

## Growth, Crisis and Opportunity in East Asia

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The Asia-Pacific region is seen by western governments and business circles as the fulcrum of the world economy in the 21st century. The image of prosperity in the region, however, masks a process of growth that is marked by high ecological costs, a widening gap between agriculture and industry, and increasing inequality in income distribution. Moreover, conflicts are developing between Asian and non-Asian governments and economic elites for the domination of its vast market. Rapid growth is, in turn, leading not to peace among countries but to growing tensions, if not outright conflicts, in what has become the world's fastest growing market for conventional arms. Growth has also been accompanied by growing antagonisms within countries where rapid economic growth has taken place largely within authoritarian or restricted political systems. Farming populations, which have been marginalized by the growth process, join the urban masses created by it to demand more democratic systems of rule.

Central to the future of peace and security in East Asia is the spread of democracy. In contrast to authoritarian governments, democratic governments seldom go to war with one another. The primary reason for this is the presence in democratic governments of mechanisms like checks and balances, the free press and public opinion. This democracy is therefore different from the "Asian democracy" propagated by Asian elites, for the latter formulation is, in reality, authoritarianism in the guise of democracy. The emergence of the thesis that there is a mode of governance peculiar to Asians in recent ideological debates is a counteroffensive employed by alarmed elites against the democratic wave that has been sweeping Asia since 1986.

Moreover, amid the realities currently besieging East Asia, the alternative paradigm for change espoused by the progressives becomes more relevant than ever. The paradigm articulates: (1) the need to formulate a model for sustainable development appropriate for East Asia; (2) the need for a post-Cold War multilateral system of peace and security; and (3) the need to build a regional democratic movement that will assist those still living under authoritarian rule to make the transition to democratic rule.

### Introduction

In response to the stagnation enveloping the German economy, Hans Olaf-Henkel, head of the Federation of German Industry, said in April 1996 that efforts to maintain the "workplace consensus" that underpinned German's "social market" economy would leave employers "with no choice but to do what they did in the last few years. We will vote with our feet, and go abroad."<sup>1</sup>

Olaf-Henkel was clearly referring to Asia. Interestingly enough, Germany's Chancellor, Helmut Kohl, had just voted with his feet and visited Bangkok, where he was a key figure in the institutionalization of the Asia Europe Leaders' Meeting (ASEM), a superbody of 15 European and 10 Asian heads of state that was designed to intensify trading and investment ties between Europe and Asia.

ASEM, in turn, could not be understood without taking into consideration the formation of the Asia-Pacific Economic Cooperation (APEC), a trans-Pacific economic association uniting the United States and six other non-Asian countries to 12 Asian economies around the vision of achieving "borderless trade" by the year 2020.

The Asia-Pacific region, in other words, is seen in western governments and business circles as the new El Dorado, as the land of unceasing economic growth that will serve as the driver of the world economy in the 21st century. With the seemingly limitless expansion of middle class markets that it promises, the Asia-Pacific is often portrayed as some sort of fountain of youth that will restore the dynamism of American and European capital, which can no longer be sustained in their home economies.

The image of prosperity in the region, however, masks a process of growth that is marked by high ecological costs, a widening gap between agriculture and industry, and increasing inequality in income distribution. Moreover, there is developing a head-on conflict between Asian and the non-Asian government and economic elites for the domination of this vast market. Rapid growth is, in turn, leading not to peace among countries but to growing tensions, if not outright conflicts, in a region which has become the world's fastest growing market for conventional arms. Growth has also been accompanied by growing antagonisms within countries where rapid economic growth has taken place largely within authoritarian or restricted political systems. Farming populations, which have been marginalized by the growth process, join the urban masses created by it to demand more democratic systems of rule.

The first decades of the 21st century, in short, could just as likely see the unravelling of the continuation of the Asia-Pacific bonanza.

### State-Assisted Capitalism and High-Speed Growth

Rather than a single factor, a variety or concatenation of developments explain the emergence of a dynamic growth process in Asia, including the impact of aid and military expenditure owing to the Cold War, the creation of mass buying power via land reform in Korea and Taiwan, an economic strategy in which export of labor intensive manufactures played a key role, and, in the case of Southeast Asia since the late 1980s, the massive inflow of Japanese investment capital owing to the massive rise in the value of the yen that made manufacturing in Japan no longer competitive. This is the place to discuss the relative contributions of these conditions.

There is, however, one thing that cannot be underestimated, and that is the leading role of the state in the development process. Despite efforts to stress the leading role of the market by such institutions as the World Bank,<sup>2</sup> the prominence of the state is undeniable.

In the case of Korea and Taiwan, the most successful of the "first generation NICs", high speed growth was associated with an economic strategy with the following features:

- 1 strategic economic planning managed by government, exemplified in some countries by 5 to 10-year plans;
- 2 government targetting of specific industries for development and generous subsidization of private enterprises to support the targetted industries;
- 3 building strategic economic depth by moving in a planned fashion from the development of consumer goods industries to intermediate goods and capital goods enterprises;
- 4 reserving the domestic market for local entrepreneurs by maintaining tight restrictions on imports and foreign investments;
- 5 adopting a mercantilist trade strategy consisting of limiting the entry of foreign imports into the domestic market while aggressively winning and dominating export markets, resulting in a growing trade surplus; and
- 6 in the case of Korea, though not in Taiwan, bold, Keynesian-style manipulation of macro-economic mechanisms like deficit spending, loose credit policies, massive foreign borrowing to lay the infrastructure of a capital goods sector; and



- 7 systematic undervaluation of the currency relative to hard currencies and the employment of different subsidy schemes for exporters in order to keep exports competitive in world markets.

Protection of the domestic market, aggressive mercantilism in export markets, and pervasive state intervention in the total economy — these are key elements in the Northeast Asian recipe for "NICHood". True, market mechanisms operated, but, especially in Korea, they were deliberately distorted in the short term to build up strategic economic depth. For instance, Korean technocrats deliberately violated the classical free-market principle of consumer sovereignty — "Give the consumer the best product at the lowest price" — for the larger strategic goal of strengthening national economic sovereignty. Thus, if the price of Korean-made computers in the domestic market was three to four times that in export markets, this was in order to allow local conglomerates and monopolies to recoup the losses they incurred in battling the formidable Japanese in export markets. To borrow economist Alice Amsden's classic statement, "Not only has Korea not gotten relative prices right, it has got them deliberately wrong."<sup>3</sup>

But what about the Southeast Asian "stars" of the last decade, specifically Thailand, Malaysia and Indonesia? Are their high rates of growth not due to the adoption of liberal, market-oriented policies? True, in Indonesia, Malaysia, and Thailand, the state may have played a less aggressive role than in Korea, but activist state policy, in the form of protectionism, mercantilism, and regulation, has nevertheless been central in the drive to industrialize. For instance, Thailand began to register the eight to 10 percent growth rates that dazzled the world in the late eighties, when it was moving to a second stage of "import substitution", or using trade policy to create the space for the emergence of an intermediate goods sector.

In the case of Malaysia, while it is true that some privatization and deregulation favoring private interests took place in the late 1980s, it would be a mistake to overestimate the impact of these policies or to see them as the wave of the future. Indeed, the most successful Malaysian enterprise of the last decade was a state-directed joint venture between a state firm and a foreign automobile multinational, Mitsubishi, which produced the so-called Malaysian car, the Proton Saga. The Saga now controls two-thirds of the market and turns a profit. Yet, its development

exemplified all the so-called "sins" of state intervention that neoclassical economists have warned about: discriminatory tax treatment of competitors, strategic industrial targeting or a systematic plan to manipulate market incentives to create a local car industry, and forced local sourcing of components to encourage the growth of local supplier industries.<sup>4</sup>

As for Indonesia, some reform along market-oriented line has taken place, but the state continues to be a very important actor in the economy. Hardly any of the big state enterprises have been passed to the private sector. State enterprises contribute about 30 percent of the nation's GDP and close to 40 percent of non-agricultural GDP. Government production accounts for 50 percent of the GDP of the mining sector, 24 percent of manufacturing GDP, 65 percent of banking and finance, and 50 percent of transport and communications.<sup>5</sup> Indeed, there has been a resurgence in recent years of statist policy aimed at using trade policy, subsidies, and other mechanisms to create a heavy industry nucleus around which to center the economy, including the development of an integrated steel complex, a shipbuilding complex, and an aircraft industry.

Indeed, one can, without too much distortion, say that Southeast Asian growth over the last decade may be said to be an offspring of "state-assisted capitalism" and Japanese investment, about which more will be said later.

Suffice it to say at this juncture that while the activist state in East Asia has been central to the phenomenon of "high speed growth", it is now seen as a threat to those Northern interests exposed to global competition from Asian capital, as well as a massive obstacle to those trying to enter the Asian market to share in the fruits of so-called Asian miracle. While the World Bank continues to extol the supposed virtues of market-led growth in the region, the U.S. Trade Representative's Office now regularly denounces the Asian "tigers" as closed and protected markets that also discriminate against U.S. investors. Typical of these attacks is U.S. Commerce Secretary Mickey Kantor's description of Korea as "one of the toughest markets in the world" for U.S. exporters as well as a "particularly difficult market in which to invest."<sup>6</sup>

### The Other Side of the Asian Miracle

*Worsening income distribution.* State-assisted or "NIC" capitalism has come under fire not only from Northern interests but also from the Asian perspectives and environmentalists. The latter claim that while absolute incomes have certainly risen in most of the so-called "newly industrializing countries", this trend has been accompanied by worsening income distribution in Korea, Taiwan, China, and Singapore. In Thailand, which has exhibited the highest average growth rate among developing countries over the last 30 years, income distribution has degenerated to Latin American levels: from 1975 to 1990, the income share of the richest 20 percent of the population rose from 49.3 percent to 57.3 percent, while that of the poorest 20 percent dropped from 6.1 to 4.1 percent.<sup>7</sup> These trends not only raise questions about social justice, but also indicate that social instability is built into the high-growth model.

Indeed, the wave of militant labor activities that has marked recent management-labor relations in Korea, Taiwan, the Philippines, and Indonesia in recent years has been a response to a sense that it is the working class created by high-speed industrialization that has paid the costs of that growth, but received so little of its benefits. In Korea, the conjunction of repression, regressive income distribution, and military-style management has created an extremely class-conscious work force,

some of whose actions against management border on the insurrectionary.<sup>8</sup>

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*The crisis of agriculture.* Throughout Asia, the biggest gap in income distribution has developed between the city and the countryside. In Korea, average rural household income dropped from parity, with average urban household income in 1975 to 85 percent in 1989.<sup>9</sup> The drop was even more precipitous in Thailand, where the average income of an agricultural worker dropped from one-sixth of that of workers in other sectors in the early sixties to one-twelfth by the early nineties.<sup>10</sup> Not surprisingly, more



than three quarters of those living under the poverty line were found in the countryside, making poverty, in the words of one economist, "almost entirely a rural phenomenon."<sup>11</sup>

The deterioration of the countryside was not a result of market forces but of policy. The Asian industrial miracle was built at the expense of agriculture. From Korea to Thailand, agriculture served as the source of capital for industry that was extracted through taxes or unequal terms of trade between agriculture and industry imposed by such mechanisms as direct or indirect controls to keep down the prices of agricultural goods.

With low returns from agricultural production, the countryside provided a great incentive for the migration to the urban areas of peasants that formed the work force for the new industries, a movement of people that, in less than 25 years (1965 to 1988), slashed the rural population of Korea by half, from 15.8 million to 7.8 million. In the case of Taiwan, rural depopulation was less a question of market forces than of policy, as agricultural technocrat, and later president, Lee Teng-Hui admitted: "The government has intentionally held down peasants' income so as to transfer these people, who originally engaged in agriculture, into industries."<sup>12</sup>

Low returns also discouraged investment in agriculture and agricultural technology, thus burdening the NICs with a high-cost agriculture over time. By the mid-1990s, Korean rice costs five to seven times more than the price of foreign rice,<sup>13</sup> and, with the strong pressure on the country to open up its market to subsidized rice from the United States, Korea confronted no less the 'disintegration of the rice farming household,' as one government report puts it.<sup>14</sup> Indeed, agricultural technocrats in both Taiwan and Korea were talking about a future with a marginal role for agriculture and extreme dependence on food imports to feed the population under the guise of "rationalizing" agricultural production.

