Japan, China, and the Newly Industrialized Economies of East Asia

Discussion and papers
from a symposium held
in Atlanta, Georgia

East-West Center
Honolulu, Hawaii

Southern Center for International Studies
Atlanta, Georgia
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Edited by Charles E. Morrison

East-West Center
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The East-West Center

The East-West Center is a public, nonprofit educational institution established in Hawaii in 1960 by the United States Congress with a mandate "to promote better relations and understanding among the nations of Asia, the Pacific and the United States through cooperative study, training and research."

Some 2,000 research fellows, graduate students and professionals in business and government each year work with the Center's international staff on major Asia-Pacific issues relating to population, economic and trade policies, resources and development, the environment, and culture and communication. Since 1960, more than 25,000 men and women from the region have participated in the Center's cooperative programs.

Principal funding for the Center comes from the U.S. Congress. Support also comes from more than 20 Asian and Pacific governments, as well as private agencies and corporations. The Center has an international board of governors. President Victor Hao Li came to the Center in 1981 after serving as Shelton Professor of International Legal Studies at Stanford University.

The Southern Center for International Studies

The Southern Center for International Studies is a non-profit educational institution supported by state governments, business and professional firms, foundations and individuals.

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## Contents

<table>
<thead>
<tr>
<th>Title</th>
<th>Author(s)</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>Victor Hao Li and Peter C. White</td>
<td>v</td>
</tr>
<tr>
<td>Shifting Forces in East Asia</td>
<td>Richard L. Walker</td>
<td>1</td>
</tr>
<tr>
<td>China's Modernization and Its Impact on Its Role in Asia</td>
<td>James T. Myers</td>
<td>9</td>
</tr>
<tr>
<td>Hong Kong Countdown to 1997: An Insider's View</td>
<td>Barrie Wiggham</td>
<td>17</td>
</tr>
<tr>
<td>The NICs and the Near NICs in Asia: Economic and Political Transformation</td>
<td>Linda Lim</td>
<td>25</td>
</tr>
<tr>
<td>Japan's International Security: A Critical Analysis of Five Myths</td>
<td>Donald C. Hellmann</td>
<td>33</td>
</tr>
<tr>
<td>Cooperation or Co-Prosperity? Japan's Ascendancy as an ODA Power in Asia</td>
<td>Bruce M. Koppel</td>
<td>41</td>
</tr>
<tr>
<td>Soviet-Japanese Relations</td>
<td>Charles E. Morrison</td>
<td>49</td>
</tr>
<tr>
<td>Current Issues in Sino-Japanese Relations</td>
<td>John Quansheng Zhao</td>
<td>53</td>
</tr>
<tr>
<td>Japan's Role in Asia</td>
<td>James M. Derham</td>
<td>61</td>
</tr>
<tr>
<td>Implication of the New Asia for the United States and Japan</td>
<td></td>
<td>69</td>
</tr>
</tbody>
</table>
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We are pleased to present in this booklet the thoughtful observations of some of the leading Asia specialists in the United States. These distinguished scholars and commentators gathered in Atlanta on April 27–28, 1989, to take part in a symposium on “Japan, China, and the Newly Industrialized Economies of Asia.” The event was sponsored by The Southern Center for International Studies in Atlanta, the East-West Center in Hawaii, and The Georgia Consortium. It is our hope that this booklet containing the papers delivered at the symposium will provide stimulating and useful insights to policymakers, opinion leaders, scholars, business executives, and others who have an interest in the fastest growing region in the world.

East-West Center participation in the symposium represents a broadening commitment to promote better understanding and relations between the United States and the Asia-Pacific region. For nearly thirty years, the Center has worked closely with researchers, educators, cultural leaders, and many others in the region on programs ranging from economic development and population issues to environmental concerns and societal changes. These activities have involved more than 25,000 participants. In recent years, the need for better understanding has greatly accelerated because of the explosive growth of the region. The Atlanta symposium offered not only valuable discussion but also the hope that the audience participants, who came from educational institutions throughout the South, would find that discourse of value in their writings, their studies, and their classroom work. This booklet, which is part of the East-West Center public education program, is intended to assist the Atlanta participants and other readers in their analysis of critical issues facing the region.

The Southern Center for International Studies is a non-profit, educational institution designed to provide a forum for discussion and analysis of foreign affairs for people in the Southeast region of the United States. The Southern Center has sponsored an annual seminar on Japan and the Asia-Pacific region since 1980. Each year it has brought together academics, state government officials, media representatives, and business and professional people from the region. The purpose of the seminars is to ensure that knowledge and understanding of the countries of the Asia-Pacific region keep pace with the growing commercial, political, and cultural relationships with these countries. The seminars provide an effective and informative exchange among regional scholars and acknowledged experts on the topics covered by the program.
The Southern Center was pleased to sponsor the 1989 seminar with the East-West Center and the Georgia Consortium. The Consortium is a non-profit institution comprised of fifteen four-year colleges in the University System of Georgia and dedicated to promoting international education and cultural understanding. The Consortium, together with the Department of History at Valdosta State College through the Valdosta State College Foundation and the International Studies Programs at Georgia Southern College, provided funds for the Travel Grants which were awarded to twenty-five selected academics attending the seminars.

The Atlanta symposium was planned and organized by Cedric L. Suzman, Vice President and Educational Program Director of the Southern Center for International Studies, and Webster K. Nolan, Director for Public Affairs of the East-West Center. This booklet was edited by Charles E. Morrison of the East-West Center with the assistance of Sheree Groves, Grady Timmons, and copy editor Henry Bennett. Dorothy Villasenor transcribed the discussions and typed the manuscript.

Victor Hao Li  
President, East-West Center

Peter C. White  
President, Southern Center
Almost a year ago I was privileged to talk at a China conference sponsored by the Southern Center. Since then fantastic changes have taken place. All we have to do is read today's headlines to understand some of the formidable changes taking place in East Asia. Let me just list a few. Last October my wife and I attended the Olympics in Seoul, Korea. Visitors from more than 150 nations were astonished at what they saw in Seoul and elsewhere as they traveled throughout the Republic of Korea. These visitors included a great number of Soviet and East European athletes. I watched them out in the main shopping area, with looks of total disbelief on their faces that so much was available, lugging suitcases and bags of electronics, all sorts of consumer items, back to their ship.

Last year we spoke of possible openings between the countries of East Asia. Little did we realize what was going on between Taiwan and the People's Republic of China (PRC). In 1988 approximately 430,000 Chinese from Taiwan visited the mainland. They took with them gifts or money averaging better than $5,000* per person. This was in effect an aid program of more than $2 billion from Taiwan to the People's Republic of China. Neither side speaks much about this.

In other developments, Eastern-bloc countries have opened trade offices in Seoul. The Hungarians, not to be outdone, have converted their trade office into an embassy. Exchanges have brought U.S. citizens of Alaska and Soviet citizens of Siberia back and forth. Recently, the governor of Alaska flew the short hop from Nome to Siberia. These exchanges all have been to areas of eastern Siberia which have for decades been totally off-limits.

Student demonstrations in China have indicated the extent to which modern electronic media serve as an inspiration for activities and ideas to jump over borders. Last year South Korea's trade with the People's Republic of China approached $2.5 billion. Taiwan became the PRC's fifth trading partner by some accounts. Gorbachev will visit Beijing in the middle of next month and a three-decade-long tension will likely be eased.

Probably even more dramatic, next month Shirley Kuo, Taipei's minister of finance, is leading a twelve-member delegation to Beijing for an Asian Development Bank meeting. The delegation includes four high-ranking members of the Foreign Ministry in Taipei. There are many similar examples

* All references to currency are in U.S. dollars.
demonstrating that East Asia is changing and many forces for change which we need to understand.

My job here is to set the scene. Let me offer some initial propositions and then go through six major trends which have brought East Asia to the center of our attention in the recent past.

First, changes over the last decade in China, Japan, and elsewhere in East Asia (including the catalytic effect of Gorbachev's new approaches in the Soviet Union) are shifting our concepts of strategy from military-political concerns to economic-political concerns. While the balance of terror remains a fact of life in world politics, in East Asia military considerations may be taking a backseat. Economics is the name of the game and trade and open markets, as I will point out later, are the game.

My second proposition is that many of our concepts, institutions, attitudes, and much of our vocabulary may prove dated when dealing with our major relations across the Pacific. Our textbooks (and most are usually a decade out of date) and patterns of thought (many stemming from the Cold War and bipolar world) are simply not adequate for handling the multipolar world, particularly that of the Pacific area.

Thirdly, there is a need on our part to understand that a Pacific consciousness or spirit does exist. Regional and functional groupings and trends have been discussed in the Western world, particularly in the United States, and by leaders in the Pacific, particularly Japanese leaders. Now even small countries are beginning to act as if practical concerns for them are indeed regional concerns. They are self-consciously members of the Pacific region or, more accurately, the Western Pacific region.

The fourth proposition is that the Western Pacific, or what we call East Asia, is now part and parcel of the global strategic balance. It would be a grave mistake for Americans to move back to trying to handle their relationship with the other superpower strictly in terms of adjustment in Europe and attempting to play a China or a Japan or an East Asian card. That would be underestimating the economic and strategic power of the area.

Finally, problems on the horizon in the trade field can exacerbate nationalistic intentions and create great difficulties. Free trade and open markets remain the convincing answer for our continuous harmonious engagement with the Pacific.

In recent years, particularly in the past year, it seems there have been six major trends bringing East Asia to the center of our attention.

