

become clear, the North Korean formula denies the legitimacy of the South Korean regime and would weaken South Korea's defense.

The conflicting positions have long been known to each other, and neither side was surprised by the proposals presented in 1990. Why, then, did the two sides hold the talks at all? Obviously, conflicting forces are at work. While strong forces pull them apart, equally strong forces are pushing the two regimes to the negotiating table. Analysis of the motive for the continuing talks may provide us an opportunity to assess the future prospects for inter-Korean relations. We must, however, first examine the background of the issue that halted the premiers' talks.

Unification: The North Korean Perspective

North Korean President Kim Il Sung's obsession with unification is well known. He has not wavered in his determination to bring about unification on his own terms. He stated in June 1946 that "we cannot be content with the present situation. We must do much more in the future, setting aside many more obstacles and overcoming difficulties, and construct a united, democratic, free, and completely independent and strong Korea."¹ He also held American "imperialists" responsible for establishing a "colony" in South Korea. He said in May of the same year that "imperialists, who are trying to turn Korea into the second round of colony [*sic*] have come to Korea and are providing protection to the fascist remnants. By concentrating [*sic*] those forces, they have been suppressing the people in Korea who have been struggling for democracy and freedom."²

Unification, therefore, was much more than just reuniting separated peoples. Kim said in 1975: "The question of our country's reunification is essentially a question of taking back the territory and population seized by the foreign imperialists and ensuring national sovereignty on a national scale."³ The task of unifying the nation and that of "driving out American imperialists" are thus fused together. The attainment of unification itself, furthermore, would not end the task for the North Koreans. He said in 1958:

¹ Kim Il-sŏng, *Choguk ui t'ongil dongnip kwa minjuhwa rul wihayŏ* [For the fatherland's unification and democratization] (Pyongyang, 1949), 1:89–98; Asea Munje Yon'guso, *PukHan' yŏn'gu charyojip* [Materials for the study of "North Korea"] (Seoul, 1969), 1:105.

² Asea, *PukHan'*, p. 92. Some of the words and phrases used by Kim Il Sung in 1946—those marked here with "[*sic*]," for example—are not clear in meaning even in the Korean text.

³ "On the Occasion of the 30th Anniversary of the Foundation of the Workers' Party of Korea," report delivered at the commemoration of the 30th anniversary of the foundation of the WPK, October 9, 1975, in *Selected Works* (Pyongyang 1979; English edition), 7:219.

The completion of socialist construction in the northern half will not mean the end of our work. There still remain the tasks of reunifying the country and then carrying out democratic reforms such as agrarian reform and the nationalization of industries in south Korea. The fulfillment of the tasks of democratic revolution in the southern half should be followed by the continuing task of building socialism, and after the completion of socialist construction, our country will gradually have to move ahead towards communism.⁴

Since the Democratic People's Republic of Korea (DPRK) was clearly the only legitimate government of Korea, in his view,⁵ and since South Korea was a U.S. colony ruled by a puppet government,⁶ peaceful coexistence with it was totally impossible. Kim noted in November 1954 that

the idea that Korea could be separated into Northern and Southern parts and that the parts should coexist is very dangerous; it is a view obstructing our efforts for unification. Those holding this view would *relegate the responsibility of revolution in South Korea to the South Korean people and relieve of the people in North Korea the responsibility of liberating South Korea*. This is nothing more than a justification for the division of the Fatherland and for perpetuation of the division. (Emphasis added.)⁷

It was on this premise that the North Korean Leader advocated "peaceful unification." That form of unification was to be brought about when the South Korean people completely freed themselves by driving out the U.S. occupying forces, overthrew the fascist dictatorship, and joined in free elections "on

⁴ "On Communist Education," speech delivered at a short course for the agitators of city and county Party committees, November 20, 1958. Reprinted in *Rodong sinmun*, December 6, 1989. The translation is from *Pyongyang Times*, December 16, 1989.

⁵ Kim Il Sung said in 1968: "The Korean people are a single nation and have only one state and one government. The Korean nation's only state is the Democratic People's Republic of Korea. Only the Government of the D.P.R.K. represents the real national interests and will of the entire people of north and south Korea. The so-called 'Republic of Korea Government' in south Korea is a puppet regime which can never represent the south Korean people nor exercise any sovereignty." "The DPRK Is the Banner of Freedom and Independence for Our People and a Powerful Weapon for Building Socialism and Communism," report at the 20th anniversary celebration of the founding of the DPRK, September 7, 1968, in *Selected Works* (1975), 5:191.