Farmers, however, were determined to take a last stand, and the ratification of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994 and public discussion of the Asia Pacific Economic Cooperation (APEC), both of which sought radical liberalization of agricultural markets, provided them with fora to publicize the case for their non-extinction to not unsympathetic domestic audiences.

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*The savaging of the environment.* Like the crisis of agriculture, the savaging of the environment was one of the dominant features of NIC development throughout East Asia. In Taiwan, often considered "Asia's dirtiest spot", the lower reaches of virtually all major rivers are biologically dead because of a combination of unregulated industrial and human waste dumping. Twenty percent of the country's farmland, the government itself admits, is polluted by industrial waste water that is a legacy of the strategy of decentralized industrialization with zero zoning and pollution controls followed by the Kuomintang (KMT) government. As a

result, 30 per cent of the rice grown on the island in the late 1980s, was said to be contaminated with heavy metals beyond officially tolerated levels.<sup>15</sup>

Korea's environmental fate is very similar to Taiwan's. Seoul's air continues to have one of the highest concentrations of sulfur dioxide in the air, and two-thirds of the rain that falls on the city contains enough acid to threaten human health. Much of the country's tap water is unsafe, with a heavy-metal content far above acceptable levels. Because of massive dumping of organic and industrial waste, including great quantities of carcinogenic substances like waste phenol, the country's two major rivers, the Han and Nakdong, are said to be approaching biological death.<sup>16</sup>

Thailand telescopes in a particularly vicious way the ravages of the first stage of growth, the rapid depletion of natural resources, with those of the second, the ecological impact of high-speed industrialization. Owing to unrestricted logging, less than 20 per cent of the country remains under forest cover, down from more than 60 per cent in the 1950s. Meanwhile, the lower reaches of the Chao Phraya River that runs through Bangkok are close to being anaerobic or biologically dead, owing partly to uncontrolled waste water disposal by factories, 27,000 of which,



out of a national total of 50,000, are concentrated in the national capital region.<sup>17</sup>

A massive explosion caused by chemical reaction in the thickly populated Klong Toey harbor area in March 1991 underlined the utter lack of regulation over toxic substances: years later, still births, miscarriages, birth defects, skin diseases and other chemical-related illnesses marked the lives of many people exposed to chemical fallout.<sup>18</sup> Likewise, the mysterious deaths of about over a dozen workers employed in electronics companies in one of the country's prime industrial estates was attributed by many experts to contact with toxic substances at work.

The issue, according to environmentalists, is not that there are no laws regulating industrial production. Indeed, some of the environmental legislation in Asia are among the best in the world, on paper. Implementation is the problem, and implementation is guided by a belief pervasive in the bureaucracy and technocracy of the Asian countries that some measure of environmental degradation is a necessary cost of economic growth. As one environmental expert in Thailand claimed, the unstated understanding between the government and the corporations, whether they be Thai, Japanese, NIC, European, or American, is that the latter "will make zero investments in pollution control."<sup>19</sup>

### **Japan's De Facto Trading and Investment Bloc**

Increasing inequality, agricultural crisis, and environmental degradation are not the only features of the "NIC" growth model that is worrisome to many Asian progressives. Also problematic in their view has been the ambivalent role played in the region by Japan. On the one hand, Japan's dynamic economic growth has certainly served as one of the main stimuli to the regional growth of the Asia-Pacific since the 1960s. Japanese capital and Japanese technology played a critical role in the industrial transformation of Korea, Taiwan, and Southeast Asia, but it was a process of growth that was also marked by the development of an unequal division of labor and technological dependency — in other words, a process of integration cum subordination.

Interestingly enough, this critique of Japanese capital's role in East Asia voiced by Asian progressives is shared in its essential by U.S. government and corporate interests, though for markedly different reasons.

*Japanese capital and the development of Northeast Asia.* When Japanese firms sought to escape the rising cost of domestic labor in the 1960s, their first choice of location was their former colonies, Taiwan and Korea. As these two companies sought to emulate Japan's export success, Japanese trading companies handled international trade for Taiwanese and Korean firms, with an estimated 50 to 70 percent of Taiwan's exports passing through them.<sup>20</sup> And as Korean and Taiwanese industrialization took off in the 1970s, Japan provided a significant portion of the machinery and components utilized by Korean and Taiwanese enterprises to turn out toys, bicycles, radios, television sets, and PC monitors for export. Japan was more tight-fisted when it came to technology transfers, but especially as the Japanese technology, the Koreans and the Taiwanese became dependent on licensing available Japanese technologies in finished form to achieve their export successes, particularly in consumer electronics, automobiles, and semiconductors. In the period 1962-80, Japan was the source of nearly 59 percent of approved technology licenses, while the United States accounted for only 23 percent.<sup>21</sup> This severe dependence on Japan for components and technology resulted in the development of a trading system marked by "highly unbalanced set of relationships through which South Korea and the other newly industrializing economies imported heavily from Japan to support their industrial development, and exported heavily to the United States to cover these imports."<sup>22</sup>

Contemporary Taiwan and Korea are often portrayed as actual or potential rivals of Japan, with increasingly integrated economies marked by a growing high-tech sector. But this is an exaggerated assessment of the state of these economies. In reality, they have not been able to graduate from being labor-intensive assembly sites for Japanese components using Japanese technology. Taiwan's ability to turn out millions of personal computers a year has earned it the reputation of being a high-tech manufacturing center. The Taiwanese computer industry is, however, really only an assembly line for IBM compatible PCs made with the off-the-shelf components imported from Japan and the United States.

As for South Korea, its image as a high-tech producer is belied by a few sobering realities: the Hyundai Excel may be the country's best-known export, but its body-styling is Italian in origin, its engine is designed by the Japanese firm Mitsubishi, and its transmission is both designed and manufactured by Mitsubishi.<sup>23</sup> Korean television sets may

be battling Japanese products in the United States, but Japanese components account for 85 percent of their value. South Korea may be the world's fifth largest exporter of personal computers, but only the computer cabinet is actually made in the country.<sup>24</sup>

In this connection, the vaunted ability of the Korean electronics firm Samsung to produce the advanced 16-megabit memory chip to compete with advanced Japanese chips stands out precisely because it is the exception to the rule; most of the other Korean firms have a dependent relationship with their Japanese counterparts.

Instead of transferring state-of-the-art technologies, Japan transfers less advanced ones to integrate Korean and Taiwanese firms as subordinate elements within an Asia-Pacific-wide division of labor designed by Japanese firms to enhance corporate profitability. The Japanese firm Hitachi, for instance, licensed 1-megabit DRAM (dynamic random access memory) chip technology to the Korean firm Lucky-Goldstar to acquire a reliable supplier of less advanced chips for its consumer electronic products, enabling it to focus on developing the 4-megabit chip.<sup>25</sup>

The same strategy of lowering costs or reducing risk by more fully integrating NIC producers into regional or global production plans has led Japanese manufacturers to buy equity in established car industries in South Korea and Taiwan. Mitsubishi already has a 15 percent stake in Hyundai Motors, and it has integrated the Korean car maker into its system of international production by having it produce key parts of selected models. Practically all Taiwanese car makers now have significant Japanese equity investments, and they have been reoriented into a division of labor that, in the words of one Japanese analyst, "is not an equal division of labor as seen in the European Community countries, but a vertical one within the automobile industry as a whole."<sup>26</sup> In this "inter-product division of labor", the Taiwanese firms specialize in "low-priced compact cars, which have fewer parts and a higher percentage of labor in the entire process."<sup>27</sup> Perhaps unwittingly using historically loaded terms, the writer concludes, "China-Taiwan aims for co-existence and coprosperity with Japan by producing the items that are not economically suitable for Japan (to produce)."<sup>28</sup>



*Japanese capital and Southeast Asia.* Southeast Asia joined the Northeast Asian NICs within a regional division of labor imposed by Japanese capital, following the explosion of Japanese capital into the region provoked by the Plaza Accord of 1985. By sharply raising the value of the yen relative to the dollar, this agreement made production in Japan prohibitive in terms of labor costs, forcing the Japanese to move the more labor-intensive processes of their manufacturing operations to low-wage areas like China and Southeast Asia.

In the period 1985-93, some \$51 billion worth of Japanese investment swirled through the Asia-Pacific in one of the most rapid and massive outflows of direct investment towards the developing world in recent history.<sup>29</sup> And it was one of the most profound in terms of impact, for at the end of the period, much of the region had been, for all intents and purposes, integrated into the Japanese economy.

Undoubtedly, it is only Japanese billions that have flowed to different points of East Asia in the past decade. Investments from Korea, Taiwan, and Hong Kong have also been prominent indeed in many countries, outstripping the volume of Japanese investment. Such investments are however, not usually strategically planned, being undertaken, for the most part, by small and medium-sized establishments with short-term perspectives. Japan's investment drive, however, has been promoted by the Japanese government and planned by corporate giants operating with global and regional perspectives.

One dimension of this integration is horizontal, that is, splitting up the production of different goods or the components of one product among different countries. In Matsushita's strategy, for instance, each country is assigned specific items to produce for export: color TVs and electric irons in Malaysia, semiconductors in Singapore, and dry-cell batteries, floppy disk drives, and electronic capacitors in the Philippines.<sup>30</sup> A more functional level of integration has been undertaken by car companies like Nissan, Toyota, and Mitsubishi. In Toyota's scheme, Indonesia specializes in gasoline engines and stamped parts, Malaysia turns out steering links and electrical equipment, the Philippines produces transmissions, and Thailand manufactures diesel engines, stamped parts, and electrical equipment.<sup>31</sup>

In addition to integration along lines of product specialization, a process of backward integration is tightening the links of the region to the core economy. In the first phase of this process, which began in the mid-1980s, Japanese automobile and consumer electronics firms relocated their plants to the region. This was followed by the outmigration of smaller Japanese companies that supply parts and components for the auto and electronics manufacturers. A third phase of backward integration may be about to begin, with the relocation of heavy and chemical industries that provide basic inputs to both the big manufacturers and their suppliers.<sup>32</sup>

Japan's current recession has hardly blunted this process; while investments in Europe and the United States have slowed considerably, the movement of capital to the Asia-Pacific continues at a brisk pace: Japan's investment in the region rose from \$5.9 billion in FY 1991 to \$9.6 billion in FY 1994, while its investment in Europe fell from \$9.3 billion to \$6.2 billion, and its investment in the United States from \$18.8 to \$14.6 billion.<sup>33</sup> Moreover, in 1993, profits from Japan's operations in Asia exceeded those from the United States for the first time, an astonishing development when considered against the fact that as recently as 1980, only two percent of Japan's corporate profits originated in Asia.<sup>34</sup>

Interestingly enough, then, Japan's recession has accelerated the regionalization of the Japanese economy, as pressures have built up on more firms to save on labor costs by moving their operations to China and Southeast Asia. This paradoxical phenomenon was captured by one commentary which asserted that "the hollowing out [of Japanese industry] is tantamount to an increased 'interdependence' [with Asia]."<sup>35</sup>

It also appears that rather than following an internationalist investment strategy in the late 1980s and early 1990s, the Japanese government and Japanese corporation have moved more decisively away from an international to a more Asia-focused investment strategy. Japanese investment in Asia as a proportion of total

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Japanese foreign investment rose from 12 percent in 1990 to 23 percent in 1994.<sup>35</sup>

The regional corporate thrust has been coordinated with Japan's burgeoning aid program. Close to 60 percent of Japanese aid is now targetted at East and Southeast Asia. Programs such as the "Asian Industries Development Plan" and the "ASEAN-Japan Development Fund" are "a joint public-private sector activity, which exploits the horizontal division of labor between Japan and Asia, and targets industrial, rather than resources or infrastructure development."<sup>37</sup> This assessment is seconded by an American expert in Japanese aid, which he bluntly describes as furthering Japan's attempt to strengthen "control over an emerging Asian regional economy" by "integrating the Asian economies under Japanese leadership."<sup>38</sup>

*Regionalization of the Japanese economy.* This process of corporate-driven horizontal and vertical integration has resulted in the creation not of a regional economy with plural centers but in the *regionalization of the Japanese economy*. The contrast between these two processes are captured by two contradictory descriptions of the impact of Japan on the region by two prominent diplomats, Saburo Okita and Hisahiko Okazaki. Okita has portrayed growth in Asia as akin to the flight of a flock of geese. In his view, Asian regional development is a "process of consecutive take-offs with a built-in catch-up process."<sup>39</sup> With Japan as the lead goose,<sup>40</sup>

the nations of the region engineer successive take-offs and are soon moving 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 to shorten the time required to catch up, they gradually transform the formation from a V-formation to eventual horizontal integration.