The first is a movement away from an ideological quest and towards pragmatic and piecemeal problem-solving. The grandiose pan-national schemes and slogans that were so attractive a quarter of a century ago are dead; they are no longer attractive. This is especially true for many leaders who look towards democratization and development in local and national terms. Issues which exercised people to the fullest extent only a decade ago seem almost silly in comparison with the practical solutions to local problems.

Particularly in East Asia, practical considerations are jumping over po-
Shifting Forces in East Asia

Political ideological boundaries and barriers as never before. North Korea remains the one anomaly. But even North Korea faces terrible dilemmas. On July 15th they are hosting the World Youth Festival, which is to be an “anti-imperialist festival” and has all the hallmarks and propaganda of a good Cold War gathering. Yet they are having to take into account the demands from Western Europe, other areas of the world, and even the United States, to allow literally thousands of reporters and journalists to come into North Korea—as well as take care of them, house them, and give them facilities. The North Koreans are only just now beginning to face up to the fact that what South Korea did with the Olympics they cannot do, because they are a closed society and South Korea was an open society.

A second general trend is that a whole range of economic issues have come to the forefront. This includes the spread of science and technology with its equalizing message. Even “socialist” states have faced up to the efficacy of an unfettered market economy for development and progress. The Newly Industrialized Countries (NICs) have demonstrated this factor in spades. But economic development and the centrality of economics have also brought growth in economic nationalism, which has been and can be a major future problem for all. Within every country, Korea, Taiwan, China, and particularly for the United States in its relations with Japan, there is a precarious balance between the need for free markets and the call to protect traditional interests.

Some economic issues relate to the TV and communications revolution which has encouraged movement toward more openness. There is a contagion sparked by Telstar, and by TV sets in remote Chinese villages, which allows people to jump boundaries, identify with each other, and raise economic issues and economic demands. In the days of antiquity when I was first teaching, we learned about the revolution of rising expectations. That became a jazzy term for academics. It has transformed itself in a number of the countries of East Asia into the revolution of falling satisfactions—which exist only because of the omnipresence of immediate communications.

A third trend is the movement into power of the third post-World War II generation in East Asia. This is more difficult in Japan, where gerintocracy continues, but developments in most countries of East Asia, particularly the NICs, show that the struggles of the past are indeed past. What excited the grandparents hardly interests today’s generation of middle-level managers. Today’s middle-level managers, be they in Korea, Taiwan, Hong Kong, or Singapore, are among the best educated, most work-oriented people the world has turned out. Many of these middle-level managers are satisfied that they can find their own paths toward problem solving, economic development, and democratization. They no longer listen and wait with baited breath to hear the wisdom of American mentors.

This leads to the fourth general trend—the changing great power equation in the world. There is a relative decline in U.S. power and proportionately more influence from Japan and China. We are still looked up to, but
Richard L. Walker

with less unquestioning looks. We tend to speak of Japan as an economic animal, but this underplays the growing power and clout of Japan and its role as a potential teacher. A great number of people in Southeast Asia are sensitive about Japan or China but nevertheless look at the Japanese success story with a fair amount of envy and certainly a lot of admiration. It is clear that the United States and the Soviet Union are coming to terms with each other and realize that issues other than military and strategy will be the center of the great-power debates and great-power contests in East Asia.

Linked to the changing great-power equation is another suddenly-exploding trend—the diversification of contacts by East Asian countries. Not only are they breaking away from an exclusive reliance upon the United States, which had characterized thought patterns and actions for three decades after World War II, but there is much more—there is significant re-engagement with Europe. All over East Asia there is fascination about what 1992 and the consolidation of the European Economic Community will mean. The winding down of the Iran-Iraq confrontation also presents an opportunity to re-engage in constructive activities with the Middle East.

Koreans have been talking in Moscow about participation in the developments in Siberia, Vietnamese have re-opened contacts in Beijing, and traders from the private sector roam the entire area as if there were no boundaries. This includes an event totally beyond my guesses of even a year ago—the visit of Chung Ju-Yong, the head of Hyundai, to North Korea to talk about developing a joint tourist project around Mount Kumgan in North Korea.

The sixth trend is a movement away from self-reliance. Most leaders throughout East Asia recognize self-reliance as a thing of the past; instead, there is an acceptance of interdependence. Examples already mentioned include Hong Kong and Guangdong province, Taiwan and the PRC (which is still indirectly but nevertheless effectively opening up joint projects, joint ventures frequently under the names of Chinese-American corporations or through Hong Kong). Linked with this is an awareness that in a market economy and within the framework of these six general changes, it is a highly competitive world. Marxist-Leninist states must break out of some of the bureaucratic constraints saddled upon them, and the United States will have to face up to the realities of competition across the Western Pacific.

What is the competition? In Japan, Taiwan, and Korea high school students go to school six days a week, 240 days a year; in the United States they go to school five days a week, 180 days a year. When they graduate from high school in Japan, Korea, or Taiwan they have the equivalent of two more years of schooling than Americans. U.S. students have half as much science, math, and language as do the students across the Pacific. You may have read in the popular press of an international math test for twelfth-grade students in fourteen countries. Japan ranked first and the U.S. ranked tenth, just above Zambia and Thailand. The U.S. graduates 63,000 engineers annually; Japan, with half the U.S. population, graduates 84,000, and they are better trained. The U.S. graduates 70,000 MBAs annually, of whom a fair number are Japanese.
The Japanese graduate none. There must be some message here! One could also point out that the United States has approximately 655,000 lawyers, or 279 per every 100,000. Japan has 13,200 lawyers, or 11 per every 100,000. The United States has twenty times as many lawsuits per person as Japan, and the net result is an unacceptable overhead for American businesses.

Competition and education in East Asian countries and also in Europe is a part of what we face in the 1990s. One of the greatest advantages the United States has is the immigrants who come to the United States. Some may have seen a recent article in the *Wall Street Journal* which commented on the reverse brain drain. Instead of trying to send students out and make them return to their home countries after they get their PhDs, there are proposals now before the U.S. Immigration and Naturalization Service to require foreign students to spend at least five years in the United States after they get their PhDs before they would be allowed to return to their own countries. In many respects our graduate schools, particularly in engineering, science, and technology, have become the best training ground for the new wonder economies of East Asia.

There has been a movement away from centralized government or state control in East Asia. Statecraft has been mixed with private initiative in a remarkable manner. As part of facing the competition, the United States may well have to consider a National Economic Security Council under the direction of the executive, rather than only the National Security Council that thinks strictly in terms of military strategy.

Another of the many challenges is our need to do a better job training language and area specialists, so that we can get engaged and keep engaged with East Asia. The Atlantic Council's policy paper two years ago put it very bluntly. It said "the United States requires far more reliable capabilities to communicate with allies, analyze the behavior of potential adversaries, and earn the trust and sympathies of the uncommitted. The gap between those needs and the U.S. ability to deal with other peoples in a changing world is growing wider. Today America's incompetence in foreign languages is scandalous and getting worse. Nothing less is at issue than the national security." That leads to my final conclusions.

First, what is going on across the Pacific is so vital, so dramatic, and so swift that we dare not stand still. We not only have to track it but we have to keep up with it—and to do that there is a need for much more cultural understanding. Developments in each country across the Pacific are culturally conditioned. The second conclusion is to recognize that at long last the United States may be at the point where it is capable of learning from others. A great number of countries have put their act together in some areas and in some cases better than we have. There is an opportunity for all of us to acquire information, to gain inspiration, and to look across the Pacific in an era when American power is not necessarily in decline but is having to face up to some formidable competitors.
Discussion

Comment:
How can we accommodate the un-met domestic needs of the United States when we still have such terrible burdens to carry overseas and still must work to make ourselves relevant in this highly competitive Asian world you described?

Response (Walker):
Let me begin by saying that the United States was suddenly thrust into the world on December 7, 1941, and one would never have guessed that we could accomplish so much. Not just in building a great military machine but in improving the quality of life. We could do it because we really had an ethos of national commitment. The real question is whether we are going to face up to the degree of competition which will come to us from the European Community, the challenges of Japan, and a potential challenge from China. This whole mosaic of developments is going to present us with the need to put our act together. If you listen to the rhetoric on Capitol Hill, they blame the other guy and never bother to study Confucius, who, 500 years before the birth of Christ, made that magnificent observation: “The inferior man blames others, and the superior man examines himself.” We are due for a lot of self-examination, and I think our society has the capacity for it. One of the best things that we have is the influx of immigrants, many of whom come from societies with a work and an educational ethic.

Comment:
The United States has shouldered the burden of maintaining global order and fostering a free-trade-oriented international system, but our capacity for doing that seems significantly diminished. The question then becomes who can provide the framework in economics and in military affairs that allows both interdependence and nationalism to flourish.

Response (Walker):
Who is going to provide the leadership or the framework globally? I hope no one, because anyone who had that much power or was able to dictate or provide leadership globally would likely impose overall solutions that might not fit the local scene. Thus, the technique of conference diplomacy used, for example, in the economic summits, is a good first step. Our fiscal institutions—the World Bank, The General Agreement on Tariffs and Trade (GATT), the International Monetary Fund—were conceived at a different period of economic development and they are due for an overhaul and that will take leadership. However, those entities have worked pretty well and can continue to work while they are being overhauled.
Comment:
Can you provide the explanation for the rapid rise of East Asia compared with the failures of Africa and Latin America?