⁶ Kim said in 1968, "In an attempt to conceal their foul nature as colonial rulers of south Korea, the U.S. imperialists claim that south Korea is an 'independent state' and has an 'independent government.' But this is no more than a clumsy farce which cannot deceive anyone today." *Ibid.*

⁷ "On Our Party's Policies for the Future Development of Agricultural Management," report, November 3, 1954, in *Kim Il-sŏng sŏn-jip* [Selected works of Kim Il Sung] (Pyongyang, 1960), 4:189.

democratic principles throughout the whole of Korea.”⁸ This was a “peaceful” formula because it would not entail a war (as in 1950) but would require only a “democratic revolution” in South Korea.

Peaceful Coexistence and Unification

Given this background, President Kim Il Sung’s statement of January 1, 1988, stressing the need for the two Koreas to recognize each other’s existence was nothing short of revolutionary. One could argue, of course, that the North Korean president had implicitly reversed himself as early as 1972, when his younger brother signed the historic joint communiqué of July 4 with the South Korean government, pledging to work toward unification. Addressing a letter to “the President of the Republic of Korea” in 1980 could also be taken as another sign of change. But he had not addressed the question of coexistence on either of these occasions. His remark of September 8, 1988, was much more explicit. He said that “in order to realize unification . . . we must follow the principle of coexistence and adopt the method of leaving the two systems as they are and uniting them [under a confederation], neither side swallowing or overwhelming the other.”⁹ It should be noted that the president did not refer to “peaceful coexistence” but only to “coexistence” and that he attached a proviso that coexistence was to be maintained only under the framework of a confederation of the two states.

Unification: The South Korean Perspective

President Syngman Rhee of the Republic of Korea (ROK; South Korea), equally adamant in wanting to unify Korea on his own terms, had not participated in the truce talks in the early 1950s, for they presumed the continuance of the North Korean regime as a separate entity. His successors, seeing no possibility of uniting the country through war or resolving the differences with the bellicose regime in the North, decided to concentrate on economic development and wait for more propitious times. President Park Chung Hee also proposed in June 1973 that North and South Korea be simultaneously admitted to the United Nations, that they not interfere with each other’s domestic politics, and that no aggression take place. In short, he advocated peaceful coexistence of the two states and called for improved relations with North Korea.

President Roh Tae Woo took further steps in the same direction. He declared in July 1988 that his government wanted to move away from the

⁸ Kim Il-sŏng, “Report on the Work of the Central Committee to the Fourth Congress of the Workers’ Party of Korea,” September 11, 1961, in *Selected Works* (1976), 3:148–49.

⁹ *T’ong-il shinbo* (Unification news) (Pyongyang), September 17, 1988.

adversarial relationship against North Korea and build a “cooperative partnership.” To bring this about, he declared that his government would no longer oppose trade between its allies and North Korea but would instead cooperate with North Korea in its efforts to improve relations with the United States and Japan. He also stated that he would actively promote visits between the people of South and North Korea.¹⁰ This declaration was a major turnaround: South Korean government policy had been to isolate North Korea, particularly from its two major allies.

In December of that same year the Roh government, hoping to improve the chance for negotiations, announced the decision to include military talks in the dialogue.¹¹ South Korean governments had previously insisted that military matters should be treated only after the two sides built trust through other forms of contacts, but the Roh government evidently felt the conditions appropriate for it to engage simultaneously in all forms of talks including ones of military nature.

Peaceful Coexistence and Revolution

One might surmise that Kim Il Sung’s new stance of 1988—“leaving the two systems as they are”—was similar to President Park’s call for noninterference in each other’s domestic politics. But this was not the case. President Kim Il Sung was not about to “relegate responsibility of revolution in South Korea to the South Korean people.” He said in the same speech that “the South Korean people must smash enemies’ suppression and scheming maneuvers, unite solidly into one, and forcefully carry out the struggle, thereby bringing to an end American imperialists’ colonial rule in South Korea and fulfill their glorious duty to expedite the unification of the fatherland.”¹² In short, while “coexistence” was a principle to be accepted, the South Korean people should be encouraged to carry on their revolution. The earlier formula of peaceful unification remained unchanged.

The North Korean president also persisted in the idea that the South Korean government was an American puppet. He said that “if [President Roh Tae Woo] does not have the authority (*kwōnnūng*) to confer on and resolve these fundamental problems on his own (*tokja jōk ūro*) and wishes to discuss ways to

¹⁰ For the text of this speech, see International Cultural Society of Korea, *South-North Dialogue in Korea* (Seoul), no. 45 (November 1988): 9–12.