On the other hand, Okazaki, who is now regarded as one of the most prominent proponents of the Asian, as opposed to international strategy for Japanese corporate capital, paints a different picture, and with surprising candor for a diplomat: "Japan is creating an exclusive Japanese market in which Asia-Pacific nations are incorporated in the so-called *keiretsu* [financial/industrial] bloc system."<sup>41</sup> The essential relationship



between Japan and Southeast Asia, he contends, is one of trading "captive imports, such as products from plants in which the Japanese have invested," in return for "captive exports, such as necessary equipment and materials."<sup>42</sup>

This de facto trading bloc has been created without formal free trade agreements. As one report to the U.S. Congress noted, discussion on whether a Japanese-dominated regional bloc would arise in response to NAFTA and the European Union "is somewhat immaterial because a de facto trading bloc is already emerging. It is arising out of economic necessity, and, barring draconian barriers, will continue to grow regardless of whether or not free trade among the various economies develops." It concluded, with undisguised envy: "Japan's business executives do not need free trade to operate."<sup>43</sup>

Indeed, the Japanese have managed to get trading arrangements among countries in the region to work to their advantage. This is certainly the case with AFTA. As one Australian government report conceded:<sup>44</sup>

Japanese firms, such as automotive and motorcycle companies, have worked longer and harder at making ASEAN integration work than most other companies. [For instance], one Japanese motorcycle maker reported that an arrangement to ship components between its plants in Malaysia and Thailand had required years of patient work with government officials in each country.

Not surprisingly, Okazaki has pointed out that AFTA is "not worrisome" to the Japanese because it would lower tariffs for components manufactured and traded among the suppliers or subsidiaries of Japanese firms within ASEAN.<sup>45</sup>

There is, however, a basic instability built into this process of integration cum subordination, and this is the tendency of the Japanese economy to build up massive trade surpluses with the dependent economies. This is clearly the case with Taiwan and Korea, which registered deficits with Japan of \$1.5 billion and \$10 billion, respectively, in 1992. And it is increasingly the case with the newer industrializing economies of Thailand, Malaysia, and China. China, the Southeast Asian countries and the Northeast Asian NICs currently have a combined trade deficit of more than \$50 billion with Japan, even as they have a combined

trade surplus of more than \$60 billion with the United States.<sup>46</sup> This is basically a reflection of Japan's virtual monopoly of advanced technology, which allows it to add more value to its products relative to the low-tech manufactured products.

Not surprisingly, the massive Japanese presence has not been achieved without some cost to Japan's relations to Asians. Many Asians accuse the Japanese of having simply built up an integrated network of export platforms assembling Japanese components using Japanese technology, with no lasting structural benefits for the economy, without an "industrial deepening" taking place. Japan does not hesitate to use its technological power to keep its dependent economies in line, say many Asians. For instance, Japan now so completely dominates the making of the sophisticated machines that produce microchips that, as one Taiwanese specialist put it, "If the Japanese refuse to sell the equipment, you're lost."<sup>47</sup> The Korean government, a few years ago, accused the Japanese of informally banning the export of 200 ultra-modern high technologies to Korea until 1994 — by which time the Japanese firms would have exploited much of the market potential of these technologies.

Nonetheless, most Asian industrial elites see themselves as having a more strategic relationship with Japan than the United States. For one, as Okazaki has written, "Few domestic entrepreneurs in Asian countries have had to develop in direct competition with Japan. The majority of these companies received capital and technology from Japan."<sup>48</sup> In other words, though locked in subordinate, dependent relationship, most Asian industrial elites derive more benefits than disadvantages from the system.

### **APEC and the U.S. Economic Counteroffensive**

It is against this background of the emergence of a Japan-dominated trading and investment bloc that one must view the evolution of U.S. economic policy towards the region, the most forceful recent expression of which is the push to make the Asia Pacific Economic Cooperation (APEC) a free trade area by the year 2020.

Washington cannot be accused of not being transparent in its reasons why it backs such a development: it sees an APEC free trade bloc as a way to reassert a significant U.S. presence in a part of the world that has slipped out of the U.S. economic orbit over the last three decades.

Paula Stern, a key adviser to President Clinton, puts it this way: Intra-Asian trade now accounts for about 45 percent of East Asia's total trade. This means East Asia is becoming less dependent on the United States as an export market and well on its way to becoming an integrated trade and investment area. When one combines this with the fact that according to Stern, investment regimes in Asean countries have "made it more difficult to increase a U.S. business presence on the ground," then the United States faces the prospect of steady marginalization from the region that will serve as the engine of the world economy far into the first decades of the 21st century.<sup>49</sup>

APEC would help reverse that trend. As Fred Bergsten, the American economist who headed the now dismantled Eminent Persons' Group that masterminded the APEC 2020 free trade plan, told a U.S. congressional committee: "Given the fact that all of the countries in the region, outside North America in particular, have lots of trade barriers, (then) very little would actually be required from the United States."<sup>50</sup> Thus, "trade liberalization or moving...to totally free trade in the region means enormous competitive gain to the United States."<sup>51</sup>

Free trade, in the Washington game plan, is less a doctrinal brief than a strategy for regaining American competitiveness, for without the advantages that protected markets, subsidies, and various other mechanisms of support that the Japanese and other Asian governments extend to their producers, U.S. transnationals can beat the competition. Thus, the strong thrust of U.S. policy against the "state-assisted capitalism" characteristic of the Japanese and other Asian economies. As U.S. Undersecretary of State Joan Spero puts it: "APEC...has a customer. APEC is not for governments; it is for business. Through APEC, we aim to get governments out of the way, opening the way for business to do

■ It is against this background of the emergence of a Japan-dominated trading and investment bloc that one must view the evolution of U.S. economic policy towards the region, the most forceful recent expression of which is the push to make the Asia Pacific Economic Cooperation (APEC) a free trade area by the year 2020. Washington...sees an APEC free trade bloc as a way to reassert a significant U.S. presence in a part of the world that has slipped out of the U.S. economic orbit over the last three decades.



business. It is our goal to make APEC the most user-friendly forum in the world."<sup>52</sup>

APEC is the latest milestone of a tectonic shift from a "universalistic" U.S. foreign economic policy where trade and investment interests were subordinated to the grand strategy of containing Communism during the Cold War (and thus tolerant of many protectionist and restrictive investment practices of U.S. allies in East Asia) to a particularistic one, that is, one obsessed with opening up markets to U.S. goods and investments. APEC, indeed, is one of a number of mechanisms that are deployed in a complementary fashion to serve, not the ideological interest in creating an international free trade system in whose benefits all participants would share equally but the specific interest of U.S. corporations. As U.S. Commerce Secretary Mickey Kantor puts it, in his characteristically blunt, non-ideological fashion, before the U.S. Congress: "We will use everything in our disposal — 301, Super 301, Special 301, Title VII, GSP, the Telecommunications Trade Act, or World Trade Organization accession — to open up markets around the globe."<sup>53</sup>

Aside from APEC, however, two other instruments are to be especially relied on: unilateral trade policy pressure and the General Agreement on Tariffs and Trade (GATT). Unilateral trade pressure has been the main instrument of U.S. policy to "liberalize" the Asia-Pacific since the early 1980s, with Washington's trade negotiators having threatened nearly all the East and Southeast Asian countries with threats to invoke the so-called "Super 301" and "Special 301" provisions of the U.S. Trade Act of 1988, which mandate the U.S. executive to take retaliatory measures against those accused of being unfair traders or of tolerating violations of the intellectual property rights of U.S. corporations. In 1995 and 1996 alone, the United States threatened 301 sanctions in highly publicized confrontations with Japan over auto parts imports, Korea over auto market opening, and China over intellectual piracy. In addition, most of the bigger Asian countries have experienced being placed in the various categories of violators in the order of severity of threatened sanctions: "priority foreign country", "priority watch list", and "watch list".

The other key mechanism used to pry open Asian markets and reassert a significant U.S. trade and investment role is the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). GATT, the negotiation and ratification of which was driven mainly by the United

States, has committed the East Asian economies to end all quantitative trade restrictions and significantly reduce tariffs on imports in the next few years. Tariff reductions will work to the advantage of the United States especially in agriculture, where U.S. surpluses have mounted owing to a variety of government subsidies for production. Key in absorbing these surpluses are the now highly protected Asian agricultural markets. The United States Department of Agriculture (USDA) estimates that two-thirds of the global increase anticipated for farm exports for the year 2000 will take place in the Asia-Pacific, and it wants to make sure that by that time, this market will absorb some 60 percent of U.S. agricultural exports, up from the already large 40 percent it accounts for currently.<sup>54</sup>

But especially relevant to the U.S. design are the GATT accords on "Trade-Related Intellectual Property Rights" (TRIPs) and "Trade-Related Investment Measures" (TRIMs). By tightening international regulations on patents, copyrights, and trademarks, the first consolidates the preeminent U.S. position in high technology by making the diffusion of technology dependent on restrictive royalty agreements and high royalty payments to U.S. firms like Microsoft and IBM. The TRIMs accord bans measures like local content regulations, which require manufacturers to source a certain percentage of their components locally. Such measures have been used to build up automobile and other industries in countries like Malaysia and Korea, which have been regarded as threats to the global market dominance of the United States and other Northern transnationals. They have also drawn fire from the transnationals for interfering with trade among their subsidiaries, which are designed to manipulate stated prices of imports and exports so as to reduce tariff impositions and thus keep down costs.

U.S. officials have regarded APEC as a "GATT-plus" arrangement that would accelerate trade liberalization beyond the Asian countries' commitments under GATT as well as serve as another institutional framework for the enforcement of intellectual property rights.

It has not, however, been smooth sailing for the U.S. agenda in APEC, owing to serious opposition to it among Asian governing and industrial elites. The APEC idea began as a suggestion from Japan's Ministry of Trade and Industry, which had in mind a loose forum for technical cooperation on economic issues along the lines of the Organization for Economic Cooperation and Development (OECD). The Australian

government, obsessed with integrating into Asia to share in the region's economic dynamism, enthusiastically leaped at the idea, but in promoting it, gave it a new twist, that of becoming eventually a free trade area.

During the first three years since APEC's founding in Canberra in 1989, Washington's energies were elsewhere in getting GATT negotiated and ratified. In 1993, however, partly as a fallback in the event GATT was not successfully negotiated, the United States took the leadership of the effort to transform APEC into a free trade area during the first APEC Summit in Seattle. The Asia governments were, however, able to prevent the formal declaration of a free trade as a goal, with Malaysia's Mohamad Mahathir setting an example by boycotting the meeting. The Americans and Australians were unfazed, and at the second summit in Bogor, Indonesia, they prevailed upon the host, President Suharto, to support their blueprint of an Asia-Pacific free trade area by the year 2020. The Japanese lobbied behind the scenes to dissuade Suharto from going along but were unsuccessful.<sup>52</sup> The heads of state of the 18 APEC countries (including Chile, Mexico, and Canada) signed the Bogor 2020 declaration, but the Malaysians and Thais were quick to append their formal positions that the vision statement was non-binding and it certainly was not a treaty.

The scene of the next act in the APEC drama was Osaka in November 1995 — enemy territory in the view of the Americans. Throughout 1995, the Japanese tried, in their usual indirect and subtle way, to sabotage the 2020 vision. First, they argued that APEC had three legs — trade liberalization, trade facilitation and economic cooperation. There was too much emphasis on trade liberalization, they said, and it was time to place the stress on trade facilitation measures, like harmonizing customs procedures throughout the region, and on economic cooperation in the form of aid to the less developed APEC member countries. Accelerated aid to the less developed APEC members was necessary, they argued, because trade liberalization in an uneven playing field would merely accentuate inequalities within the region. The Americans were not pleased, and they accused the Japanese of trying to convert APEC into an economic aid agency.

Next, the Japanese tried to exempt agriculture from any liberalization plan, and here they were backed openly by South Korea, China and



Taiwan, and informally by Malaysia and Indonesia. Washington was enraged.