Response (Walker):
So many of our basic concepts of the 1960s have been challenged by the development of the NICs. We thought that with the coming of independence and breaking of ties with the colonial masters democracy would spring full blown. In the 1960s many saw socialism as the answer to the problems of development. We were quite sure that countries with great natural resources would move rapidly into becoming industrial states. Instead we have Taiwan, which has foreign exchange reserves of roughly US$80 billion and no natural resources. Some single out the Confucian ethic, but that sort of single factor approach is not the answer. I would put down the success of the NICs to the following major reasons.

First, those countries which succeeded consciously chose to become part of the world market system.

Second, they had strong leadership. Not unrestrained power, but strong leadership with some balancing restraints. Park Chung-hee in Korea—fifty years from now he will go down as one of the greatest Koreans who ever lived. He certainly was unpopular, and his successor, Chun Doo-hwan, was even more so, but they provided strong leadership.

A third factor is discipline within the society. This not only made possible high rates of saving but prevented energies from being squandered on excessive consumption.

Fourth, in these countries there is a national commitment to development, in other words, a positive nationalism.

Fifth, in all of these societies there is a commitment to competitive education.

Finally there was in most cases an external challenge to bring the society together. Now, of these reasons, the one that I would single out most is the commitment to education.

Why have some of the others not succeeded? They have missed a number of these factors. Furthermore, many of them did not want to have anything to do with their former colonial powers or the Western world—but there have been changes and we are beginning to see some other societies move back into the world economic system. They have learned that the Soviet Union was no role model, nor was China, nor Cuba, nor North Korea, or Vietnam, and adjustments are being made in much more pragmatic terms. Problems of individual states remain, however, individual.
China's Modernization and Its Impact on Its Role in Asia

James T. Myers

Looking at the program and the various speakers addressing China's relations with other parts of the world, I thought I would focus on Chinese modernization—more particularly on the problems facing China today. It's always a great pleasure to follow my colleague and friend Richard Walker. He clarifies issues that most of us can only wonder about. And because he is an optimist, and I have generally tended to be a pessimist, it makes a nice contrast.

I remain somewhat pessimistic about the situation in China. Indeed, the events of recent weeks, and especially of recent days, have added to that pessimism. I would like to share some of the reasons for my pessimism, particularly in view of the fact that there is so much optimism about China.

China's size sometimes tricks us into thinking that China is something more than it is, and we talk therefore of China as an emerging great power because of its size and nuclear weapon capability. We've been obsessed with the China market—'if only every Chinese bought a Coca-Cola everyday, we'd sell a billion Cokes.' There is a fascination with the size of China, often without focusing on the downside and the vastness of scale of problems that no country in the history of the world has ever tried to tackle.

In analyzing China's modernization a lot depends on which end of the telescope one uses in the examination. China has one of the world's largest GNPs, estimated at over $400 billion. However, if we look at it in per capita GNP it comes out to about $325 or $330, making it one of the poorest nations on earth.

There's been a tremendous amount of optimism about the reforms in China, about the prospects for Chinese modernization, and for China entering the world on a competitive basis. I would challenge this optimism by examining some of the harsh realities that the Chinese face and then considering some of their political problems.

Having heard Ambassador Walker speak of the success of the NICs and the importance of education in this success, we might begin by looking at China's 220 million illiterate adults. These adults will not be able to participate in the modernization process unless they receive training or education of some kind. This is an enormous task both financially and structurally.

Moreover, the Chinese government has recently estimated that by the year 2000 there will be 260 million surplus rural laborers in China. I think this is a very optimistic projection—it may already be approaching that number today.
What does this mean? It means that an enormous number of people need to be trained and then find productive work after their training. These two things really begin to give us some sense of the dimensions of the problem that the Chinese face, for in the foreseeable future China's economy must provide 15 million or more new jobs a year just to take care of population growth, meaning this new job growth will not even affect the 260 million surplus rural laborers.

I want to elaborate further on China as a "big, poor country" by taking a better look at the population, land, and food balance problems. Comparing China's land mass to the United States, China has about 40 percent as much land under cultivation as we do. We have about 3.5 or 4 million farmers in the United States. In contrast, the size of the rural population in China is approaching 800 million. So there's roughly the same land mass in China but cultivated by a substantially greater number of people. Canada has approximately seventeen times the amount of cultivated land than China (per capita); the United States has eight times (per capita); the Soviet Union has seven times (per capita).

Between 1957 and 1979 the Chinese put enormous effort and investment in reclaiming in excess of 200,000 square kilometers of new farmland. This is an area greater than the size of Guangdong province—a tremendous effort of land reclamation since most of the arable land has repeatedly been farmed over a 2,000 year period. During the same 1957 to 1979 period, however, the net amount of land lost to urbanization and modernization was in excess of 330,000 square kilometers. The amount of land lost to urbanization over this period was greater than 30 percent of all the farmland that was available in 1957, and there are some estimates that cultivated land is disappearing presently at a rate of 5 percent a year. This land loss is mainly due to road building and urbanization, but also in part due to the success of economic reforms which gave new wealth to farmers, allowing them to build new larger houses on land previously used for growing crops.

Grain production is used by the Chinese to measure the success of their agricultural program. There were tremendous increases in production during the early 1980s, and this gave rise to a great deal of optimism about China. Deng Xiaoping's rural economic reforms made Chinese farmers individual contractors. Individual peasant household farming created incentives leading to the tremendous increases of the early 1980s, but such growth rates could not be sustained for very long, particularly only on the basis of the new incentives. In fact, grain output peaked in 1984. Since 1984 Chinese grain output has not been able to again reach that level. Grain output was down in 1987 from 1986 and in 1988 it fell further, necessitating an importation of 16 million tons of grain at a cost of about $1.5 billion.

The Chinese cannot afford to pay hard-earned foreign exchange to buy grain. To put this into context, the total 1989 Chinese budget was estimated to be around $78 billion and out of this total $1.5 billion of foreign exchange was used to buy grain. This is a very, very serious matter.
I next want to discuss the population problem. The official population at the time of the 1982 census, which may have understated the population significantly, was a little over a billion—1.014 billion. Initially the Chinese projected a target of 1.2 billion people for the end of the century. However, by July of 1987 the population had reached 1.072 billion. It’s almost certainly in excess of 1.1 billion now. The average rate of growth of the Chinese population between 1982 and 1987 was 1.24 percent. That’s not bad, certainly it is excellent by Third World standards, and gave people a lot of optimism that, because the rates of growth were declining, the population problem was under control. This figure is actually an average for those years. If we look at the actual figures for the last years—1986 and 1987—we find that the growth rate is rising; 1.4 percent in 1986, 1.5 percent in 1987, and about the same in 1988. If you project a 1.5 percent rate of growth, which is what the Chinese seem to be speaking of now, we come out with a population at the end of the century of about 1.3 billion. What does this mean?

Even if we lower the estimate for the end of the century to about 1.275, which is the World Bank figure, it means an excess of 75 million people over the target figure. In considering population between the 1982 census and the year 2000, it means the Chinese would have to provide for 275 million new people over an eighteen year period.

Moreover the population is young. In 1982 the number of those below the age of twenty was 460 million. My own contention is that the reason we saw initial declines in the 1980s was the smaller age cohort born during the famine years of the Great Leap Forward (1959 to 1961) was then passing through the Chinese population and that the decrease in the rate of growth had nothing whatsoever to do with government policy. We now know that in those years there was a population deficit of 31 million people in China caused by starvation. However, in 1962 there was a rapid recovery and from 1962 to about 1970 there was a tremendous birth boom. It is that age group that is having children now.

Again, what does this mean? It means that the Chinese have an enormous task ahead to deal with the incredible number of people coming in the pipeline. If we’re talking about 1.5 percent rate of growth in the population, that is about 16 or 17 million new Chinese every year. This requires enormous investments in education, health care, housing, and job creation. The average Chinese in the city now is occupying an amount of space approximately equal to the size of a double bed. There are tremendous housing needs in China—the problem, of course, is to build fast enough to get ahead when you’ve got to build so fast just to stay even.

The enormous rural population creates additional problems. Fertility rates are much higher for women in the countryside. Fertility rates are statistically correlated with literacy. In other words, the problem is worst in the countryside. Illiterate or semi-literate rural women are having a lot more babies than educated urban women. The problem is somehow to get people who are on the farm off the farm—get them educated and get them into other jobs.
Modernization is often defined as the transformation from a predominantly rural agriculture labor force to a predominantly non-agricultural labor force. Taiwan achieved this in the late 1950s. This is the task that China has to accomplish to obtain its modernization goals.

In addition to providing for education, training, health care, food, and shelter, the Chinese need tremendous investments in infrastructure improvement. Much of what has been built in the last ten years is already deteriorating. Much of what has been built fairly recently will also soon need to be rebuilt. A case to illustrate the vast need for infrastructure improvement is the inability of the Chinese to access its large coal reserves. The Asian Wall Street Journal had an article about the $750 million joint venture project with Mr. Armand Hammer. Coal is there, but the Chinese ran out of fuel in February, and they haven't been able to mine and ship the coal. Ships are waiting in ports all over China for Shanxi coal which is still in the ground, as it has been for a million years.

Energy and transportation—these are serious problems. Tremendous amounts of investment are needed to improve the systems, which brings me back to the subject of the Chinese budget.

The 1989 budget is $71 per capita. How the Chinese are going to be able to solve these problems with a $71 per capita budget remains unanswered. The scale of the problem is mind-boggling—and that's really one of the main points I'd like to leave with you.

It is important to tie China's political situation in with its modernization objectives. This morning on television we saw hundreds of thousands of students in Beijing protesting. There are problems here. However, even if all the political problems were solved the remaining problems might still be insurmountable. And, when you add on the political problems, you see that there are not going to be the quick, hopeful solutions that many expected when Deng Xiaoping began his reform programs.