¹¹ *Tong-a Ilbo*, December 28, 1989.

¹² *Ibid.*

perpetually divide the nation into 'two Koreas,' there is no need for anyone to come see us."¹³

Instead of calling for negotiation with the South Korean government, therefore, he called for a "North-South Political Consultative Conference" involving the heads of the four political parties in South Korea plus three others including the dissident leader Reverend Moon Ik Hwan. President Roh was to participate as the head of his party rather than as the head of the state. While slight changes have been introduced in the wording concerning the conference participants, the basic formula has not changed since that time. In his New Year's address of 1990, for example, the participants were to include "the authorities, and representatives of political parties and organizations of the North and South." His argument was that "national reunification . . . cannot be achieved merely by the efforts of the authorities or privileged classes. All political parties, organizations and people from all strata in the north, in the south and abroad who reject 'two Koreas' and truly want national reunification must unite their will and efforts to achieve great, national unity."¹⁴

In 1988, President Kim Il Sung had ample reasons to disregard the Roh regime and to concentrate on encouraging "people's revolution" in South Korea. Massive demonstrations there the previous year brought an end to the draconian regime of President Chun Doo Hwan, and a new democratic system had been installed in early 1988. The government headed by former general Roh Tae Woo, however, had a weak political base, having won only a minority of votes in the presidential election of December 1987. In the National Assembly election that followed in April, Roh Tae Woo won only because the opposition was hopelessly splintered; his party garnered only 25.5 percent of the votes. The situation was compounded by a widespread paralysis of authority that set in as the old authoritarian regime was dismantled.

The situation was aggravated by the revisionist intellectual movements that had gained in popularity among university students since the middle of the 1980s. Many students challenged the existing versions of Korean history, including that of the founding of the North and South Korean regimes, of North-South relations, and of U.S.-South Korean relations. A minority, indeed, came to accept the North Korean version of history, which argued that the Democratic People's Republic of Korea (DPRK; North Korea) was the only

¹³ *T'ong-il shinbo*, September 17, 1988. The "two Koreas" formula, also called the "peaceful coexistence formula," is the one presented by South Korea; it has been labeled "traitorous" by the North Koreans.

¹⁴ From the New Year's address of 1991. All reference to President Kim's January 1, 1991, speech are from *Pyongyang Times*, January 1, 1991. The Korean text of the same speech appears in *Rodong sinmun* (Workers' news) of the same date.

legitimate government representing the entire Korean people and that American imperialism and its creature, the South Korean regime, prevented unification. This atmosphere of skepticism garnered support for "people-to-people" talks with North Korea. Those who rejected the integrity and legitimacy of the Roh regime were unwilling to entrust unification talks to the government. The Pyongyang visits of the Reverend Moon Ik Hwan and Miss Yim Su Kyung reflected this atmosphere.

The events in South Korea evidently encouraged President Kim in Pyongyang. His statement of September 1988, that "the South Korean people must smash enemies' suppression . . ." ¹⁵ may have reflected his view that a South Korean revolution was an actual possibility. His statement of January 1, 1989, was more optimistic. He said that the struggle in South Korea for "the unification of the fatherland" was becoming a majority movement (*tasu*, "the larger number"), expanding into a mass movement encompassing various classes and sectors, and moving from the stage of debate into actual struggle. ¹⁶ Reverend Moon's and Miss Yim's visits to Pyongyang would have further strengthened President Kim's conviction.

The North Korean policy toward South Korea went through a slight modification in 1989, however. The Seoul International Olympics held in September 1988 turned out to be a phenomenal success, heightening the international prestige of the South Korean regime. The Olympics led South Korea to establish trade and diplomatic relations with many of North Korea's traditional allies, such as China, the Soviet Union, and several East European socialist nations. To visitors to the Games, a people's revolution did not appear to be imminent. North Korea needed to take countermeasures.

The North Korean reaction can be called either a version of "separation of politics from economics" strategy or an extension of the "the people-to-people diplomacy" strategy. Under this formula, North Korea will contact all elements of South Korea and broaden contacts with South Korean government agencies but will not recognize South Korea's political regime.

This new policy led to a flurry of activity in 1989, starting with the sensational news that Chung Choo-young, the head of the Hyundai Conglomerate, had visited North Korea in January. The South Korean capitalist tycoon was not only royally treated in the North, but he and the North Koreans concluded a few agreements, including one for the joint development of resort facilities in the Kumgang Mountains, the mountain range in the central east coast of the peninsula widely known for its extraordinary sights. South Korea's

¹⁵ *T'ong-il shinbo*, September 17, 1988.