Then at the actual summit itself, the Japanese view prevailed. A close reading of the Osaka document broadly affirmed the goal of regional trade liberalization, but it enshrined the principles that liberalization plans must be flexible, voluntary, unilaterally offered and non-binding. The alternative position, favored by the United States, Australia, and the other non-Asian countries, was that liberalization plans must be binding, negotiated comprehensively as part of a regional liberalization program, and contain a specific schedule for implementation.

In short, what happened at the muffled shoot-out at the "Osaka Corral" was that the Japanese, with the support of most of the other Asian governments, were able to derail the 2020 free trade vision while paying lip service to free trade. Not surprisingly, the pro-free trade business magazine *Economist* said that the much-vaunted Osaka Action Agenda "committed nobody to anything."<sup>56</sup> It is unlikely, however, that Osaka was the last word in APEC's evolution. Indeed, it was merely one more skirmish in the deepening conflict between the United States and an increasingly assertive, though informal, Asian economic bloc whose members approximated those in Mohamad Mahathir's proposed regional economic alternative to the trans-Pacific APEC, the "East Asia Economic Group" (EAEG). The latter, which was limited to East and Southeast Asian countries, drew the fire of Washington as creating "a dividing line down the Pacific."<sup>57</sup>

### **Asia's Volatile Security System**

The deepening of economic conflicts in the Asia-Pacific region must be seen against the background of a regional peace and security situation that is far from stable. A few years ago, the conventional wisdom about the Asia-Pacific was expressed by Tommy Koh, the former ambassador of Singapore to the United States: "The Asia-Pacific is a region of booming economies at peace with itself."<sup>58</sup>

In fact, as in many other areas of the globe, neither economic prosperity nor the end of the Cold War has brought the region closer to peace. Indeed, there is growing pessimism, exemplified in the latest

Australian Defense White Paper's assertion that "the relative peace in Asia may not last."<sup>19</sup>

Washington's sending of two aircraft carrier battle groups to South China Sea in response to China's military exercises in the Taiwan Strait during the presidential campaign and elections in Taiwan in the middle of March 1996 brought home to many in Asia the fragility of the Post-Cold War order. The event, which involved the largest armada assembled in Southeast Asian waters by the U.S. Navy since the end of the Vietnam War, underlined how the unilateral exercise of U.S. military force continues to be a central element of what passes for a system of security in the Asia-Pacific region. It also revealed the extent to which a new "enemy", China, has come to fill the role of the Soviet Union as a rationale for the continuing massive U.S. military presence in the region.

The American show of force in the Taiwan Strait cannot be understood without calling attention to the U.S. Department of Defense posture statement entitled *U.S. Security Strategy in the East Asia Pacific Region* that was issued over a year earlier, in February 1995. The central message of this detailed and comprehensive document was that the United States was reversing its five-year policy of drawing down its forces in the area and maintaining its troop level at 100,000 — a move that was hailed in many quarters as a measure that would promote regional peace and stability.

### **Resurgent U.S. Unilateralism: A Triumph of the Past Over the Future**

On the contrary, the move was the triumph of the past over the future, of selfish national interest over the regional interest, of fear over courage and vision. The move was a throwback to the Cold War system of regional security, wherein the peace and security of western-oriented elites rested on the threat of the exercise of U.S. military force that was deployed in more than 350 major bases and facilities and legitimized by bilateral or trilateral mutual defense treaties with selected Asia-Pacific governments.

The Clinton administration's decision represented a step toward the closing of a window of opportunity that emerged with the ending of the Cold War for governments and people in the Asia-Pacific to forge a new architecture for peace and security — one that would rest on a multilateral

mechanisms or institutions to resolve disputes, control arms, and eventually move the region towards disarmament.

Furthermore, this reassertion of a system of security that might have been appropriate for another era is inadequate to address the particular mix of new and old conflicts and tensions characteristic of the post-Cold War era, and is a prescription for crisis and instability in the medium to long term.

In justifying their reaffirmation of U.S. military presence as the key mechanism of security in the region, U.S. officials often say that the region is not ready for a multilateral system or that it is much too diverse for such an arrangement. The problem with this explanation is that it has the character of a self-fulfilling prophecy. The United States has been a leading force in killing or dampening major initiatives for multilateral security. And here, we are not talking about proposals for collective security that come from the former Soviet Union but initiatives launched by the United States' closest allies in the region.

Perhaps the most prominent casualty of the U.S. disapproval was Australian Foreign Minister Gareth Evan's October 1990 proposal to establish "an all-embracing Conference on Security and Cooperation in Asia built in some way on the Helsinki CSCE model in Europe."<sup>60</sup> Though Evans did not seek to disband the existing system of bilateral alliances between the United States and Australia, New Zealand, the Philippines, South Korea, Thailand, and Japan, the Bush administration shot down his proposal, as it did an initiative from Canada to convoke a North Pacific Security Conference.

The United States has also tried to dampen enthusiasm for the ASEAN Regional Forum, which, for all its flaws, is a step in the right direction. When the Forum was founded in Bangkok in July 1994, Secretary of State Warren Christopher was one of the few foreign ministers of participating governments absent from the meeting — no doubt a calculated move on the part of the United States to underline to the other countries the status it was according the organization. U.S.

■ Why is the United States so suspicious of multilateral security systems? Simply because after having for so long been used to moving troops and forces around at will, it is not about to subject the movements of its troops to multilateral controls.



officials have since often referred to the Forum as simply a "talk shop". But perhaps the most telling putdown of ARF was U.S. Defense Secretary William Perry's recent suggestion that a security dimension should now be added to APEC, an economic grouping dominated by the United States.<sup>61</sup>

President Clinton himself has expressed the official U.S. view of the ARF and other multilateral security initiatives, saying that they "are a way to supplement our alliances and forward military presence, not supplant them."<sup>62</sup> And, one might add, they are even more acceptable if, unlike the ARF, where ASEAN has the initiative, they are strongly influenced by Washington.

Why is the United States so suspicious of multilateral security systems? Simply because after having for so long been used to moving troops and forces around at will, it is not about to subject the movements of its troops to multilateral controls. The complications that a successful multilateral organization could pose for U.S. foreign and military policy in the region are cogently captured by a recent report by the U.S. Congressional Research Service:<sup>63</sup>

[A] problem would arise if East Asian governments used the ASEAN Regional Forum and other future regional security consultative organizations in attempts to restrain the United States from acting on certain security issues. The impasse between the United States and the NATO and CSCE countries over policy toward Bosnia-Herzegovina points out the potential for disagreements as Cold War-based mutual security interests decline. Four areas of U.S. security policy in East Asia would appear to be subject to potential differences between the United States and some East Asian governments: U.S. attempts to restrain Chinese missile and arms sales; U.S. policy toward Taiwan, especially if Taiwan-China relations should worsen; U.S. efforts to prevent North Korea from developing nuclear weapons; and U.S. policy towards Japan's future regional and international military roles. The U.S. government and friendly East Asian governments might agree on some basic objectives on these issues, but they may disagree on the strategies and tactics to employ. Regional security consultative organizations could be focal points for the airing of such differences.

So, six years after the collapse of the Berlin Wall, what we have in the Asia-Pacific is a fallback on the U.S. military presence as the principal mechanism for preserving the peace. But as in other things, the present is no simple reproduction of the past. For aside from the U.S. military presence, the evolving system of regional security rests on two other key elements: balance of power diplomacy and arms races.

### **Balance of Power Diplomacy**

Let us move on to the balance of power. With its CSCA proposal dismissed by the United States, Australia has been among the most active in trying to forge a balance of power regime in the Asia-Pacific. The key aim of Australia's regional foreign policy is, to use Prime Minister Paul Keating's words, to "ensure U.S. strategic engagement," and a prime motivation of Australia's support for regional arrangements like APEC is that they provide a "framework to help contain or manage competition between China, Japan, and the United States."<sup>64</sup> Foreign Minister Gareth Evans describes the U.S. military presence as the "balancing wheel in the region," and conceptualizes Australian regional policy as placing the "emphasis on traditional balances of power consideration," though with "strong commitment" to multilateral dialogue.<sup>65</sup>

Australia finds itself in synch with its ASEAN neighbors, who have become equally assiduous practitioners of the balance of power, their declared aim being to check what they perceive as the strategic threats posed by Japan and China to Southeast Asia by keeping the United States in the Pacific. Thus, U.S. bases had not yet shut down in 1992, when Singapore came forward to offer the U.S. Air Force and the Seventh Fleet generous access and servicing arrangements. Currently, two U.S. military units — the 497 FTS and COMLOG WESTPAC — are practically residents there. Access proposals followed in short order from Indonesia, Brunei, and Thailand. In this connection, let me refer to the February 1995 Pentagon Strategy Document. U.S. deployments in Southeast Asia, it says:<sup>66</sup>

are dependent on a wide variety of access arrangements. We have formal access agreements, informal agreements for aircraft transits and ship visits, commercial arrangements for ship and/or aircraft repairs and maintenance, and occasional access arrangements with many countries for training and exercise purposes. These access

arrangements have expanded in recent years, in part due to regional fears that the closure of U.S. bases in the Philippines would lead to our departure from the region, and in part is a result of gradually expanding bilateral defense relationships.

One can argue, in fact, that for the ASEAN elites, the access arrangements are ideal, in that they avoid the nationalist backlash that can be ignited by a fixed land bases, while providing essentially the same services for the massive floating base that is the U.S. Seventh Fleet that used to be provided by fixed bases. Thus, we see ASEAN governments endorse the continuing U.S. military presence as critical for regional security, as they did during the last ARF meeting in Brunei, and in the same breath congratulate the United States for withdrawing its bases from the Philippines — a move that allegedly manifests Washington's respect for the ASEAN concept of ZOPFAN, that is Southeast Asia as a "Zone of Peace, Freedom, and Neutrality."<sup>67</sup> This is diplomatic hypocrisy at its worst, or best, since Indonesian Foreign Minister Ali Alatas, who commends Washington for respecting ZOPFAN, cannot be unaware of the fact that the new access and servicing arrangements with Southeast Asian countries, when combined with technological advances in communications and logistics, have placed the U.S. military in a better position to project force than when it had Subic Naval Base and Clark Air Force Base!

ASEAN defense analysts, in fact, now explicitly talk about the "multipolar balance of power" as being the centerpiece of ASEAN strategy, with the classical European balance of power emerging as a model. In the words of one analyst:<sup>68</sup>

The principles of a *multipolar balance of power* seem to be gradually becoming the basis of international relations in the post-Cold War era in which bigger countries tend to dominate smaller and weaker countries. Under the principles of a multipolar balance of power, a country which has become too strong will pose a threat to its neighbors and they will in turn undertake diplomatic and military cooperation to face the potential threat.

Under the system, a relatively big and influential country is needed to undertake diplomatic and military cooperation with smaller countries.



This pattern existed in Europe a century ago or two where Britain played the role of a *balancer* against France and, subsequently, Germany...

Practicing balance of power politics, continues the same writer, is "not designed to create an arms or widen the dispute." Instead, the balance of power is "designed to create real and sustainable peace and stability in the region in which the regional countries are constantly interested."<sup>69</sup>

The idea that the balance of power in the Asia-Pacific context will actually result in "sustainable peace and stability" is, at the very least, dubious if one is guided by the historical record, especially that of the 19th-century European balance of power that is regarded as a model. Indeed, it is hard to understand why ASEAN defense strategists are so keen in reproducing 19th century Europe in the Asia Pacific of the 21st century!

First of all, the so-called Concert of Europe encouraged not equilibrium but imbalance. Some countries tried to gain strategic superiority in order to feel secure, and others felt compelled to match their moves to "restore equilibrium". Not surprisingly, the classical European balance of power was accompanied by destabilizing arms races: between 1890 and 1914, military spending rose by 384 percent in Germany, 284 percent in Britain, 170 percent in Italy, and 704 percent in Russia.<sup>70</sup> With arms spending by some countries rising by 50 percent or more in the last five years, East Asian nations are well on their way to matching, if not exceeding these rates.