Other factors call into question China's ability to solve its problems. Number one is corruption, particularly corruption by government and party officials. The reforms have created enormous opportunities for people to use creative solutions to their financial problems. When there was a totally controlled economy for forty years and then suddenly doors are thrown open, people will seek opportunity where they can find it.

Secondly, China is experiencing what I would call a "spiritual malaise." It seems clear that communism as a belief system is defunct. This has left an enormous vacuum in China. The Party spent forty years trying to eradicate the old forms of behavior and social interaction to break up the traditional social domestic patterns. What then have these been replaced with?

No one believes in Maoist revolutionary heroes anymore. At least under Mao there was consistency in the model used. Maybe people didn't live up to it, but at least you could look at Lei Feng to know how to behave as a good communist. I have three big posters of Lei Feng in my office and Chinese come in and they laugh—"Oh, you never see that anymore!"
The religions and the old cultural traditions have been damaged or destroyed, and they haven't been replaced. This is a serious problem, and it may be the most serious problem of all—this spiritual malaise.

A third issue worth mentioning is the question of party authority. The question remains open because the student demonstrations may tell us whether there is anything left of party authority. It is quite extraordinary—students are demonstrating in Beijing and demanding the resignation of the premier! Yesterday they actually were demanding the resignation of Deng Xiaoping. I might suggest that the one thing that probably has saved the party up to now, and may save it in the future, is the fear of anarchy in China. That is, if the party goes then there is really nothing standing in the way of anarchy. The party may be saved more by the tradition of central control than any belief in the four cardinal principles or the socialist road.

If party authority is gone what do you replace it with? What becomes then the vision of China's future if it's not a socialist, communist, Marxist, Maoist vision? Official documents cling to this vision, but no one really seems to care much anymore.

There is also the question of central control. Ambassador Walker mentioned this in terms of regionalization. Let me say that as long as I have known him, now more than twenty years, Ambassador Walker has raised the question of whether China can really be ruled from a single political center. He insists that one cannot talk about China as a modern nation state. China, he says, is a culture; like Europe, it is a lot of societies collected together. I think it is beginning to look like maybe he was right. We see a tremendous increase in regionalism.

Finally, the last problem is the transfer of power to the post-Deng generation. We've already seen the entrance onto the stage of the third generation in China. Li Peng, the premier, is a Soviet trained engineer. Indeed this whole generation of Chinese leaders, this fifty-ish third generation, are almost all people trained in the early years when China had a close relationship with the Soviet Union. It's going to be a long time before the fourth generation—U.S. trained people—get into these top positions of power. This raises a lot of questions. One of the main ones is, if you were going to try to modernize, and especially to liberalize, much less to democratize your society, would you want to put a Soviet-trained engineer in charge of that process?

What are the implications for the region? Looking at the array of problems that China is facing, it is no wonder that Chinese foreign policy has become more pragmatic and oriented toward development and modernization rather than revolutionary change. There has been a tremendous change—in an earlier period the Chinese saw themselves as a revolutionary model for the Third World. They have, for a variety of reasons, begun to enter into what we might call "normal" diplomatic relations with the rest of the world. If they have any hope of achieving their goals this is the only way they can do it.
The thrust of Chinese foreign policy is focused on the needs of China for help in a variety of ways in the years ahead. China is not a great power. China is not an emerging great power. China is a big country with nuclear arms. Whether China is a dangerous power is probably something that depends on where you are sitting looking at China. China's neighbors might feel differently than we do in the United States. China is certainly not competitive with us and the Soviet Union, although it probably would not do much good to tell that to the Tibetans. China is going to remain a force in that part of the world simply because of its size. However, it is unrealistic to expect in the near future that, in any meaningful sense, China is going to join the newly industrialized economies in becoming a major economic force either in Asia or in the world at large.

Discussion

Comment:
I feel compelled to make a couple of comments that are more optimistic. The first is on agriculture. Agriculture has been by and large a success story since 1978. People have better diets, and food rationing has been eliminated. It is true that the grain production has gone down in the past two or three years—this is something the leadership worries about. Part of the reason this is true is because Chinese have gotten into rural industry and sideline activities. It is not necessarily bad for China to import $1.5 billion in agricultural products if those agricultural products are produced more efficiently elsewhere.

The other area is population. China, of course, has tremendous population problems. However, if you look at the scale of all developing countries by income, you will see that China has by far the lowest fertility rate of any country in its income level. This has nothing to do with the 1957-1960 starvation because the measure is the number of births expected by a woman during her lifetime. China's rate is very low, but it has increased recently. The only reason that so low a rate could be sustained is because this was one area where China was becoming more coercive rather than more liberal. If China is relaxing the controls people will be having more children. There are trade-offs involved. My main point is that economic reforms have moved China in a very positive direction, but there certainly remain challenges associated not only with China's size but also with the process of economic reform itself.

Response (Myers):
I don't particularly disagree about the population. I tried to indicate that the Chinese have done a good job of bringing down population growth. The problem is that the base is so enormous that any small shift produces a tremendous real-world problem. As you say, the population policies have been enormously unpopular. So the social cost of implementing the one-child family
policy is very high and, by and large, it has been honored more in the breach than in the observance in the countryside. There are no easy solutions to this problem.

Judith Banister projects three scenarios of growth based upon one child per family, two children per family, and then something called free choice—no regulation at all. If you look at the projections on the one-child family policy into the next century, there will be an even more difficult problem of a very rapidly growing dependent elderly population. And some of the projections, actually the one-child-family projection, carried forward to 2035 or 2040 gives you a dependent elderly population—that is defined as sixty-five or over—of 40 percent.

Comment:

As Ambassador Walker discussed earlier, the South Koreans have been in more contact with the Chinese, the Soviets, and Eastern Europeans. One concern is that whenever they deal with the Chinese, they are seeing representatives from provincial government rather than central government. Should the Koreans really be concerned about this? Will there be some change in the future?

Response (Myers):

Regional economic development is not necessarily bad. It has created in China, however, a tremendous proliferation of joint ventures and deals of various kinds, many of which have little economic pay-off for China as a nation. With the lack of central coordination, provincial or municipal authorities are trying to cut their own deals.

Many foreign business people have become wary when it comes to doing business in China. In 1982-83, people were standing in line because there were no office spaces in Beijing. Since then, people have become more realistic. This is an interesting problem and it certainly illustrates the dilemmas of central versus regional authority.

Comment:

I would like to give a somewhat different interpretation. I believe that the provincial contacts with South Korea were carefully designed by Chinese central authorities. China does not want a two-Korea policy because it might encourage others to adopt a two-China policy.
Hong Kong Countdown to 1997: An Insider's View

Barrie Wiggham

Not long ago, when the British and Chinese governments were still negotiating the future of Hong Kong, no one, not even the negotiators, could, with any precision, foretell the outcome. Hong Kong’s economy understandably suffered as a result of this uncertainty. Today, however, more than four years after the signing of the Sino-British Joint Declaration on the Future of Hong Kong, Hong Kong has not only survived the crisis and emerged unscathed, but remains a strong economic force. Some statistics will attest to our recent economic success:

- Our Gross Domestic Product (GDP) grew by an annual rate of about 11 percent in real terms over the last three years.

- Capital formation remains strong. Private sector investment in plant and machinery increased by 28 percent in real terms in 1987 and by a further 12 percent in 1988.

- Retained imports of industrial machinery for manufacturing use, a key indicator of industrial investment, increased by 18 percent in real terms in 1987 and by a further 15 percent in 1988.

- Domestic exports increased by a significant 9 percent in real terms in 1988 after two years of double-digit growth.

- Re-exports, much of them to and from China, increased by 46 percent in real terms in 1987 and 45 percent in 1988.

- Bank deposits in Hong Kong grew by over 20 percent a year between 1984 and 1988.

- Since the signing of the Joint Declaration, a surge in foreign investment has seen the Japanese and mainland Chinese join the United States as the major international investors in Hong Kong.

These economic achievements are enviable by any standard. They speak of a thriving economy, in stark contrast to the doomsday scenario which some exaggerated reports would have us believe. Some cynics, in the face of economic realities that mock their dismal predictions, have even suggested that Hong Kong’s current economic boom is a short-lived phenomenon which will not last. Come 1997, they say, Hong Kong will stumble and plunge into the abyss of the world’s economic backwaters. This is a very disturbing prophecy indeed—disturbing not because I believe disaster is going to befall us,
but because some self-styled prophets would drive us into a false sense of panic by a blatant distortion of realities.

Let's look at the facts. There is ample evidence that many are taking a positive, long-term view of Hong Kong's future. Take, for example, major development projects being undertaken by the Hong Kong government and local and foreign investors. These include a new university, a new light rail system, several new hospitals, a road tunnel linking two of six large new towns simultaneously under development, a new cultural complex, another cross-harbor tunnel, a second tunnel through Kowloon Peak, two new container terminals, and two new bank headquarters buildings. Other large-scale projects under preparation include the further extension of our Mass Transit (underground) Railway, a third cross-harbor tunnel, a new international airport linked to port development, and a number of massive reclamation and housing projects. Many of these projects involve a huge commitment of funds and resources—and have a payback period extending well beyond 1997. Hardly the makings of a crumbling economy.

If local developments show signs of economic good health, there are even more good causes for optimism about continuous prosperity if you look at Hong Kong's economic activities beyond her border.