¹⁶ *Shinnyonsa* [New Year's Address], January 1, 1989, pp. 8-9.

Ministry of Industry and Commerce also announced in the same month that other joint venture projects were under negotiation.

Official negotiations were interrupted from March to September as the South Korean government arrested and imprisoned Moon Ik Hwan and Yim Su Kyung after their much publicized but unauthorized visits to Pyongyang,¹⁷ but the two sides resumed their official talks in September. Although the inter-parliamentary talks made no headway, the two sides inched toward each other on Red Cross talks to facilitate family reunions and on high-level government talks. The sports talks also progressed rapidly. In November, North and South Korea were reported to be on the verge of resolving all their differences in organizing a single united team for the Asian Games to be held the following September in Beijing. None of these talks, however, yielded positive results.

What distinguished 1989 from previous years was not so much the extent of the compromises the two sides reached but the frequency of contacts. The two sides held scores of meetings of one kind or another during the year, and probably there was more traffic in and out of Panmunjom than in any previous year. Since each meeting would have required numerous telephone calls and other forms of conversation, one could conclude that North and South Korean authorities were in constant communication with each other. This was progress of no small significance.

Much happened in 1990 also. Even though North and South Korea dispatched separate athletic teams to the Asian Games in Beijing in September, the two Korean teams rooted for each other when Korean teams were competing against those from other countries. Immediately following the Asian Games, the South Korean soccer team went to Pyongyang for a match with the North Korean team; a similar event followed in Seoul. Until the early 1940s, soccer teams from Pyongyang and Seoul had competed against each other annually, but this was the first event for nearly five decades. Athletes were not the only ones to exchange visits. Musicians from North and South Korea visited each other's capitals in September and December and were met with tumultuous welcomes. These developments had given rise to the hope that the premiers' talks in September 1990 would produce positive results, but they ended in stalemate. Nevertheless, in February 1991 the two sides agreed to enter joint teams in the upcoming world table tennis championships in Japan and the world youth soccer championship in Portugal.¹⁸

¹⁷ The radical All-nation Council of College Students (in South Korea) sent Yim Su Kyung to Pyongyang in June 1989 as their representative to the 13th World Youth Festival held in Pyongyang.

¹⁸ *New York Times*, February 13, 1991.

North Korean Motives for Negotiation

Even if the premiers' talks were simply a part of President Kim Il Sung's people-to-people contact strategy and even if the North Korean government refutes the authority of its counterpart in Seoul to represent the South Korean people, the premiers' talks represented a major reversal of North Korea's previous policy of not engaging in high-level talks with South Korea. Why, then, the change?

There are three possible answers. It could be that North Korea is attempting to modify its southern strategy in practice without altering its basic ideological stance toward the South Korean government; or North Korea could be attempting merely to create the impression that North-South relations are improving in order to improve its economic and diplomatic situation; or North Korea's leaders could be attempting to prepare themselves for modification of their ideological and strategic posture on unification. An abrupt turn might bring untoward domestic consequences, but step-by-step progression would not.

Plausible support can be offered for any of these theories. North Korea can be said, for instance, to have changed its course toward South Korea since 1988, theoretical pronouncements notwithstanding. But the continuity in North Korea's unification policy has been equally striking, buttressing the idea that North Korea could be attempting merely to create the impression that North-South relations are improving. The North Korean attack upon the South Korean government has not slackened. The official organ of the (North) Korean Workers' Party, *Rodong sinmun*, continued through early 1991 to accuse the South Korean president of being a "traitor" (Ro T'ae-wu yökto),¹⁹ "partitionist,"²⁰ American puppet,²¹ and military fascist²² and predicted the early demise of his regime.²³

The North Korean proposal presented at the premiers' talks in 1990 is also virtually identical with the ones its leader had presented decades ago. Premier Yŏn Hyŏng Muk said at the third session of talks December 12, 1990:

¹⁹ See *Rodong sinmun*, January 12, 1991, p. 5, "Korean-Japanese normalization should not be thwarted."

²⁰ *Ibid.*, October 5, 1990, p. 5.

²¹ *Ibid.*, November 9, 1990, p. 5.

²² *Ibid.*, November 5, 1990, p. 5, "Criminal acts that defy unification"; and December 4, 1990, p. 5, "Defiance of the nation's desire for unification."