Second, the classical balance of power may have largely kept peace in the center of the system for a century, but it was accompanied by the outbreak of smaller wars in the periphery. There were 67 wars between 1815 and 1914, most of them fought in the periphery, though there were three fought in the center, on European soil. In this regard, the observation by one analyst that under balance-of-power regimes, smaller wars "may be required for equilibrium" is not reassuring.<sup>71</sup>

But the fatal flaw in the classical European balance of power, as pointed out by Henry Kissinger— of all people — in his book *Diplomacy*, was that the more and more intricate balancing mechanisms that it required for maintenance over time led to its running out of the control of all the states involved, resulting in the Big Bang of 1914 and the even Bigger Bang of 1939.<sup>72</sup>

## The Arms Race

The idea that the balance of power in the East Asian context will actually result in "sustainable peace and stability" becomes even more questionable if one looks at the third pillar of the informal system of security that now governs the region. This is the arms race, which is really one dimension of the balance of power.

The Asian arms market is now the second largest in the developing world. It accounted for 39 percent of all arms transfer agreements in the period 1991-94, up from 26.3 percent in 1987-1990.<sup>73</sup> Allow me to point out three of the more disturbing features of this development:

The first is that in the absence of viable multilateral security mechanism to assure the maintenance of peace, the vaunted prosperity of the East Asian region is leading not to less but to more potential instability. As a portion of GNP, defense spending may have gone down in most East Asian countries, but the high annual GNP growth rates have allowed it to continue growing at high or at least respectable rates in most countries except perhaps for the Philippines. Capital acquisition, moreover, is everywhere a priority. A few years ago, the conventional wisdom was distilled in Singaporean diplomat Tommy Koh's claim that "The Asia-Pacific is a region of booming economies at peace with itself."<sup>74</sup> Today, the truth seems to be closer to the most recent Australian Defense White

Paper's assertion that "the relative peace in Asia may not last."<sup>75</sup>

■ [T]he absence of viable multilateral security mechanism to assure the maintenance of peace, the vaunted prosperity of the East Asian region is leading not to less but to more potential instability. As a portion of GNP, defense spending may have gone down in most East Asian countries, but the high annual GNP growth rates have allowed it to continue growing at high or at least respectable rates...

The second point is that the biggest arms supplier in the region has been the United States. In the period 1991-94, the United States accounted for 43 per cent of the value of all arms transfer agreements with the developing countries of the Asia-Pacific region, far outstripping Western Europe's 26 percent share and Russia's 23 percent.<sup>76</sup>

Furthermore, the United States has also been associated with the most destabilizing deals: its sale of 150 F-16s

to Taiwan, in clear violation of the terms of U.S.-China normalization, helped torpedo what appeared to be an emerging *modus vivendi*— based largely on de facto investment and trade — between Taiwan and China in the late 1980s. It was also the U.S.'s sale of F-16s to Singapore a few years ago that triggered the jet-fighter arms race in Southeast Asia, a development that we shall return to below.<sup>77</sup> Again, the rationale for the recent reassertion of U.S. unilateralism as the key mechanism of peace and security has, in light of this behavior, the character of a self-fulfilling prophecy: through its arms sales policy, the United States has acted in a way that has contributed to regional instability, then it says that this instability makes its military presence necessary.

The third point that must be emphasized is that the arms races in the region are not simply a response to perceived threats from the big powers on the part of the smaller countries but also acts directed against one another on the part of the smaller countries. Looking at the race for ultra-modern jet fighters in Southeast Asia, for instance, Desmond Ball claims that "Singapore's decision to purchase F-16s does seem to have acted as something of a stimulant for the subsequent Indonesian and Thai F-16 acquisitions, as well as fuelling Malaysia's interest in a strike fighter."<sup>78</sup> Malaysia subsequently decided to buy 18 Russian Mig-29s along with eight F/A 18Ds. In fact, even the cash-strapped Philippine Air Force, which has been hankering for F-16s, may soon get its wish if the United States decides to divert to it at least 11 of the 28 F-16 fighters that were earlier earmarked for Pakistan but were never delivered owing to Pakistan's nuclear program.<sup>79</sup>

There is now in ASEAN not just a jet-fighter race but also a submarine race. The Thai Navy is desperately trying to acquire two diesel submarines because Indonesia already has two submarines, and Malaysia and Singapore have entered into agreements with foreign navies to train their submarine crews, which means that they have decided to buy submarines. Why submarines? Because as Thai Supreme Commander Watthana Wutthisiri notes, "most of our natural resources are in the sea," and "[i]f we have no strong armed forces, we may regret it in the next five years when we are defeated in marine battles."<sup>80</sup>

This competitive frame of mind is not surprising if one brings together two conditions: an area fraught with multiple unsettled territorial conflicts with the absence of a multilateral system for settling these disputes or



at least to prevent them from exploding into open war. In addition to the better-known issues like the six-country dispute over the Spratlys and Indonesia's continuing occupation of East Timor, we have in Southeast Asia alone the following:<sup>81</sup>

- 1 the Malaysia/Philippine dispute over the ownership of Sabah;
- 2 the dispute between Malaysia and Singapore over the ownership of the island of Pulau Batu Putih;
- 3 the dispute between Indonesia and Malaysia over the islands of Sipadin, Sebatik, and Ligitan in the Celebes Sea;
- 4 a boundary dispute between Indonesia and Vietnam over their offshore demarcation line on the continental shelf of the South China Sea;
- 5 another offshore demarcation line dispute between Vietnam and Malaysia;
- 6 still another maritime boundary dispute between Vietnam and China;
- 7 a potential dispute over Indonesia's Natuna Island, which is shown in recent Chinese maps to be within Chinese territory in the South China Sea;
- 8 an economic zone dispute in the Gulf of Thailand between Cambodia and Thailand; and
- 9 various disputes over fishing rights in the Gulf of Thailand between Thailand and Malaysia, and in the Andaman Sea between Thailand and Burma, which have resulted in a number of explosive incidents, including one just three weeks ago where Malaysian patrol boats fired at and killed two Thai fishermen.

In short, when one goes beneath the rhetoric, the much vaunted ASEAN solidarity is very shaky indeed and can never be relied on as substitute for a multilateral security system with clearcut rules for peacefully resolving territorial disputes. One can be sure that with such a system becoming more and more difficult to erect, we will see the institutionalization within the region's militaries of strategic and tactical calculations, such as those which underlie the Royal Thai Navy's determined push for a submarine. Allow me to quote a high-ranking admiral:<sup>82</sup>

Competition will continue to grow, especially competition to find resources in the sea — crude oil, ore, natural gas, fish. All countries want to use these resources to strengthen their economies, which could

lead to disputes because of unsettled overlapping economic zones in the sea. Thailand, Malaysia, Vietnam, and India each have their own claims. If valuable resources are discovered, such as oil and gas, a dispute could arise. For instance, Cambodia thinks it owns gas which we are drilling for in the Gulf of Thailand. It wants another country to do drilling.

Minor issues involving economic interests could lead to disputes. It would not have to be a big dispute. It could involve ships exchanging fire. The allies of the disputing countries would try to mediate and encourage a negotiated settlement. The scale of conflicts would be small. We have disputes with Malaysia over fishing in its territory. Fishing boats were seized and destroyed and some crews imprisoned. The same situation has occurred in Burma. An accumulation of these incidents could lead to the use of force some day. Any country wanting to use aggression against us would think again if it does not know the location of our submarines.

In any event, the Royal Thai Navy is reportedly interested in German submarines — the German 209 Class in particular — because, as one report notes, “the Germans wrote the book of modern submarines warfare, and almost succeeded in strangling Britain into submission in both World War I and World War II.”<sup>63</sup>

Thus, ARF notwithstanding, the ASEAN governments have, for all practical purposes, fallen back on the old Roman dictum: “*Si vis pacem, para bellum.*” If you desire peace, prepare for war. Indeed, a contemporary expression of this mentality that now reigns among defense establishments in the region was provided recently by Malaysian Defense Minister Najib Razal, who said that the end of the Cold War has made the security environment in the region “fluid and unpredictable,” and advised governments to “prepare for the worst scenario.”<sup>64</sup>

It is postures like these among the ASEAN elites that is rendering the ARF ineffective. For how can one talk about ARF being a serious multilateral endeavor if one automatically rules out of the bounds for collective discussion on intra-ASEAN territorial disputes and conflicts such as the Indonesian aggression — the Indonesian military prefers to call it “integration” — of East Timor? If the ASEAN elites complain about the United States not taking ARF seriously, they have partly themselves to blame.

### The Japan Question

It is against this regional picture that we move to the question of Japan and the U.S.-Japan Security Treaty, which the Pentagon statement describes as the centerpiece of the U.S. presence in the region. Several points must be made in this connection. First of all, Japan's failure to stand strongly for a new multilateral order has been as damaging to East Asia's long term security as Japan's failure to clearly define itself vis-a-vis the U.S. trade offensive has been to East Asia's economic solidarity. Some analysts have hailed the recent defense advisory group report, the so-called Higuchi report, as placing the creation for multilateral security policy in the next few decades. One may certainly applaud the report for its recognition of the importance of multilateralism and its support for the ARF. But one would have to admit that its discussion of multilateralism is laced with studied ambiguity, while its reaffirmation of the centrality of the U.S.-Japan Security Treaty as the bedrock of the regional security is loud and clear. It states, without seemingly sensing any contradiction, that "[i]n order to further ensure the security of Japan and make multilateral security cooperation effective, close and broad cooperation with the United States are essential. The institutional framework for this is provided by the Japan-U.S. Security Treaty. Henceforth, the two nations should make efforts to make greater use of this framework and strengthen their cooperative relations so that they can act more positively in response to new security needs."<sup>85</sup> It continues:<sup>86</sup>

In relation to the security environment in the Asia-Pacific region, cooperation between Japan and the United States is an essential factor. In view of the continuing need to ensure that U.S. commitment of [sic] this region is maintained as desired by many Asian nations, it is highly significant that Japan and the United States should renew their determination to maintain their security relations...

From these international and regional viewpoints, the Japan-U.S. Security Treaty will assume greater significance than ever before. In addition, it is necessary to reaffirm the significance of this treaty in the sense that it forms an essential framework for the active and constructive security policy Japan should pursue...

The message here may not be crystal clear to Washington, which is always quick to come down on Japan for not expressing unconditional



loyalty to "the Alliance",<sup>87</sup> it comes across loud and clear to the rest of Asia: Japan does not have the nerve to downgrade the U.S.-Japan security alliance and to decisively lead the region in forging a new multilateral system of peace and security. Typical of the timidity of Japanese officialdom is the following remark of a senior official of the Japan Defense Agency when queried about Japan's caution in pursuing multilateral initiatives: "If Japan vigorously works to promote multilateral security consultations or creates a framework for them, this would lead the United States to worry that Japan wants to disengage from relations with it."<sup>88</sup>

The firestorm over the rape of a 12-year-old schoolgirl in Okinawa did not prevent the government of Prime Minister Tomiichi Murayama from sticking closely to established policy. Nor was it an obstacle to his successor Ryutaro Hashimoto's concluding an Acquisition and Cross Serving Agreement (ACSA) with Washington that committed Japan to providing supplies and ammunition to U.S. forces conducting military exercises in or near Japanese territory.

The second key point is that given two conditions — the centrality of the U.S. military presence in Japan and the U.S. government's worsening fiscal crisis — a large part of the costs of the U.S. strategy to maintain its force levels in the Asia Pacific region will fall on Japan in the form of demands for increased host-nation support. Between FY 1991 and FY 1995, the U.S. defense budget fell from \$303.5 billion to \$263.8 billion, or a reduction of 13 percent in nominal terms but of 20 percent in real terms. At the same time, Japan's share of the burden of maintaining U.S. troops has been on the rise. Currently, the total cost to Japan of maintaining the 45,000 U.S. troops in Japan is in the order of 625.7 billion yen, while the cost to the U.S. runs to around 340 billion yen — which means that around 70 percent of the total expenses needed to keep the U.S. Armed Forces in Japan is now borne by Japan.<sup>89</sup>

Despite this already massive amount, U.S. pressure to increase Japanese support has mounted. And Washington has essentially gotten what it wanted. Notwithstanding the firestorm over the Okinawa Rape, the Diet about a month ago passed the "Host-Nation Support Pact" which commits Japan to increase its financial obligations to the maintenance of U.S. troops up to the year 2001. Reportedly, Foreign Minister Yohei Kono and Japan Defense Agency Director General Seishiro Eto agreed to raise it in FY 1996 by 4 billion yen.<sup>90</sup>

This leads to the third point, which is that in agreeing to bear a significant portion of the cost of the resurgent U.S. military presence in Asia, Japan is, in effect, financing a military presence directed against itself. For the U.S.-Japan Treaty has always had several rationales. Even during Cold War, the principal rationale of containing the Soviet Union was joined by the secondary rationale of preventing the independent rearmament of Japan. The situation after the end of the Cold War has raised what used to be the secondary rationale to a status at least equal to that of containing China or North Korea. One can, in fact, get a good debate going on whether the new U.S. profile is meant principally to contain China or to restrain Japan from becoming a threat to both United States and the region.