In the recent upsurge of economic opportunities brought about by development in the Western Pacific rim, Hong Kong has reaped as much benefit as she has made contributions. A key factor for our success is our strategic geographical location, which makes Hong Kong a natural center of the region. To our north lies China, which is in a dynamic process of opening up to the rest of the world. Then there is Japan, whose domestic demand and investment in the Asia-Pacific region give much impetus to the accelerated growth of this region. Additionally there are the emerging economies of South Korea and Taiwan. And lastly, to the south are the fast developing ASEAN countries, including Singapore.

Hong Kong is endowed with all the right attributes and requisite assets—excellent communication and transport links, sound financial infrastructure, well-motivated and committed middle-management personnel, an efficient and adaptive workforce, and an open economy—to maintain an impressive level of growth as a result of the development of this rapidly expanding region.

Let me offer some figures to illustrate. Between 1983 and 1987 the average annual growth rate of Hong Kong's domestic exports was 46 percent to China, 30 percent to South Korea, 25 percent to Japan, and 15 percent to Singapore. In the first ten months of 1988, Hong Kong's trade with the region jumped nearly 40 percent to over $60 billion. This represents almost 60 percent of our total trade.

A crucial factor for the shift in Hong Kong's trading pattern is China. The open-door economic policy which China adopted a decade ago in support of her modernization program has created new business opportunities and access to untapped economic resources in a region of tremendous de-
velopment potential. As a natural gateway to China and a window on the capitalist world, Hong Kong is uniquely well positioned to gain from this process of economic expansion.

Today, Hong Kong and China are each other’s largest trading partner. China is the second largest market for our domestic exports, the second largest source of our retained imports, and the largest supplier and market for our re-exports. The rapid growth in re-exports either to or from China underpins the re-emerging role of Hong Kong as an important entrepot.

Currently about 60 percent of all external investment in China comes from or through Hong Kong. In turn, China is the third largest source of foreign investment in Hong Kong’s manufacturing sector. Much of Hong Kong’s industrial processing is now being sub-contracted to China. It has been estimated that in the Guangdong Province in South China alone there are some 2 million people employed indirectly or directly by Hong Kong businesses. That’s more than double the size of our own manufacturing work force in Hong Kong.

At the same time, companies with mainland interests are making substantial investments in Hong Kong—investments by some estimates worth $10 billion. In short, economic interdependence between Hong Kong and mainland China has taken root and is likely to grow rapidly.

This economic phenomenon reflects the pivotal role that Hong Kong plays in China’s modernization program. The Chinese government knows only too well that Hong Kong can make an important and unique contribution to the achievement of their own economic goals; and that Hong Kong’s ability to make this contribution depends absolutely on the maintenance of its capitalist system and of the confidence of the Hong Kong people and of foreign investors. While I do not wish to suggest that economic factors alone will determine the political future of Hong Kong, it would be naive to ignore the tremendous incentives offered by such economic considerations to parties concerned to ensure the full and faithful implementation of the Sino-British Joint Declaration.

Indeed the political and diplomatic forces at work present an equally compelling case. The Chinese government has committed its international reputation—which it highly prizes—to making this agreement work. It knows that the world—and in particular, Taiwan—will be watching. The simple fact is that it is in everyone’s self-interest—China’s, Britain’s, and especially the people of Hong Kong—that the territory should continue to flourish. There is so much to gain and everything to lose that failure really is unthinkable.

Allow me to paint in some essential background. The framework within which Hong Kong will evolve beyond 1997 is enshrined in the Sino-British Joint Declaration on the Future of Hong Kong, which came into force on May 27, 1985. The Joint Declaration is an international legally-binding treaty and is itself the product of two years of intense negotiations between the British and Chinese governments. The objectives of both countries are the same: notwithstanding the change of sovereignty, the favorable social and economic
conditions which have hitherto contributed to the stability and prosperity of Hong Kong should be maintained.

The Joint Declaration is a remarkably detailed document. It is a testimony to the seriousness and pragmatism with which the two governments have endeavored to resolve a difficult question. Very briefly, it provides that Hong Kong will become a Special Administrative Region after China resumes the exercise of sovereignty in 1997. It will retain its own capitalist economic system and life-style, its own common law system and an independent judiciary, and its own administration comprising local inhabitants with a fully-elected legislature. With the exception of defense and foreign affairs, Hong Kong will enjoy a high degree of autonomy, not the least in economic, financial, and monetary fields. There will be no exchange control, and the Hong Kong dollar will continue to be freely convertible. Investors will be able to put in or withdraw their capital freely. Hong Kong will be able to negotiate agreements and participate in international organizations, in particular in the fields of economic and trade relations. The present rights and freedoms enjoyed by Hong Kong people will continue to be protected by law.

This is only a very selective list of the many provisions in the Joint Declaration, but I hope it illustrates the emphasis placed on the preservation of the existing systems in Hong Kong.

Since the Joint Declaration entered into force the British and Chinese governments have set about the task of giving effect to various promises set out in the document. Such efforts are specifically channeled through the Sino-British Joint Liaison Group (JLG): a diplomatic body, established by the Joint Declaration, which meets three times a year and will continue to do so up to the year 2000—three years beyond the handover date (so that for two-and-a-half years after July 1997, the British government will be in a position, through the JLG, to continue to monitor and influence the implementation of the Joint Declaration.)

As secretary for 1997-related matters in the Hong Kong government and as an expert member on the British side of the JLG, I have been closely involved for the last three years in the continuous dialog between the two sides. Today I would like to share with you some insights into the immensely fascinating process of this Sino-British joint diplomatic enterprise.

Right from the start, the JLG recognized the importance of maintaining Hong Kong's international economic relations beyond 1997. One of its main priorities was precisely to tackle the question of safeguarding Hong Kong's ability to trade freely and independently and to preserve its status as a free port and customs territory. As a result of successful discussions in the JLG, Hong Kong became a contracting party of the General Agreement on Tariffs and Trade (GATT) in 1986 and a member of the Customs Cooperation Council (CCC) the following year. Both will be retained after 1997. Agreement was also reached on Hong Kong's continued participation in the Asian Development Bank after 1997. All this will enable Hong Kong better to protect its own interests in world trade. At the same time, as provided for in the
Joint Declaration, we are already in the process, in advance of 1997, of establishing Hong Kong’s own shipping register and Hong Kong’s own separate air-service agreements. I shall say more about these issues in a moment.

A sub-group of the JLG is working steadily through a long list of international organizations in which Hong Kong has an interest to ensure that, with the full support of the Chinese, the network of association continues beyond 1997. We have already dealt satisfactorily with twenty organizations. In other words, although sovereignty will transfer in 1997, Hong Kong will continue to be the international center it presently is.

Perhaps I could best give some insight into how painstakingly both sides examine critical issues, to reach decisions best suited to Hong Kong’s vital interests, by giving you just two or three examples. First, membership of GATT; at the very first JLG meeting, in 1985, we proposed that arrangements should be made for Hong Kong to be deemed a separate contracting party, to ensure that our status in GATT would remain unchanged after 1997. The Chinese initially resisted that proposal. They argued that, just as Hong Kong had always participated in GATT as part of the United Kingdom delegation, likewise, after 1997 Hong Kong should participate in GATT under the Chinese umbrella—despite the fact that Beijing had not at that time resumed her place in the GATT and still has not done so. We were able to secure eventual agreement from the Chinese to our proposal at the third meeting of the JLG. At the end, it was the Hong Kong envisioned in the Joint Declaration that won the day. Hong Kong is now able, in this vital international trade forum, to speak with its own voice rather than sheltering under the umbrella of either Britain or China. That’s one example of a very tenacious and specific negotiation.

One still continuing negotiation of great economic importance relates to air-service agreements (ASAs). At present, as a dependent territory, Hong Kong is caught up in the United Kingdom’s ASAs with other countries. The Joint Declaration secures for Hong Kong the right to negotiate and conclude ASAs on its own behalf after 1997. We subsequently agreed with the Chinese in the JLG that Hong Kong should begin to anticipate the 1997 situation by establishing its own ASAs. It is obviously important for Hong Kong, as a major economic, financial, and trading center, to have a network of such agreements so that its civil aviation industry can respond rapidly to changing developments.

So far we have signed agreements with the Netherlands, Canada, Switzerland, and Brunei. There are more such agreements in the pipeline at various stages of negotiation. I hope you will forgive the detail, but it is not only an insight into the enormous amount of work that is going on in the JLG—it is a striking demonstration of how promises contained in the Joint Declaration for post 1997 Hong Kong are already being fulfilled in order to ensure a smooth transition at that time. Another simple but significant example is the fact that we are now in Hong Kong issuing land leases which expire in the year 2047—the fifty years of autonomy pledged in the Joint Declaration.
Through my own contacts with the Chinese JLG team and with other senior Chinese officials directly and indirectly concerned with Hong Kong issues, I have come to respect their sincerity and the careful thought they put into the Group's deliberations. Though some of them have only very recently become associated with the JLG, they are clearly determined to acquire more than a superficial knowledge of Hong Kong. Judging by the way in which we have together tackled complex issues relating to the transition, it is clear that our opposite numbers in the Chinese team are coming to grips with the city—a city fundamentally different from any other in China. They have begun to feel Hong Kong's pulse, know what makes her tick. Such understanding is vital to ensuring the success of the "One country, Two systems" policy.

I should now like to turn to the Basic Law, which is a critical aspect of the implementation of the Joint Declaration. The Basic Law is, in essence, the constitutional document of the future Hong Kong Special Administrative Region (SAR). It translates the Chinese government's policies regarding Hong Kong as set out in the Joint Declaration into a legally enforceable form. The drafting of the Basic Law is the responsibility of the Chinese government but, for obvious reasons, both the British and the Hong Kong governments have intense interest in its outcome.