²³ *Ibid.*, November 20, 1990. Incidentally, Kim Young-sam, the leader of an opposition party who chose to merge his party with that of President Roh to form a ruling coalition in 1990, was denounced as a "political prostitute." *Rodong sinmun*, November 24, 1990, p. 5.

We . . . insist on [1] adopting a nonaggression declaration between the north and south, [2] concluding a peace agreement between the DPRK and the United States, [3] reducing the armed forces of the north and the south drastically and [4] withdrawing the nuclear weapons and U.S. troops from south.²⁴ (Numbers in brackets added.)

On January 1, 1991, President Kim declared that “the adoption of the nonaggression declaration is a starting point in removing distrust and confrontation between the north and south and in opening up a new phase for peace and peaceful reunification.”²⁵ Premier Yŏn stated in December at the premiers’ talks that “we must first have peace reign if we truly want to end the confrontation and remove the distrust.”²⁶

The South Korean position has been that the two sides must establish a framework for improving inter-Korean relations and must build an effective and trustworthy nonaggression arrangement if a nonaggression pact is to have any effect.²⁷ The South Korean premier stated that “signing a nonaggression agreement under the present circumstances would not suddenly and magically give rise to trust which has been lacking for so long and abolish tension which has persisted for so long. A promise of nonaggression can be meaningful only when it is thoroughly kept.” He therefore proposed to establish “institutional devices to ensure its enforcement.”²⁸

The North Korean position in 1990 and 1991, in any event, should be compared with that of President Kim Il Sung at the Fifth Congress of the Korean Workers’ Party (KWP) held in November 1970, where he said:

More than once we proposed to the south Korean authorities that [1] after the U.S. imperialist aggression army had been driven out of south Korea, [2] the north and the south should each reduce their armies to 100,000 men or less, [3] conclude an agreement to refrain from using armed force against each other, [4] initiate such measures as economic and cultural exchanges and visits of individuals between north and south and [5] establish a unified, democratic government through a free north-south general election.²⁹ (Numbers in brackets added.)

²⁴ *Pyongyang Times*, December 15, 1990, pp. 3–4.

²⁵ From the New Year’s address of 1991.

²⁶ *Pyongyang Times*, December 15, 1990, p. 3.

²⁷ Keynote address by South Korean Prime Minister Kang Young-hoon at the Third Round of High-Level Inter-Korean Talks, December 12, 1990, *Korea Update* (Seoul), December 17, 1990, pp. 4–5.

²⁸ *Ibid.*

²⁹ Report to the Fifth Congress of the KWP on the Work of the Central Committee, November 2,

When these statements are compared, one can see that every element enunciated by Premier Yon in 1990 relating to security and military concerns is contained in President Kim's earlier statement; only the sequence of events has been altered. Instead of signing the nonaggression agreement after the withdrawal of U.S. forces and the reduction of respective armies to 100,000 men, North Korea has been proposing since 1988 to sign the nonaggression pact first, to be followed by U.S. withdrawal. The South Korean government considers this to be nothing more than a cosmetic change. This is because "driving out foreign forces" has been the sacrosanct mission of the North Korean regime ever since the end of the Korean War.

It is, therefore, natural for the South Korean leaders not to be eager to sign the nonaggression pact. The withdrawal of U.S. occupation forces in 1949 led to the North Korean invasion of June 1950. Since then, the South Korean government has consistently regarded the presence of U.S. forces in Korea to be the major deterrent against North Korean aggression. Seoul interprets the North Korean formula as nothing but a ruse to weaken South Korean defense against possible North Korean attack. Hence it included a provision in its proposal presented at the premiers' talks that the agreement would "not influence bilateral or multilateral treaties or agreements that both sides have already concluded." This would in effect permit the continued presence of U.S. forces in South Korea and negate North Korea's primary objective in engaging in the negotiations.

When the rhetoric is stripped away, what the South Koreans desire is to see a change in North Korea's attitude toward revolution and its acceptance of the principle of coexistence between the two Korean states. President Roh Tae Woo said at a press conference in January 1991: "I expect North Korea will soon accommodate world changes in a reasonable way, and emerge from its closed-door and isolation policy. . . . The day will surely come. Then, North Korea will ultimately adopt a realist line. Once North Korea begins to change, inter-Korean relations will undergo rapid changes."³⁰

North Korea and the "Wind of Change"

As of 1991, however, North Korea has displayed little willingness to "accommodate to the wind of change." Indeed, the North Koreans scoffed at such an idea. President Kim declared on January 1, 1990, that "no matter which way the wind may blow, we must fight, full of confidence and optimism about the bright future, while the Party, trusting the people and the people believing

1970, *Selected Works* (1975), 5:485.