This is a growing understanding that is seldom formally acknowledged, though sometimes, like Japanese officials pontificating on Japan's role in the Second World War, key U.S. officials slip. For instance, a few years ago, in an interview that incurred the displeasure of official Washington, Major General Henry Stackpole, then commander of Marine Forces in Japan, told the *Washington Post* that the main purpose of the U.S. military presence in Japan is to prevent Tokyo from beefing up "what is already a very, very potent military." Already, he claimed, the Japanese have "achieved the Greater Asia Co-Prosperity Sphere economically, without guns. Since no one wants a rearmed, resurgent Japan...we are the cap in the bottle, if you will."<sup>91</sup>

This is an understanding that is now increasingly openly acknowledged by Japanese officials and analysts. For instance, Yoshiki Hidaka, chief researcher of New York's Hudson Institute, says quite forcefully in a recent issue of *Voice* that the U.S.-Japan Security Treaty "is based on a policy for preventing unilateral reinforcement of military power on the part of Japan and for preventing it from expanding its military influence in Southeast Asia or developing nuclear weaponry."<sup>92</sup> In Hidaka's opinion, the Clinton administration's reversal of the Bush policy of drawing down forces in the Pacific was carried out "with a view to protecting against military expansion on the part of Japan."<sup>93</sup> Another security expert, Prof. Terumasa Nakanishi of Kyoto University, asks the question: "[H]ow long can we tolerate an alliance which views oneself as a threat (while constantly facing the demand for increasing contributions')." <sup>94</sup>

The aftermath of the Okinawa incident has shown that the Japanese people are ahead of most bureaucrats and politicians in their perception of the strategic intent of the U.S. bases. A recent poll shows that only five percent of the Japanese people believe that the bases are primarily for the benefit of this country,<sup>95</sup> which leads one to suspect that the U.S. military presence may be tolerated in Japan mainly because it has been so focused in terms of land occupancy on Okinawa, which is in the periphery of the Japanese archipelago and whose people are treated as second class citizens by most Japanese. Dispersing the bases throughout Japan as some have proposed is apparently no option because local resentment of bases in the other parts of Japan is already high. Even U.S. Secretary of Defense William Perry has acknowledged that other Japanese communities may be incapable and unwilling to support redeployments of U.S. forces from Okinawa.<sup>96</sup>

This resentment has the potential of being translated into a political force. Under the old multi-system, the LDP always worked hard to assure the election of at least one pro-bases candidate in districts with U.S. bases. However, according to Patrick Cronin and Michael Green, under the new single-seat system, "this firebreak against local resentment of bases will vanish."<sup>97</sup> Indeed, "given pressure on the higher level of political leadership to build new constituencies, U.S. bases will become attractive targets for the creation of new public works projects such as international airports and public housing."<sup>98</sup>

All this shows that there is potentially a domestic base for a new security policy toward the region within Japan. What is sorely missing today are several other key ingredients. We have already touched on two of these: the lack of bold leadership and innovative vision. But the absence of another factor is equally critical: this is Japan's moral credibility within the region.

Which leads to the fourth point. Japan can potentially exercise strong leadership within the region in charting the direction away from the Cold War system. But the rest of Asia will not allow it to assume this role unless the Japanese people and political leadership assume responsibility without hesitation and without qualification for the crimes and atrocities perpetrated on Asian countries by an earlier generation of Japanese. Instead, what we have is a succession of high officials forced out of office



■ [W]hat mainly strikes many Asian observers of the Korean drama in the last few years has not been North Korea's alleged aggressiveness, but the way the U.S. political and military establishment wave the alleged North Korean plan to produce weapons-grade plutonium...in order to force the Korean issue to the top of the region's security concerns, and thus reassert Washington's control over the Asia Pacific security agenda...

have been central in determining the Asia-Pacific security dynamics during the last few years.

*Demonizing North Korea.* When the Cold War ended at the turn of the decade, pressures both from within the Asia-Pacific Region and the U.S. public forced the administration of President George Bush to announce a 10 percent reduction of U.S. military forces and a streamlining of the U.S. force structure. The absence of a clearly defined "enemy" while welcome to most people, was worrying to Washington's military establishment, in particular the naval lobby that controls the U.S. Pacific Command headquarters in Honolulu. To many of them, the Philippine Senate's refusal to ratify a new treaty governing the presence of U.S. military bases in the Philippines was an alarming development that could culminate in the rollback of U.S. forces from the Western Pacific to Hawaii.

To a military establishment requiring a new rationale to justify its massive Pacific presence after the collapse of the Soviet enemy, North Korea was a godsend. Even before the Yongbyon reactor controversy broke out, Washington was already dressing up North Korea as the "greatest immediate danger to regional security", as the commander in

because of their justifying or rationalizing Japan's colonial and World War II records.

Responsibility for the past, a paradigm of conflict resolution via multilateralism, and a program of significant arms reduction—these could be the elements of a potentially attractive and powerful Japanese strategy for a post-Cold War system that truly breaks with the past. Unfortunately, the Japanese are not up to the task...yet.

### **The Revival of Containment**

Let us now turn to the relations of the United States with two regional actors, North Korea and China, which

chief of the U.S. forces in the Pacific put it in testimony to the U.S. Congress in 1991.<sup>99</sup>

There is no doubt that North Korea has had a significant number of men under arms and kept them at a high level of military preparedness, along with bellicose rhetoric against the United States and South Korea. But this behavior was largely a carryover from the Cold War. Moreover, most serious defense specialists would probably agree with Andrew Mack's advice that in assessing North Korea's behavior, one must consider that "from Pyongyang's perspective, many American and South Korean action and statements surely do seem threatening."<sup>100</sup>

Indeed, Pyongyang may even have attempted to use the Yongbyong nuclear-power project partly as an effort to develop nuclear arms. But this response, while not excusable, certainly becomes understandable in light of developments in the last few years. Put yourself in the shoes of the leadership in Pyongyang:

- 1 you are told by the *New York Times* that the Korean peninsula has been identified by the Pentagon's first post-Cold War defense guidance as the site of two out of seven scenarios of post-Cold War conflict could be involved;<sup>101</sup>
- 2 you are constantly identified as the main threat to regional peace at a time that you, in fact, have already effectively lost your traditional protectors, China and Soviet Union, owing to the disappearance of socialist solidarity;
- 3 over 17,000 U.S. troops stand on permanent combat alert on your Southern border, their offensive skills constantly hone in annual war exercises carried out with South Korean forces;
- 4 you read in the latest Pentagon posture statement that "We [the United States] are prepositioning military equipment in South Korea to increase our capability to respond to crisis. In light of the continuing conventional capability of North Korea, we have permanently halted a previously planned modest drawdown of our troops from South Korea, and are modernizing the American forces there as well as assisting the Republic of Korea in modernizing its forces;"<sup>102</sup>
- 5 you are constantly treated to accounts in the United States and South Korea press about your economic troubles and how they are a prelude to your inevitable political collapse.

U.S. actions, in short, have forced North Korea to assume some of the characteristics of a cornered animal, then the United States seizes precisely on some aspects of that behavior to justify the concentration of even more force against it!

Indeed, what mainly strikes many Asian observers of the Korean drama in the last few years has not been North Korea's alleged aggressiveness, but the way the U.S. political and military establishment wove the alleged North Korean plan to produce weapons-grade plutonium at the nuclear plant at Yongbyon in order to force the Korean issue to the top of the region's security concerns, and thus, reassert Washington's control over the Asia Pacific security agenda after its hold on this had been loosened by post-Cold War developments. In other words, the heightened demonization of Korea in the period 1991-1994 was an indispensable mechanism to counter the pressure for troop reduction from a U.S. public weary of Cold War that was occurring in the early 1990s between Seoul and Pyongyang, aborting Japan and Australia's flirtation with multilateral systems for regional security, and dampening ASEAN's increasingly independent security initiatives.

Containment — that venerable strategic doctrine of the Cold War — had not become irrelevant, the military establishment declared. As James Morley, a veteran Pentagon Asia hand, put it at a recent conference in Tokyo: "The strategic picture has not changed from the Cold War. Then, we had an alliance of the status quo against the power that threatened the status quo. Today, there are still forces that threaten the same status quo, except now, North Korea and China have stepped into the role that was formerly filled by the Soviet Union."<sup>103</sup>

*China as "The Enemy"*. This brings us to China, which became the focus of demonization efforts, especially after North Korea agreed to forego its plans to develop nuclear energy and accept a U.S.-promoted international plan to supply it with nuclear reactors, which were technologically very difficult to use, to produce weapons-grade plutonium — a move that contradicted the Pentagon's campaign to paint North Korea as irrational and crazy. Moreover, it was simply difficult to convince Asian governments that a beleaguered regime with a collapsing economy was a credible regional threat. China, on the other hand, was big, economically successful, and many of its recent actions could be superficially interpreted as "expansionist" in character.



Now, many aspects of Chinese political and military behavior are certainly disconcerting and outrageous, especially the Tienanmen Square massacre. But one cannot allow what was undoubtedly criminal behavior at Tienanmen on the part of the Chinese authorities to lead us to easy but erroneous conclusions about China's security policy. More precisely, the currently fashionable interpretation of Chinese behavior as "expansionist" by both western and ASEAN defense analysts distorts what is a more complex reality that must be dealt with more sophisticated analysis and policy instruments than a battlecry of meeting force with force and a fire with fire.

First of all, if we look at the Spratlys dispute, which is adduced as *prima facie* evidence of Chinese expansionism, what we see is a process of setting borders by several claimants over an area whose possession has never before been determinate. This is not a case of China crossing well-defined traditional borders in the manner of a Hitler taking over Czechoslovakia or Poland, or the United States taking over Mexican territory or the Philippines. What is problematic here is not, in fact, China's staking a claim to the area but its reluctance so far to settle the competing claims via methods of negotiation proposed by the other parties to the dispute. Calling China's behavior expansionist in this context is far less justifiable than calling Indonesia's annexation of East Timor expansionist and imperialist.

Second, a key indicator of China's expansionist drive is said to be its program of massive militarization. Again, here there is a gulf between the tag of expansionist and the reality. China's defense spending has been consistently on the rise since 1989. But this must be interpreted in light of the fact that its spending steadily declined in the 1980s; the U.S. Arms Control and Disarmament Agency, in fact, estimates that actual Chinese defense spending in 1989 was 25 percent less than actual Chinese spending in 1979.<sup>104</sup> This was a time, it must be noted, that military spending by China's neighbors, notably Japan, South Korea, and Taiwan was rising at four to five percent a year.<sup>105</sup> There is therefore a strong element of catch-up in Chinese defense spending behavior.

China, it is true, has lately focused on acquiring sophisticated weapons systems. But one must interpret this in light of two facts: the relatively antiquated Chinese force structure and the increasingly sophisticated force structures of its neighbors. China may have a 5000

jet-fighter and bomber-based air force, but these planes were what one U.S. analyst describes as "early 1960s Soviet derivatives that are often mechanically unreliable and therefore restricted in use."<sup>106</sup> The Chinese Navy may have a large 100-submarine force, but the boats are very outdated, with as many as one half no longer operational, and difficulty in communications reportedly keeps the boats close to shore.<sup>107</sup> Moreover, the Chinese army's command and control capabilities are weak, its force mobility is limited by the lack of transport helicopters, and the absence of a reliable air-refueling system limits the range of Chinese aircraft.

In contrast, China's neighbors were able to equip themselves in the 1980s and early 1990s with advanced weapons systems, many of which were based on the west's and Japan's microelectronics revolution.