A first draft of the Basic Law was published last year and was the subject of a wide-ranging public consultation exercise in Hong Kong. Much of the first draft was unobjectionable and did indeed reflect the promises of the Joint Declaration—in many cases literally word for word. There were also, however, a number of areas which were keenly debated in Hong Kong (and elsewhere), and concern was expressed that in these areas the promise of the "high degree of autonomy" had not been fulfilled and that too much authority was being retained by the central government.

As a result of this public reaction, the drafters revised the initial version and a second draft has now been published. Virtually all points of concern have been addressed and significant improvements made. A second consultation exercise has now been launched and the people of Hong Kong are being encouraged to speak up again and express their views. The drafters have themselves acknowledged that this draft is still not perfect and is to be further amended in the light of public reaction. Based on the experience of the first time round, there is no reason to believe that remaining concerns will not be addressed in an effort to reach consensus on the best possible Basic Law to take Hong Kong smoothly into the next century.

I do not intend here to give you an all-rosy picture of Hong Kong. There are bound to be ups and downs during the transition. There still exists—understandably—anxieties among the community. Some people are leaving—quite a few of them are coming back—but we have embarked upon a unique and complicated process. In such a situation it is all too easy to assume the worst. No one said the road to 1997 would be smooth all the way. There is much work yet to be done to get the transition right.
I hope I have been able to demonstrate today that building blocks really are being put into place. An agenda has been set out clearly in the Joint Declaration: a common objective, shared with the Chinese, that we should work for the continued success and prosperity and stability of Hong Kong and a smooth transfer in 1997; and an experience of working together with the Chinese that so far confirms that commitment, underlined by a long list of practical achievements that have set us well on the road to success.

1997, of course, is a very fundamental change, the greatest challenge Hong Kong has yet faced. Some see 1997 as a crisis. I would remind them that the two characters making up the Chinese word for crisis literally mean “dangerous opportunity.” This is a vivid symbolism because the people of Hong Kong have risen to any number of challenges and faced many crises throughout its brief history. I am convinced that 1997 offers Hong Kong and its people their greatest opportunity yet.
Let me start with some definitions. I shall use the term “NICs” in my talk, though, as some of you know, we’re not supposed to use it as it offends China. The new term is “NIEs” (newly industrialized economies) since, as China has pointed out, two of the “NICs” are not countries but provinces of China.

Let me define the difference between what I shall call the old NICs and the new NICs. The old NICs are newly industrialized—"ed"—countries, that is, South Korea, Taiwan, Hong Kong, and Singapore. The new NICs are newly industrializing—"ing"—countries. I think everyone has agreed that Malaysia and Thailand fall in this category and, depending on how optimistic you are, the Philippines and Indonesia.

If the 1980s is the decade of Japan on the world economic stage, I will be so bold as to say that the 1990s will be the decade of the NICs—all of them, old and new. By this year the four old NICs will draw even with Japan in their share of world trade. That is, their total combined imports and exports will account for about 9 percent of total world trade, which is about Japan’s share, and by next year they will surpass Japan even though they only have two-thirds of Japan’s population and about one-third to one-half of Japan’s income level.

In the 1990s the old NICs’ growth should slow down. “Slow down” for them means that their growth will probably still exceed world norms and historical averages for countries at their stage of development.

If growth in the old NICs will slow down, growth in the new NICs will pick up and, given their larger size, they could be a bigger story than the old NICs were in the past.

In 1988 Thailand, with a population of 52 million people and a per capita income of about $1,000, saw economic growth of 10 percent in real terms. Malaysia’s economic growth rate was only slightly behind. For the new NICs as a whole 1988 was also the year when manufacturing overtook commodity exports as a percentage of their foreign exchange earnings. More than half of Thai, Malaysian, and Philippine exports now come from manufactured goods, while for Indonesia the proportion is 45 percent.

Three sets of factors—domestic, regional, and international—lie behind economic change in both old and new NICs. First, domestic factors, including two decades of high economic growth, rapid industrial development, and increased trade flows in the old NICs have led to inevitable labor shortages, rising wages, rising environmental costs from environmental degradation, and appreciating currencies. This, in turn, has led to increased costs of doing busi-
ness and declining international competitiveness and has been compounded by political uncertainty and disruptions resulting from increased popular pressures for more democratic rights and individual freedoms. This is reflected in the widespread labor unrest, increasing political demonstrations, and environmental protests in South Korea and Taiwan. In Hong Kong we have the political and economic uncertainty and professional out-migration associated with the return to China in 1997. In Singapore perhaps less uncertainty is associated with the succession to Prime Minister Lee Kuan Yew.

Secondly, domestically both old and new NICs have been undergoing a process of economic and, in some cases, political liberalization in response to both domestic and international pressures. This means that they have reduced restrictions on imports and on foreign investment and begun deregulation, privatization of government enterprises, removal of private monopolies, and gradual liberalization of financial markets. This should make them more open and efficient economies now and in the near future.

With regard to other regional factors, we see a recent increase in the regional integration of neighboring economies. This is not the result of supragovernmental efforts and institutions like ASEAN but of market forces and efforts of the private sector—both multinational and regional firms.

Intraregional trade and investment flows are increasing not only between the NICs and Japan, but among the NICs and the near NICs, and between them and China. In the past, you saw trade and investment flows mainly between these economies and countries outside the region, like the United States and those of Western Europe. Now the flows are increasingly within the region.

Finally, two major international developments have affected these economies. First, there has been a world-wide currency realignment since 1985 involving the rise of the Japanese yen, the subsequent rise of the New Taiwan dollar, and the Korean won. This shifted international competitiveness first from Japan to the old NICs and then from the old NICs to the new NICs, enabling both sets of countries to take over part of Japan's share of the world market in manufactured goods.

Certain international trade policy changes have also influenced economic changes. These include increasing U.S. and European protectionism or protectionist sentiments and restrictions on imports from Japan, Taiwan, and South Korea that have resulted in the shift of some production to the other NICs and near NICs. It is, therefore, not surprising that the NICs and the near NICs all run large trade deficits with Japan at the same time that they run large trade surpluses with the United States. In this triangular pattern of trade the NICs and near-NICs buy inputs from Japan, process them, and export the final product to the United States.

This year's U.S. removal of duty preferences for imports from the old NICs has led industries that depend on such preferential access to move from the old NICs to the new NICs. In addition, U.S. pressure on Japan, Taiwan, and South Korea to open their markets has improved market access for the new NICs, especially in agricultural products.
The results of all these developments are as follows: First, there is slowing growth, including slowing export growth but accelerating import growth, in Taiwan, South Korea, Hong Kong, and Singapore. Second, this is accompanied in the old NICs by rising incomes and by upgrading into higher value-added industries and services. Third, there has been a large surge of investment from Taiwan and Japan to the NICs and especially to Thailand and Malaysia. In 1988 Taiwan was only slightly behind Japan as the largest foreign investor in the region; this year it will probably be number one.

Fourth, manufacturers from Southeast Asia have increased exports to the world market including Japan and the NICs. Items previously manufactured in Taiwan and South Korea are now being made in Indonesia, the Philippines, Thailand, and Malaysia.

Fifth, accompanying all this are increased intraregional trade and investment linkages. As these countries lower their barriers to the world, their economies become regionally integrated. If you lower your trade barriers, it is quite likely that you will start having closer trade relations with your neighbors. Investment patterns are increasingly dictated by the use of local resources: you make part X in country A, Y in country B, and Z in country C, and you put them all together in country D and then you send them to countries E, F, G, and H. So you're beginning to get the emergence of an integrated, self-contained, regional production and marketing network.

Where is the United States in all this? First, I think the United States has dissipated a lot of its energy, particularly trade policy energy, locking horns with Japan on opening the Japanese market. For a variety of reasons it is not getting very far. To the extent that the United States has succeeded in opening Taiwan, Korean, or Japanese markets it has tended to open these markets for other competitive producers—such as the NICs, the near NICs, and developing countries in the case of agricultural exports. Additionally, U.S. business has not been very successful at entering these markets once they have been opened.

Second, I think the United States has been distracted by its almost paranoid love affair with the China market. Foreign investment studies have been asking "why would anybody invest in China?" The paranoia lies in the answer that "there is a market for 1 billion toothbrushes every three months and you won't be in there." Americans have also had a particular romanticism about markets in China, which, for example, does not extend to 800 million potential toothbrush buyers in India. This obsession has led American firms to invest much more money, executive time, and effort in China than have the Japanese or other Asians with the exception of overseas Chinese.

American firms seemed determined to invest in China despite difficulties in repatriating profits. An example is Chrysler, which after eight years of negotiating in Beijing, planned to make Jeeps in China to export the Jeeps to Southeast Asia to earn foreign exchange from Southeast Asia so as to be able to repatriate profits from China to the United States. But the question remains, "Why would a Southeast Asian buy a Jeep when there are cheap,
locally assembled Japanese pick-up trucks available?"

In contrast, the United States is ignoring places in Southeast Asia into which Japan and the old NICs are going. Seven to eight years ago the United States was the largest trade partner of and the largest foreign investor in the ASEAN countries and regularly ran trade surpluses with them. Now the United States ranks fourth or fifth as an investor in most of these countries. Although it is still the first or second largest trade partner, the surpluses are now deficits. In 1988, for example, the Japanese invested twice as much in Singapore and Thailand each as they did in China.