³⁰ *Korea Newsreview* (Seoul), January 12, 1991, p. 6.

the Party, must accomplish the noble revolutionary cause of Juche.”³¹ He declared also that

the so-called “peaceful transition” strategy that the imperialists are clinging to is in its essence aimed at internally breaking up socialist countries and turning them back to the capitalist road, thereby placing them under their political and economic control. . . . Progressive peoples of the world must not be deceived by the honeyed words of imperialists, [must] not hang their hope on deceitful “aids,” and [must] advance with the banner of anti-imperialism hoisted even higher.³²

President Kim was emphatic in his New Year’s address of 1991 that North Korea would not change. In addition to the statement quoted above, he declared, “No matter how serious the twists and turns may be, we will go our way to the end, detouring around whatever rocks may crop up on the way.” He repeated the sentence twice in the same speech.

Given these statements, North Korea’s motive in holding the premiers’ talks must be sought in North Korea’s economy and its diplomatic relations. North Korea’s economy has been suffering from grave internal and external problems. Its inability to repay international debts incurred during the early 1970s is a major embarrassment and has placed North Korea’s economy and trade in the doldrums. South Korea, in the meantime, has achieved a phenomenally high growth rate since the 1970s. The steady increase in trade and other forms of contact between South Korea and North Korea’s traditional allies, China and the Soviet Union, accentuated North Korea’s declining international position. *Rodong sinmun* not only deplored the new Soviet strategy toward the West in general and its strategy toward South Korea, but accused the Soviet Union of joining an imperialist conspiracy. It said:

When the establishment of “diplomatic relations” with south Korea by the Soviet Union [is analyzed] . . . in the final analysis, [it] cannot be construed otherwise than openly joining the United States in its basic strategy aimed at freezing the division of Korea into “two Koreas,” isolating us internationally and guiding us to “opening” and thus overthrowing the socialist system in our country.³³

The collapse of the socialist economies in the Soviet Union and Eastern Europe also dealt North Korea a heavy blow because they had been the major

³¹ The New Year’s address of 1991.

³² *Rodong sinmun*, January 1, 1991, p. 2.

³³ *Pyongyang Times*, October 6, 1990, p. 12, quoting *Rodong sinmun*, October 5, “‘Diplomatic relations’ bargained for dollars.”

trade partners of the DPRK. The situation became more grave in 1991 when the Soviet Union decided to conduct all its trade in hard currencies, reduce oil exports to its traditional allies, and terminate the system of oil discounts it had provided to its allies.³⁴ These decisions had an enormous impact on North Korea. Soviet trade constituted more than half of North Korea's total. Further, the DPRK has depended heavily upon Soviet oil. Presumably, Soviet foreign minister Eduard Shevardnadze informed North Korea of these decisions during his visit to Pyongyang in September 1990. North Korea is known to have sought Chinese help shortly afterward to remedy the situation, but China had limited ability to respond.³⁵

Japan and North Korea

The only alternative available to North Korea to resolve its economic crisis, short of receiving aid from South Korea, was to improve and "normalize" its relations with Japan. Japanese politicians had been openly suggesting that Japan would provide considerable financial aid to North Korea as compensation for the damage Japan had inflicted on Korea during the colonial era. In 1965, when Japan normalized its relations with South Korea, Tokyo provided \$500 million to South Korea, \$300 million of which was low-interest loans. For Pyongyang, establishment of diplomatic relations with Japan would also compensate for the prestige the North lost in the diplomatic arena when the Soviets recognized South Korea in September. Japan and North Korea reportedly had begun to engage in secret talks in March 1990,³⁶ but the pace was accelerated. Kanemaru Shin visited Pyongyang in late September, only three weeks after Shevardnadze's visit.

Kanemaru, the doyen of the Liberal Democratic Party (LDP) who has been called by some "Japan's Deng Xiaoping," was enthusiastic and effusive during his stay in Pyongyang. He also carried to the DPRK president Premier Kaifu Toshiki's formal letter expressing Japan's apology for its past conduct. Kanemaru and the representative of the Japanese Socialist Party who accompanied him signed a joint declaration with the (North) Korean Workers' Party in which the Japanese agreed that "Japan should officially apologize and fully compensate the Democratic People's Republic of Korea for the enormous misfortunes and miseries imposed upon the Korean people for 36 years and the losses inflicted upon the Korean people in the ensuing 45 years."³⁷

³⁴ *Economist*, August 11, 1990, p. 47.