Taiwan, always a worry to China, acquired F-16s and Mirage fighters, French and American advanced frigates, and new U.S.-built air defense systems.<sup>108</sup>

As for another constant worry of China, Japan, this country has C3I capabilities that are first rate. To fortify its capability for offensive operations to a distance of 1000 nautical miles from the Japanese coast, Japan, according to Desmond Ball, "has a substantial and very modern naval force, including some 100 maritime combat aircraft, 64 major surface combatants...and 14 submarines. It is in the process of building several *Yukikaze*-class destroyers equipped with the *Aegis* system; it is modernizing its submarine fleet; it is planning to acquire tanker aircraft to extend the range of its air coverage; and it is considering the acquisition of 'defensive' aircraft carriers."<sup>109</sup>

Naturally, this has stirred the concerns of Chinese defense planners. But there are limits to China's ability to catch up. Even with the current pace of force modernization, says Australian analyst Paul Dibb, by 2010, "China's power projection forces will be relatively small...in comparison to the forces available for defense in most of its powerful neighbors, namely Japan."<sup>110</sup> Moreover, "Japan's navy will remain in most respects...both qualitatively and quantitatively superior to that of China."<sup>111</sup>

China's concern about the qualitative backwardness of its force structure appeared to have been heightened by the Gulf War in 1991-92, when the United States and western forces, equipped with high-tech

weaponry, destroyed Saddam Hussein's army, which was very similar in force structure, weaponry, and tactical doctrine to the Chinese army. As Robert Sutter notes:<sup>112</sup>

The ability of well-trained western forces armed with high-technology weaponry to conduct effective combined arms operations against Iraqi forces showed Beijing how far behind it actually was in dealing with modern warfare...It is clear as well that the forces deployed around China's eastern periphery (especially those of Japan, South Korea, and Taiwan) and to a lesser degree some forces in Southeast Asia (notably Singapore) have the kind of fire power, mobility, training, and experience that the allies used so successfully against Iraq.

The allegation of Chinese expansionism is coupled with an image of China as irresponsible, as an unscrupulous actor that will sell arms to anybody who can afford it to gain cash that can then be plowed back to the military build-up. Again, between allegation and reality is a grand canyon. China's arms sales have, in fact, dropped significantly in recent years. Its arms deliveries to developing nations dropped from \$9.6 billion in the period 1987-90 to \$4.3 billion in 1991-94.<sup>113</sup> In contrast, the United States, which is now the world's largest arms dealer, accounted for arms deliveries to developing countries worth \$28.2 billion in 1991-94, up from \$20 billion in 1987-90.<sup>114</sup>

Who is destabilizing whom in Asia is clear from the figures: China's share of the Asian developing country arms market dropped from 7.1 percent in 1987-90 to 3.2 percent in 1991-94, while the U.S.' share rose from 17.3 percent to a whopping 43 percent.<sup>115</sup> U.S. sales included what was probably the most regionally destabilizing arms deal of the last decade; the sale of 150 F-16s to Taiwan by the Bush administration.

China's action must, in other words, be examined in a historical and regional context, and when this is done, what emerges is a more complex behavioral pattern that cannot be fitted into the simple "expansionist" label. Indeed, the behavior approximates more the balance of power model. Moreover, China's security policy must be analyzed in the light of the clear priority the Chinese leadership has placed on economic modernization, where the United States and China's neighbors play a key role as markets and investors. The simplistic military expansionist



model simply runs counter to the imperatives of export market and foreign investment-driven economic growth.

China is, moreover, not averse to multilateralism to manage competition conflict. At the United Nations Security Council, the Chinese have, for the most part, not obstructed initiatives considered critical for world security by the United States and other western powers. China is eager to join the World Trade Organization and promises to live by its rules. China stole the show at the APEC Summit with its offer to radically transform a whole range of tariffs as its so-called downpayment toward the goal of regional trade liberalization. China has participated in the ARF and acted in a conciliatory fashion, according to most observers.

For multilateralism to gain the serious adherence of countries like China, however, it has to be serious multilateralism, not multilateralism that is carried out as "adjunct" or "auxiliary" of the unilateralist security policy of a regional superpower, as U.S. officials choose to describe the ARF.<sup>116</sup>

China must be engaged in a serious multilateral enterprise to preserve the peace, but this effort will have to overcome the vested interests that have solidified to maintain the image of China as an irrational, expansionist power that can be brought into line only by the threat of force. These vested interests are the U.S. military, which will need the image of an expansionist China to support its continuing build-up in the region; Taiwan, for obvious reasons; and Indonesia, which needs a demonized China to distract attention from its hegemonistic project in East Timor, and to justify its taking on the role as Southeast Asia's Big Brother protector.<sup>117</sup>

In the United States, the anti-China lobby is actually made up of two wings that cut across the civilian and military elite. The "containment wing" seeks principally to advance their own institutional interests by playing up the "China threat" as well as prevent China from emerging as a virtual superpower in the future via a strategy of "cutting it off at the pass." The other wing is a more ideological one, mainly represented by the right-wing of the Republican Party, which was never reconciled to losing China in 1949 and sees no scope for positive change in U.S.-China relations except through the ouster of the Communist Party leadership.

Eclipsed by the policy of de facto alliance with China vis-à-vis the Soviet Union followed by the Republican administrations of Richard Nixon, Ronald Reagan, and George Bush, the old pro-Chiang Kai-Shek lobby has enjoyed a spectacular revival in recent years, being replenished with new voices following the Republican Party sweep of Congress in 1994.

One of the members of the resurgent pro-Nationalist Chinese body is House Speaker Newt Gingrich, who publicly raised the idea that the United States should officially recognize Taiwan as an independent state — a position he says he no longer holds.

More alarming to Beijing have been the following initiatives that have won approval either in the U.S. Senate or the House of Representatives, though they still have to be enacted into law:<sup>118</sup>

- 1 the supersession of the U.S.-PRO communiqué of 1982 restricting U.S. arms sales to Taiwan with the U.S. Congress' Taiwan Relations Act, with the latter's less restrictive provisions on arms transfers;
- 2 a directive to the U.S. executive to grant visas to all Taiwanese officials visiting the United States "in a private capacity;"
- 3 the official recognition of Tibet as "an occupied country" and the creation of post of "special envoy" to it; and
- 4 the establishment of a Radio Free Asia to beam propaganda to China.

In the ongoing debate on the U.S.' strategic posture, the Clinton administration has been mainly in a reactive mode, swinging in typical Clinton fashion with the prevailing wing. On both security policy and economic policy, Clinton's moves toward China are difficult to characterize as a carrot-and-stick policy, as the administration claims, and come across more as a muddle of inconsistency with predictable results. As Scott Kennedy and Michael O'Hanlon of the Brookings Institution have pointed out, "Clinton's inconsistency and virtual silence has left a void that has been filled by single-issue interest groups, the far right and left on Capitol Hill, and other voices that are calling for a more confrontational approach toward China."<sup>119</sup>

The Taiwan crisis of mid-March 1996 provided the opportunity to translate the increasingly dominant policy of confrontation into an operational strategy. It is this larger backdrop of strategic reorientation that allows us to make sense of what struck many as Washington's

overreaction to the crisis: the sending of two carrier battle groups to the South China Sea, despite the almost unanimous consensus among defense analysts that China had neither the intention nor the capacity to invade Taiwan.

The truth is that the pro-confrontation lobby's two-carrier response was intended not only for Beijing but for East and Southeast Asian governments and for the more dovish sections of the U.S. establishment. There were, in fact, several messages:

- 1 that China is a serious menace to regional stability that can only be dealt with by a powerful show of force;
- 2 that "engagement" of China, as proposed by Washington's doves, must be the subordinate element in a broader strategy of confrontation;
- 3 that only "forward deployed" military forces operating out of bases throughout the Western Pacific can be relied on to contain China, so "Let's end this talk about rationalizing our bases structure and rely more on homeland-based expeditionary forces to deal with Asian problems;" and
- 4 that aircraft carriers, with their splendid ability to project overwhelming power "right onto the belly of the East-Asian subcontinent," remain the best weapons for maintaining the Asia-Pacific peace. "So let's cut all talk of degrading the U.S. Pacific Fleet from six carrier battle groups to four," as some defense analysts have suggested.

### **U.S. Security and the Trade Connection**

It is on the matter of China that we see most clearly a movement toward the synchronization of the U.S. military unilateralism with its unilateralism in economic policy toward Asia. For the developments at the military and political levels have been accompanied by dramatic U.S. threats to impose unilateral trade sanctions on China, allegedly for allowing the violation of the intellectual property rights of U.S. firms, and Washington's opposition to China's program for accession to the World Trade Organization (WTO), which effectively blocked China's membership in this crucial multilateral organization.

The synchronization of economic and military policies in the China case is not an aberration; it is likely to be a forerunner of things to come, as the



economic conflicts between the United States and Japan and the East and Southeast Asian NICs. For some time now, a game of pretend has been going on in the region, with most governments being players. The game rested on overt consensus by all parties that the stated U.S. military strategy of providing a defense umbrella to the region was insulated from its aggressive unilateralist trade strategy of blasting open Asian markets by invoking the threat of the "301" provisions of the U.S. Trade Act of 1988, which require the U.S. executive to take retaliatory action against those considered as "unfair traders". This overt consensus contrasted with the deep fears of nearly everyone that U.S. military strategy in the region would at some point come in synch with its trade strategy.

The game of pretend is up. In 1995, two events in particular signaled the likelihood of a closer integration of U.S. military and trade strategies. During the meeting of the Asia Pacific Economic Cooperation (APEC) in November 1995, U.S. Secretary of Defense William Perry suggested that APEC, which the United States has tried to turn into a multilateral mechanism for opening up Asian markets, ought to have a security dimension as well. Earlier, Joseph Nye, then Undersecretary of Defense, made a speech in Tokyo that suggested that the United States would "probably withdraw our security presence" from the Asia-Pacific if the countries in the area were to proceed from the East Asia Economic Caucus proposed by Malaysian Prime Minister Mohamad Mahathir on the grounds that the latter would "exclude the United States from the region economically."

In our view, however, if Asian markets do not open up significantly to American goods, a more likely response from Washington would not be to reduce or withdraw its military umbrella in order to open up markets. Indeed, in the intra-Asian trade, the proportion of total East Asian trade rises above its current 52 percent, signifying both a greater integration of the region as both a market and production base and a lessening of the importance of U.S.-Asian trade. The United States will be tempted to rely more and more on its military power to keep itself attached to Asia or face being cut off from a market that everybody agrees will be the locomotive of the world economy in the 20th century.

To the skeptical, one must point out that there is, after all, a U.S. naval tradition of using force or the threat of force to open up East Asian markets. The American military engagement with East Asia after all begun with

Commodore Oliver Perry and his "Black Ships" entering Tokyo Bay to demand that the Shogunate open up Japan to western trade, or else. In this regard, isolationism in the United States has always been with respect to Europe, never to Asia — and the idea that the United States would withdraw from the region on account of the growth of domestic isolationist sentiment was never a credible one. The idea of avoiding entanglement in old Europe has always been accompanied by a sense of the Asia-Pacific as the U.S.' natural frontier of expansion. In this sense, the intra-elite conflict in the United States has not been so much one between internationalists and isolationists, but one between internationalist and "Asialationists."<sup>120</sup>

U.S. expansion in the Pacific in the 19th and early 20th centuries, which was as much a case of the flag following trade, as trade following the flag, was pushed by an alliance of navalists seeking the extension of U.S. strategic power, mercantilists within the bureaucracy, and corporate interests. During the Cold War, this alliance dissolved, as the United States put the priority on Asian participation in the anti-communist crusade and tolerated the mercantilist and protectionist trade and investment regimes put up by Asian governments that often disadvantaged U.S. businesses in the region vis-à-vis local industrial and trading elites.<sup>121</sup> With the Cold War over, the old alliance is being reconstructed, and it is likely that we shall see U.S. military power being employed less and less for achieving the so-called universal good of regional stability and more and more to push specific U.S. economic interests.

### **The Struggle for Democracy**

Central to the future of peace and security is the spread of democracy. Democracies, it has been observed, seldom go to war with one another, whereas authoritarian governments have a propensity for war. The reason is simple: in democracies, though they may be no more than formal democracies, there are mechanisms like checks and balances, the free press, and public opinion, which assure that, even if a democracy has gone to war wrongfully, its policy can be reversed. But authoritarian regimes do not have such internal checks. Indeed, authoritarian regimes tend to channel outwards, sometimes into overt aggression, the internal tensions that have built up owing to the repression of political expression. It is a fair question to ask whether, had Indonesia been democratic in 1975, the invasion of East Timor would have taken place.