The two industries in the new NICs in which U.S. firms do invest heavily are oil and high tech-computers and semiconductors. Most U.S. investment, past and present, has been for export out of the region, although increasingly U.S. firms are beginning to look at selling within the region itself. This contrasts with heavy Japanese and NIC investment in the local markets.

The United States should right its global balance by making inroads into third country markets. If you look back to 1980, developing countries accounted for 40 percent of U.S. exports. Now they account for much less, partly because of the Latin American bank debt crisis.

To move briefly to the political sphere, democratic movements are underway in these countries. Beginning with the Philippines in 1986 and South Korea and Taiwan in 1987, many countries in the region have switched from authoritarian military regimes to at least partial democracy. They have released political prisoners, reduced human rights abuses, allowed more press freedom, and allowed more participation in politics for opposition parties. The people of Hong Kong are worrying about democratic rights after 1997 while the Singaporeans have voted in the People's Action Party with a reduced majority. Thailand has its first elected prime minister since 1976, a businessman who seems set to export capitalism to Burma and Indo-China. In Malaysia the prime minister's move to become more authoritarian has met with increased resistance. In Indonesia, President Suharto made the earth-shaking announcement recently that in the succession to him in 1993 there could be more than one candidate for president.

In the socialist countries there were student uprisings in Burma in 1988 and Vietnam, Laos, and Cambodia all have been liberalizing their economies and welcoming capitalist foreign investment. Most of the trading investment interest in Vietnam, Laos, Cambodia, and Burma comes from other Asian countries—not from the West—except for oil in Vietnam.

Let me conclude with two points: First, I think that what's happening to the NICs, both the old and new together, is very exciting from a world historical perspective. Capitalism and democracy are advancing, but whether or not they are linked is questionable. This is the first time since Japan emerged on the world stage as a military and economic power in the nineteenth century that you have a group of countries from the Third World coming up faster and stronger than Japan to join the league of developed countries.
My second point is that Confucianism has had nothing to do with this economic growth. I have never understood the argument that the success of the NICs and Japan is due to Confucianism. All these countries have been Confucian for more than 2,000 years and capitalist for only twenty. Historians have long argued that Confucianism was a barrier to capitalist development.

Not all the old NICs, and especially not all the new NICs, are Confucianist—despite the prominence of overseas Chinese there. These countries have large Muslim, Buddhist, some Hindu, and large Christian populations embracing capitalism and doing well by it. Moreover, the Confucianist countries differ among themselves. Some governments in the NICs, and even in China, are trying to claim (after the fashion of some Western academics) that Confucianism has something to do with economic success. Actually, what attracts those governments is the support that Confucianist ideology can give to political authoritarianism in an era of economic liberalization. However, the people of these countries in many different ways appear to be struggling for political democracy and individual rights. This they never had in Confucianist history. In other words, they seem to be struggling to liberate themselves from Confucianism as well as from communism and militarism.

Discussion

Comment (Mahendra Srivastava):

I would like to comment on your remarks concerning American romanticism with China and why India is not in the same category. I am trying to develop a project in India for the manufacturing of laptop computers and fax machines. The person who showed the most interest in that project was a Taiwanese individual. I have been trying for five years with no success to convince American businessmen to support that particular project. The reason for that slow movement is not just the romanticism with China we spoke of. During a meeting with an Indian businessman in India, I asked if he was interested in doing business with an American company. He flatly said, “No.” I asked him, “Why?” He said they are too slow. You can imagine an Indian businessman talking about Americans being very slow! I said, “What do you mean, they are too slow?” He said, “Look we are slowed down by our own government bureaucracy. Once I have my license I am ready to do business. I cannot go and wait three weeks in America for their lawyers to look over the contract.” In three weeks he goes to five countries in Asia and he can get what he wants.

In regards to Dr. Lim’s discussion of regional integration, there is a lot of talk now going on about evolution of regional economic blocs. The first super-bloc is Western Europe. The goal is a single European market by 1992. Cooperation there is being driven, to a certain extent, by the belief that it
is the only way to compete with the United States and Japan—at least in commercial technology.

The second bloc is in North America—the U.S.-Canada Free Trade Agreement. Maybe this will expand to include Mexico and the Caribbean. This is both politically and economically motivated integration.

The third bloc is obviously the Pacific Rim. The integration that you see there is market driven economic integration. Intra-regional trade and investment has increased considerably, propelled by the strong Japanese yen, which has resulted in an increase in imports into Japan from Hong Kong, Taiwan, and South Korea. Japanese investment in East Asia has increased.

Here are some facts to consider. Intra-European trade now is greater than trans-Atlantic trade. Some studies now predict that North-South trade in Asia will soon be larger than trans-Pacific commerce. Looking at the North American bloc, U.S. trade figures show one-third of all U.S. foreign investment is in Canada. Trade volume between the United States and the Province of Ontario is greater than the trade volume between the United States and Japan. These facts suggest growing interdependence within these blocs. Western Europe is likely to become more closed since integration is driven by the desire to compete with Japan and the United States. The North American bloc itself might become more closed as protectionist sentiment grows.

There could also be the formation of a non-aligned bloc, but not of the kind that exists when we speak of political non-alignment vis-a-vis the Soviet Union and the United States. This new bloc may include countries like India and Brazil which will have to take sides when it comes to their future economic growth.

Comment
Could Dr. Lim elaborate on Vietnam’s potential economic role?

Response (Lim):
The Vietnamese started their economic reforms in 1979, before China. They also feel they have better prospects of making the economic reforms succeed than either China or the Soviet Union, partly because there has been a relatively short period of communist institutionalization in South Vietnam. It is very clear that Vietnam is in terrible economic shape and that it needs to export.

The biggest foreign investment interest has been oil. The Vietnamese are very interested in having American investment to diversify sources of capital. U.S. oil companies are interested, but cannot yet move.

In 1987 the Vietnamese promulgated a very liberal foreign investment law. However, Vietnam’s infrastructure is clearly inadequate. They have a lot of problems and are not eligible for international aid. Isolation compounds their problems.
Comment:
Were you suggesting that a change in political leaders is not going to make a substantial difference in terms of stability, economic growth, and progress in Southeast Asian countries such as Malaysia and Singapore?

Response (Lim):
That is my personal assumption. In these countries there is a level of economic prosperity, a long experience of peace and stability, and a highly educated and very pragmatic population. I don't see a source of unrest. In Malaysia everyone is doing very well by the current economic system. The Chinese are, their incomes have gone up. It is true that there is discrimination but they can open their own businesses and they have generally done well. I don't think anybody there will want to rock the boat. There is no communist or socialist alternative anymore. In Singapore the main opposition leaders support the same economic program.

Comment:
You appeared to assume that peace is near and conflicts are disappearing. Peace may be near, but not immediately on the horizon.

Last, I would just say that democracy is a very complex and subtle political notion, it means in essence two things. It means decision-making according to majority rule and it means the fulfillment of the individual as the moral end of society is the goal. That's derivative from Western, Christian, and Greek philosophical and religious traditions. To assume that these kinds of cultural positions, as well as behavior norms, will extend to Asian cultures—again, I would urge extreme caution. Complexity—Yes!

Response (Lim):
I didn't say conflict is disappearing. If you looked at the region over the past twenty years, you would say there were a lot of political problems. There are divided countries—South Korea/North Korea and Taiwan/China. There was the Vietnam war and the strife in the Philippines. Yet, Asia still prospered. I don't believe things will be worse in the next twenty years. I see them getting better—but even if they do not, I don't think it's going to affect the economy because the economies are stronger now than they were twenty years ago.

These countries have handled political difficulties in the past and they are not going to jeopardize their economic growth in the future for political reasons, with the possible exception of the Philippines where underlying economic stresses are present.

Comment:
In the case of South Korea, it looks politically stable right now, but in the long run there are several sources of internal conflict or instability. One of the major sources of instability is strong anti-Americanism.
As the economic trade activity increases between the United States and old NICs or new NICs, I expect the anti-Americanism, among radical students or intellectuals, may increase. In South Korea we see it everywhere. In the long run the United States may be one of the major sources of political instability.

Response (Lim):

I think the question is, "So what if a bunch of intellectuals are anti-American? Are Koreans not going to sell to the Americans? Are they not going to buy from the Americans?"

Politics and economics intertwine in very specific ways that we have not had a chance to discuss. For instance, the more economic liberalization, the less people's jobs, their businesses, and economic activity depend on the state. The state cannot tell you what to do or what to buy or with whom to form associations. In South Korea there is less liberalization than in the other NICs and the economy is still heavily monopolized. If the South Koreans wanted to be so nationalistic they would pay very high prices for things made by Hyundai. That is the choice they have to make. This places political nationalism above economic consumerism. It is not for outsiders to say what the Koreans want; they will decide for themselves.
Japan's International Security: 
A Critical Analysis of Five Myths

Donald C. Hellmann

The Japanese-American alliance is one of the most successful and enduring achievements of postwar American foreign policy, but it is doubtful that it can continue in its current form in the decade ahead. The reasons mandating change are not found in the status of the day-to-day operation of military cooperation between the two countries, which has proceeded smoothly and well. Rather it is rooted in the enormous and continuing structural changes in the global and East Asian political economies. Accordingly, to understand security relations between Japan and the United States, Japan and Asia, and the unfolding policy challenges it is necessary to look not only at the military capabilities of the nations involved and the institutions designed to foster defense cooperation, but to the new international economic and political realities within which the Japanese-American alliance must operate.