³⁵ James McGregor, "China Refuses to Bail Out North Korea, Advising Instead Reform in Style of Seoul," *Asian Wall Street Journal Weekly*, December 17, 1990, p. 3.

³⁶ *Chōsōn Ilbo*, December 4, 1990.

³⁷ *Pyongyang Times*, September 29, 1990, p. 1.

The South Korean government and the mass media reacted sharply to the timing and the content of the declaration. It was thought that the Japanese action might undercut South Korean efforts to persuade North Korea to take a “more reasonable position” and that the agreement to compensate the North for “losses inflicted” in the forty-five years after 1945 carried enormous political implications. The North Korean position on the latter point, as revealed at the first round of government-to-government talks in Pyongyang on January 30, was that (1) Japan was in part responsible for the division of Korea in 1945, (2) Japan sided with the United States during the Korean War, and (3) Japan took a hostile attitude toward North Korea after the Korean War.³⁸ While all these charges are true, Japan could not admit guilt over these actions and remain an ally of South Korea and the United States.

While North Korea was eager to have the joint declaration translated into action and to receive the desperately needed funds, the Japanese government was much more cautious. Even Kanemaru changed his tune after his return from Pyongyang. While in Pyongyang, he may have acceded to the pressure to sign the declaration because he needed to facilitate the release of two Japanese seamen seized by North Korea in 1983 as spies before his return to Tokyo. But relations with South Korea were much more important to Japan than those with North Korea, and Kanemaru took the view, on visiting President Roh in October, that the declaration was not binding on the Japanese government. He agreed with certain conditions presented to Japan by South Korea.³⁹

South Korea’s demand was that Japanese–North Korean normalization would not undercut the North–South dialogue and that North Korea be made to join the nuclear safety accord of the International Atomic Energy Agency (IAEA).⁴⁰ North Korea had signed the Nuclear Nonproliferation Treaty in 1985, but it had refused to let the IAEA inspect its nuclear facilities. The possibility that North Korea would develop nuclear warheads had become a particular concern for South Korea (as well as for Japan and the United States) when Kim Yong-nam, the North Korean deputy premier and foreign minister, told Foreign Minister Shevardnadze that North Korea would be forced to develop its own nuclear weapons if the Soviet Union established diplomatic relations with South Korea.⁴¹

³⁸ *Tong-a Ilbo*, January 31, 1991.

³⁹ *Korea Newsreview* (Seoul), October 13, 1990, pp. 4–5.

⁴⁰ *Ibid.*

⁴¹ *Asahi Shinbun*, January 1, 1991.

North Korea's decision on the nuclear issue remains to be seen,⁴² but it was incumbent upon it to improve its relations with South Korea if it were to accelerate the process of normalization with Japan. Otherwise, the Japanese would be placed in an awkward position. Infusion of Japanese funds into North Korea is likely, in the long run, to have a positive effect on its opening to South Korea and the West because North Korea could not be expected to open its doors very wide until its political leaders are certain that such a policy would not subvert its political system, but the short-term effect could be quite the contrary. North Korea could very well stiffen its attitude toward South Korea once its economic crisis is resolved. The Japanese, therefore, cannot help being cautious in their negotiations with North Korea, lest they be blamed for prolonging the tension on the Korean peninsula.

The Future Prospect

Economic imperatives, therefore, are likely to propel North Korea toward improving its relations with South Korea or at least continuing the dialogue with the South. The South, for its own reasons, has been strongly motivated to improve relations and therefore will be responsive to changes in North Korea's position. The public clamor for improvement in relations with North Korea will remain strong. The South Korean government also hopes that improved relations in one sector will spill over to other areas, contributing to the establishment of a more stable relationship with the North.

Nevertheless, the future of North-South Korean relations remains clouded because of North Korea's reluctance to alter its basic ideological position. Apart from the leaders' historic and deep commitment to the basic tenets of Marxism-Leninism, they have little alternative. Developments in China, Eastern Europe, and the Soviet Union have not been encouraging to the North Korean leaders. Not only have the economies of these former allies been disoriented through reform programs, but many of them have abandoned the basic principles of Marxism-Leninism altogether. The Romanian case was most disastrous from the North Korean leaders' perspective in that in December 1989 President Ceausescu was brutally executed. Former leaders in other East European countries have not fared much better. Even in Albania, the last stronghold of pro-Stalinist rule in Eastern Europe, citizens brought down the statue of Enver Hoxha in February 1991. North Korean elites do not want to risk the disorder that reforms have wrought elsewhere. It is not surprising that the

⁴² On November 16, 1990, the DPRK Foreign Ministry issued a statement saying that "we can sign a nuclear safeguards agreement only on condition that the United States gives legal assurance that it would not resort to a nuclear threat against us." *Korea Report* (International Affairs Bureau, Central Standing Committee, Chongryun, Tokyo), no. 244, November 1990, p. 1.