Indeed, the absence of democracy as an element of the vision that Asian elites are promoting is deafening. Instead, they have mounted an offensive to convince their populations that they have their own peculiar forms of governance, that they have their own brand of "democracy" that does not have the western emphasis on individual rights, electoral competition, the free press, free assembly, and checks and balances. Asians, like good Confucians, says Lee Kwan-Yew, value order over change, hierarchy over equality, and cooperation and mutual respect over competition between the elite and the masses. Asians, we are told, fear that too much democracy may undermine the East Asian economic miracle.<sup>122</sup> But as some observers have pointed out, Lee's list of supposed Asian values comes across less as values specific to Asians than as good British, upper-class Tory values.

The emergence of the thesis that there is a mode of governance peculiar to Asians in recent ideological debates is simply explained. It is a counteroffensive by alarmed elites against the great democratic wave that has been sweeping Asia since 1986, which has claimed the lives of authoritarian dictatorships in the Philippines in 1986, Korea in 1987, and Thailand in May 1992. However imperfect these democracies are as forms of rule, however much they are characterized by political and economic domination by elites, the systems of governance in the Philippines, Taiwan, Korea, and Thailand are different from those in China and the so-called "ASEAN Four" — Singapore, Malaysia, Indonesia and Brunei. And that difference is what Lee Kwan-Yew, Suharto, and their champions of Asian authoritarianism are trying to maintain.

Part of the strategy is to paint the democratic systems of South Korea, Taiwan, the Philippines, and Thailand as alien western implants that are out of step with the Asian psyche. In July 1992, for instance, in a much-publicized speech in Manila, Lee Kwan-Yew pinpointed Philippine democracy as the cause of the country's economic backwardness. His message then was equally, though

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implicitly, directed at Thailand, which had just a few months earlier unhorsed the Suchinda military dictatorship at the cost of many lives.

The authoritarian counteroffensive reached its high point during the UN Vienna Human Rights Conference in 1993, when the ASEAN authoritarian regimes and China were able to present what appeared then to be a formidable argument that there was a correlation between their high-speed economic growth and their authoritarian political systems. "Western democratic methods are not for us," they told the conference. "Asians have their own unique methods of government that will bring about ordered change and avoid the crime, racial strife, drug epidemic, licentiousness, and moral breakdown of the west — all of which are propagated by liberal democracy."

But the authoritarian counteroffensive has lost momentum in the last few years owing to a number of developments.

- 1 A succession of much-publicized events — including the conviction of a Singaporean reporter for releasing confidential government economic data to the press, a court case brought by the Singaporean government against the *International Herald Tribune* for an article critical of ASEAN judiciaries that did or even mention Singapore by name; the rush to execute a Filipino domestic helper, Flor Contemplacion, whose guilt was widely in doubt; and most recently, exposes of the Lee Kwan-Yew and the People Action Party elite's entrenched privileges,<sup>125</sup> including being on the inside track of property deals — focused the international spotlight on Singapore's justice and political system in an unprecedented fashion. And what most of the world came away with was the image of a party dictatorship bent on staying in power through the efficient manipulation of the police, judiciary, the press, and social engineering. Where previously the Singaporean's recitation of their usual mantra of "economic progress through political discipline" evoked tolerant nods, if not agreement, it now usually draws smirks and lies exposed for what it is: a thinly veiled justification for a continuing monopoly of power by Lee Kwan-Yew's People's Action Party.
- 2 In Indonesia, the expectation that with economic growth would come some liberalization was rudely punctured since 1994, when the Suharto government cracked down savagely on the labor movement, closed three of the country's leading newspapers for expressing

increasingly independent views, and launched military-sponsored gang terrorism in East Timor. Hosting the APEC Summit in November 1994 was Suharto's supreme effort to whitewash his regime's repressive past and paint Indonesia as the newest "Asian Tiger". What mostly came across to the world, however, was the image of young East Timorese protesting the Indonesian occupation of their country within the U.S. Embassy while hundreds of policemen eager to get their hands on them waited impatiently outside.

- 3 As for China, increased factional infighting in the Communist Party has undermined the post-Tiananmen Square justification that in this big and complex country, authoritarian rule is the only means of ensuring a stable transition as the Deng generation dies off, and underlined the fact that democratic competition, for all its surface "disorder" and "inefficiencies", is really a more effective solution to the problem of political succession.
- 4 Finally, over the last three years, the new democracies in South Korea, the Philippines, and, most recently, Thailand were able to pull off peaceful electoral transitions from one administration to another, indicating a more solid institutionalization of formal democracy in these countries.

In this context, it is now the authoritarian regimes that are seen as out of step in their relationship to their peoples; and the democracies in Thailand, the Philippines, South Korea, and Taiwan have reemerged, despite all their flaws, as advanced political systems in the eyes of their neighbors still living under restrictive rule, rather than as alien western implants, as Lee Kwan-Yew has tried to paint them. Lee himself is increasingly seen for what he is: a relic of East Asia's past. One might note that some of the region's younger leaders, like Deputy Prime Minister Anwar Ibrahim in Malaysia are distancing themselves from the authoritarian position, with Ibrahim recently saying that human rights and democracy should not be subordinated to other objectives such as political stability and economic growth.

In the democratic countries themselves, however, the novelty of free elections, party competition, and separation of powers has worn off, and the citizenry is now wrestling with "second-generation" issues having to do with the translation of formal democracy to "substantive democracy". These problems or dilemmas include the following:

1. Rule by established elites can be just as effective, if not more so, through democratic competition as in dictatorial rule, since for the most part, only the wealthy or people backed by wealth can afford to run for office, leading to effective control of the political system by economic elites that have the added advantage of legitimacy owing to their democratic election. In this connection, the eyes of many people in Asia's formal democracies are currently focused on the drama in Korea, wondering if indeed events there might lead to a breakthrough from monetary democracy to citizen's democracy.
2. How does one translate formal political democracy into economic or social democracy, in which equality as citizens is translated into equality as economic actors? How can political democracy become an instrument for the redistribution of wealth rather than a mechanism to uphold the status quo, as has happened in Thailand and the Philippines?
3. Can the institutions of formal representative democracy be modified to accommodate the "NGO phenomenon", which represents an effort by citizens to go beyond mere electoral participation to more direct popular intervention in the political process? Not surprisingly, professional politicians see NGOs as a threat, while others see them as a step forward from representative to direct democratic rule.
4. How can the interests of minorities, be they ethnic, racial, or religious, be safeguarded under democracy, which by definition is the rule of the majority? It is not at all clear, for instance, if democratic rule has been an advance over authoritarian rule for the Muslims in the Southern Philippines and Southern Thailand, where Christian and Buddhist majorities, respectively, have political sway.

These are of course, the same problems that have confronted the older democracies in the west, but one thing is certain: the record of the western democracies provides no guide to the newer or reestablished democracies of Asia and the Third World. For the translation of formal to substantive democracy, the achievement of both political and economic equality, the transition to more direct forms of democracy, and the protection of the rights of the minority from the majority are the great unresolved issues of the democracies of the west.

Indeed, Asian democratic activists are very aware that there is currently in the United States and Europe a retreat from a positive approach to these challenges, as economic elites succeed in stripping the



liberal democratic state of its already limited redistributive powers and inflamed racial and ethnic majorities increasingly restrict the rights of minorities. For instance, the Republicans' "Contract with America" and California's Proposition 13 is essentially a war against the poor, especially the non-white poor, but it is popular among the white American majority. Increasingly, the U.S. and Europe are turning out to be negative examples for Asia and the rest of the world, as democratic mechanisms become the vehicles for reactionary social and economic ends.

In short, Asian realities have not rendered irrelevant the progressives' message. Indeed, it remains as urgent as ever. But our analysis and strategy message must be restated, reformulated, and renewed for a post-Cold War Asia that looks with aversion at the failed experiment of centralized socialism, is becoming aware of the flaws of both market and state-led development strategies, and is unanimous in its demand for more democracy. Let us end by articulating the three elements of an alternative paradigm for change. We stake no claims at originality for many NGOs and movements throughout the region are now expressing the same ideas, though not in exactly the same words.

### ***Sustainable Regional Development***

Against the model of high-speed growth, civil society organizations in the region have elaborated with increasing specificity the elements of an alternative development program.<sup>124</sup> In our view, sustainable development in an East Asian context will have to incorporate the following four concerns:

First, the fundamental mechanism of production, distribution, and exchange will have to be something more sensible and rational than the ability of the invisible hand to coordinate the pursuit of their separate self-interests by millions of individuals into the common good. But neither the interventionist hand of the East Asian state nor the heavy hand of the socialist state is a good candidate for this role. Certainly, the state is essential to curb the market for the common good. But, as the East Asian experience shows, the common good is all too often defined as the good of the state and economic elites.

The thrust of sustainable development is to go beyond the invisible and interventionist hands, while not denying that market and state can

play an important but subsidiary role in the allocation of resources. For development to be sustainable, the fundamental economic mechanism would have to be democratic, and decision-making on the key issues of production, exchange, and distribution by local and national communities, transparent.

Second, production and exchange decisions can no longer be based solely or principally on the criteria of efficiency and profitability, but equally, if not more so, on the values of equity, ecological stability, and community solidarity. In traditional economic terms, many decisions will be viewed as inefficient and wasteful, but in broader societal and ecological terms, they will be functional and, in many cases, optimal, for they respond to the reality of societies as complex creations bound by values that transcend the pursuit of material well-being rather than artificial boxes containing individual atoms concerned solely with accumulating wealth. Because, contrary to Margaret Thatcher's dictum that "there is no such thing as society," there is such a thing as society and it is something more than the sum of its individual parts. In short, instead of the dynamics of economy, as in the market paradigm, dissolving community and disrupting the link between community and environment, sustainable development is about bringing economy and exchange back into the control of community.

Third, trade will have to be liberated from both the logic of the free market and the logic of neomercantilism of many East Asian states. In a sustainable development paradigm, trade relationships would develop in precisely opposite directions than what they have developed in the region. Trade relationships must work to ensure that initial divisions of labor to facilitate trade do not congeal into permanent cleavages; that technological know-how that develops from trade are spread around systematically to strengthen the capacity of both trading communities; that trade and investment contribute to developing an economy integrally rather than simply creating easily exhaustible natural resource pools and cheap labor enclaves that can easily be abandoned once wage rates go up; and that trade and development proceed along socially and ecologically sustainable paths rather than the strip-mine and community-dissolving patterns of current corporate-driven trade and investment practices.

Fourth, the current regional economy must be transformed from an extension of the Japanese economy without becoming a free-trade area that simply serves to allow significant American re-penetration of the region. The

key is democratic planning at a regional level that incorporates more than just governments and industrial elites beholden to one economic superpower or the other but also NGOs, people's organizations, and community groups guided by a strategy of sustainable regional development.

### ***Multilateral Security***

To move to the security agenda against the managed anarchy at the level of state to state relations, Asian progressives need to make their own a crying need in the region: the need for a post-Cold War multilateral system of peace and security. But we need to go beyond the limited formulations of figures like Australian Foreign Minister Gareth Evans to press for the creation of a regional system built on the principles of demilitarization and denuclearization — necessary conditions for lasting peace and security in the Asia-Pacific. On this basis then can we build structures built on an alternative notion of security, which would include environmental sustainability as well as wider access of the majority to basic development needs, such as food and water security, access to basic health care and education, and freedom from violence.

### ***The Democratic Challenge***

Finally on the political agenda, against "Asian democracy" and other formulation seeking to give authoritarianism a facelift, we must build a regional democratic movement that assists those still living under authoritarian rule to make the transition to democratic rule. But we must do it without becoming pawns of Washington's cynical politics. And we must distinguish our project from those of elite liberals who would stop at Lockean formal democracy by pushing democratic evolution in the region from formal democracy to substantive democracy. Finally, while continuing to acknowledge the European Enlightenment's contributions to modern democracy, we must move to rediscover the mainsprings of democratic values in our cultures. Democracy is both Asian and universal. ☉

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