North Korean regime adopted the slogans “Our style of socialism is the best” and “We shall stick to our way.”

North Korea will likely follow its present course—adhering to its well-known ideological position while continuing the dialogue with the South Korean government—for some time. “People to people” contacts will be encouraged and their scope broadened. It is also possible, however, that North Korea will make exceptions to its ideological stand, or as President Kim stated in January 1991, make detours, when a need arises. Note, for example, that North Korea is seeking to normalize relations with Japan even though it had steadfastly rejected the idea of cross-recognition of North and South Korea by the four major powers.⁴³ The premiers’ talks also did not fit into the previous North Korean position because they clearly signified *de facto* recognition of the South Korean government. North Korea’s demand for U.S. withdrawal has also been modified. In the past, North Korea insisted on immediate U.S. withdrawal before engaging in North–South Korean talks, but since January 1986, it has been advocating U.S. withdrawal in stages.

Progress in North–South relations is likely to be painfully slow unless unforeseen events intervene, but progress has been made during the past decade, and that progress should not be minimized. Tension remains high, to be sure, but the atmosphere on the Korean peninsula has changed dramatically since the early 1980s. Border skirmishes were daily occurrences even up to 1981, but such has not been the case since then. It has been some years since North Korean terrorists attacked South Korean leaders. More important, both North and South Korean leaders have modified some of their positions, and the two regimes are now actively engaged in negotiations.

Thus one can be cautiously optimistic about the future of inter-Korean relations. Much will depend upon North Korean leaders’ beliefs and perceptions concerning their surroundings and their ability to adjust to the changing environment. But those interested in peace and the unification of Korea should continue to offer to North Korea viable and attractive alternatives to the course they have been pursuing. In time, the two parts of Korea will not only find a way to live together peacefully but may even find ways to build bridges toward unification.

⁴³ China, Japan, the Soviet Union, and the United States.

Contributors

Byung-joon Ahn is professor of political science at Yonsei University, Seoul, Korea.

Alexei G. Arbatov is senior researcher in security affairs at the Institute of World Economy and International Relations, Moscow.

Gennady I. Chufrin is deputy director of the Institute of Oriental Studies, USSR Academy of Sciences, Moscow.

Han Sungjoo is professor of political science at Korea University, Seoul, Korea.

Ronald J. Hays (U.S.N., Ret.) is president, Pacific International Center for High Technology Research, Honolulu, Hawaii.

Chong-Sik Lee is professor of political science at the University of Pennsylvania, Philadelphia.

Vladlen A. Martynov is director of the Institute of World Economy and International Relations, Moscow.

Duck-Woo Nam is chairman, Korea Foreign Trade Association, Seoul, Korea.

Gendengiin Nyamdoo is ambassador of the Mongolian People's Republic to the United States.

Saburo Okita is chairman, Institute for Domestic and International Policy Studies, Tokyo.

Dwight H. Perkins is director, Harvard Institute for International Development, Cambridge, Massachusetts.

Seizaburo Sato is research director, International Institute for Global Peace, Tokyo.

Robert A. Scalapino is Robson Research Professor of Government Emeritus, University of California, Berkeley. At the time of this conference he was director of the Institute of East Asian Studies.

Wu Zhan is professor of political science, Institute of American Studies, Beijing.

Other Participants

Wenjun Huang is minister counselor for economic affairs of the Embassy of the People's Republic of China in Washington, D.C.

Jin-Hyun Kim was, at the time of this conference, editor-in-chief of the *Dong-A Ilbo*, Seoul, Korea.

Sang-Man Kim is chairman of the *Dong-A Ilbo*, Seoul, Korea.

Myung-Ho Moon is editorial writer for the *Dong-A Ilbo*, Seoul, Korea.

Sang-keun Pyun is Washington correspondent for the *Dong-A Ilbo*.

Badarchiin Suvdaa is counselor, policy and plans, Ministry of Foreign Affairs, Ulaan Bataar, Mongolian People's Republic.

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