Japan has become a global economic superpower of proportions that are rarely fully understood. Its gross national product has been larger than that of the Soviet Union for a number of years and its per capita GNP is currently more than 25 percent larger than that of the United States. Moreover, despite vastly inferior natural resources, Japan has highly effective government-private sector institutional arrangements to maximize economic growth. Japan leads in many high technology areas that provide momentum to sustain rates of growth greater than those of the United States and the Soviet Union. It is the Japanese model, not American capitalism or Soviet socialism, that is the most admired international prototype for economic growth.

Japan has also become the world’s foremost financial power. It is the largest international creditor country with growing overseas investments, an aid program that in 1989 will be the world’s largest, a strong banking system, and a personal savings rate that is four to five times higher than that of the United States.

Over the past decade and a half the American and Japanese economies become ever more deeply intertwined. The sheer size and breadth of interdependence has made this bilateral relationship the largest single factor in maintaining global economic stability. At the same time, it has exacerbated problems of managing bilateral trade and economic relations and raised doubts about the long-term viability of the one-sided American dominated security relationship.

Despite its enormous economic power Japan has continued to play a passive and modest role in both the security and economic dimensions of the international system. Economically Japan has worked almost exclusively to
maximize its own national self interest. In international institutions such as the GATT, designed to promote and strengthen the free trading system, Japan has been a major target of criticism rather than a leader. Although for several years the world’s largest creditor nation, Japan has left the initiatives for solving Third World debt problems to the United States, the world’s largest debtor. Fourteen of the fifteen largest banks in the world are now Japanese, but through the mid-1980s the partial opening of the financial markets of Japan occurred only because of intense international pressure. Despite a significant increase in the magnitude of its foreign aid, 60 percent of which remains de facto tied to the Japanese economy, Japan has showed little inclination or capacity for international economic leadership beyond maximizing its own national well-being.

In the area of security, the international role of Japan has been even more modest. As elaborated in the National Defense Program Outline adopted in 1976, Japan’s strategic aim is narrowly defined to involve territorial defense of the home islands. Even under this restricted goal, the military role of Japan is seen simply as a supplement to the conventional military capabilities of the United States. Japan is sheltered by the American nuclear umbrella but, under its non-nuclear principles, Japan will not permit trans-shipment or deployment of American nuclear weapons used to provide a defense umbrella in the Western Pacific. Protected by the American alliance, Japan spends only 1 percent of her GNP on defense, an amount that in proportional terms is less than a fourth of the average annual outlay of any member of NATO. Japan not only eschews a regional security role but alone among the major industrial powers has not participated in United Nations peacekeeping activities nor made a military contribution to the multilateral efforts to insure access to Middle Eastern oil.

This extreme incongruity between the enormous and growing economic power of Japan and its highly restricted role in the management of both global economic and political security affairs can be extended into the future under only one condition: The United States must remain willing and able to sustain the international “greenhouse” which has insulated Japan from the political, psychological, and economic costs and responsibilities associated with an orthodox national role in global defense arrangements. This greenhouse has allowed Japan to avoid a role of economic leadership congruent with its international capacities.

Both the capability of the United States to maintain the greenhouse and the desirability of doing so are now open to question. Clearly, it defies both history and common sense for the world’s largest debtor nation effectively to underwrite the security of the world’s largest creditor. In the future, security issues must be linked with economic issues.

Most analyses of U.S.-Japan defense relations are confined to an inventory of the inhibitions on Japan doing anything beyond the modest security role the nation now plays. They often focus on what can be called the five old myths about U.S.-Japan security relations. These are:
1) there are constitutional prohibitions on any change in Japan's current security role;

2) there is deep domestic political opposition to expanded Japanese military activities; in other words, public opinion and the opposition parties prevent Japan from being an ordinary nation;

3) all other Asian nations and the Soviet Union deeply fear the prospect of a militarily re-armed Japan;

4) Japan is already a major military power in terms of the size of its defense budget; and

5) there is a need to create a "strategic partnership" based on the division of labor in which the Japanese assume major economic burdens to balance American military burdens.

These assumptions and hypotheses have guided, and still guide, the bilateral relationship, but they have long been in desperate need of reevaluation in the context of contemporary international political economic realities. Without a reassessment and appropriate policy adjustments, the bilateral alliance can at best go from one crisis to another and the policy agenda will be set by international economic events, strategic events, and the twists and turns of domestic politics in each nation. An alliance that has been central to stabilizing international relations in East Asia will gradually unravel—with grave consequences for the global political economy. Let's examine these myths critically.

First, the myth that Japan's American-drafted peace constitution precludes the participation of Japan in collective security arrangements or of dispatching troops abroad. Article 9 effectively proscribes the right of belligerency to Japan; it is very clear Japan should not maintain any armed forces. Accordingly, when the Japanese sought to create armed forces in 1954, they passed the Self-Defense Forces Act. They found it obligatory to appeal to Article 51 of the United Nations Charter. Article 51 of the United Nations Charter says that every nation has the right to individual and collective self-defense. The Japanese have stopped in the middle of the sentence, because they consistently claim they have the right to individual self-defense, but not to collective self-defense. In fact, Article 51 is used by NATO to justify collective defense. In reality, whether Japan sends troops abroad or not, is a matter of policy decision and not a constitutional issue.

The second myth is that the impact on the Japanese public of catastrophic defeat in World War II, Hiroshima, the peace constitution, and more than four decades of experience on the sidelines of global strategic affairs, effectively precludes Japan from becoming an ordinary country in defense. That is, public opinion prevents the Japanese government from spending a proportionate amount on arms and participating in military security activi-
ties including reciprocal obligations on levels found in every other nation in the world. This is an amazing assertion.

The myth rests on two assumptions: First, that the combination of defeat, the constitution, and isolation from politics has re-socialized the Japanese people for peace in ways that make them unique among the peoples of great powers in world history. Second, the manifestation of this popular mood for peace, evidenced in numerous and regular public opinion polls, places effective limits on security policy options in Japan. To suggest that a country of 120 million people has undergone a national personality change ignores the extraordinary international conditions which permitted the isolationist, pacifist policy of the past four decades. To assert on the one hand the Japanese government leaders can design and manage a comprehensive internationally-oriented economic development program without equal in the world and, on the other hand, in manners of national security are simply followers of the national mood pushes political analysis into the realm of the surreal. You cannot have it both ways.

The capacity for leadership within Japan is clearly very substantial and what is necessary is simply for them to take such leadership. My guess is that if international relations and conditions change, the shift in the Japanese public mood will follow very quickly.

The third myth is that the memories of Japanese military imperialism in East Asia are so fresh and frightening, and the current Japanese economic power is so great, that other countries in the region do not want Japan to play a military role in the region under any circumstances. Therefore, the United States should not pressure Japan to play an expanded part in regional security and the current American dominated security arrangements in East Asia must continue. This myth is distinctive because it finds virtually unanimous support from all the parties involved—Asians, Americans, Russians, and Japanese.

What makes this unanimity astonishing is that the myth itself rests on two extremely questionable assumptions about international reality in East Asia. First, that Japan is an incorrigible militaristic nation, incapable of behaving in a responsible manner as part of a collective regional security arrangement. Second, the United States will continue to maintain security in the Western Pacific within the framework operative over the past four decades despite the enormous shifts in the region's economic and political balance. Although it is hypothetically possible for the United States to continue to project military power at a level and in ways comparable to the past for the immediate future, to do so without regard for the massive changes in the political economic landscape in East Asia would be folly. If one believes that all conflicts are resolvable because of an economic invisible hand, then one could take the position that Japan should not and cannot get involved. My own position is that the millennium is not likely to appear. Japan should play an order-maintaining role, for example, by participating in protecting the sea lanes to the Middle East. Since Japan gets 65 percent of its oil from there,
and the United States gets 4 percent, it makes sense that Japan pay for sea lanes protection instead of the United States picking up the entire cost.

The fourth myth is that Japan is already a major military power in terms of the size of its defense budget. In fact, in 1989 in nominal terms the defense budget will exceed all nations except the Soviet Union and the United States—$32 billion a year. But it makes no sense to talk about the level of spending independent of the strategic purposes for which it is used. Spending on arms should be linked to specific goals of security. Since Japan has no strategic purpose except to defend its own territory and it refuses even to participate in UN peace-keeping missions, it would seem a lot of money is being wasted and that the expenditures are not comparable with those of the superpowers.

The fifth myth is that a U.S.-Japan strategic partnership can be based on an international division of labor in which the Japanese assume major economic burdens to balance American military burdens. What this means basically is that the United States will assume the responsibilities of defense as world policeman, while the Japanese are Santa Claus, giving aid to everybody. This is a viable policy only if you accept the other myths and the United States is willing to be the permanent “bad guy” in international affairs.

The second problem with this myth is much more subtle: You can only substitute aid for defense spending if there is a total identity of national interest. For the United States and the Soviet Union, aid is primarily political. The Japanese aid goal is commercial and this inherent difference makes the proposed international division of labor absurd under even the most prima facie analysis.

Let me conclude with my favorite analogy, which points to both the problem and the solution of Japan’s security role in Asia. In most respects the Soviet Union and Japan are complete opposites on the international scene, but in one respect they are identical. Both of them have a foreign policy that in its fundamental structure resembles the physiognomy of a professional tennis player—they have an arm that dangles, usually four inches longer than the other, that is often twice as big as normal because it is overexercised on purpose. For Japan, the overexercised “arm,” or dimension, of foreign policy is economic. The military arm is withered; therefore, Japanese foreign policy is asymmetrical. The Soviet Union is just the opposite, their military arm is dangling on the ground, and they have virtually no economic arm at all. Accordingly, Moscow is seen around the world as a troublemaker because every time there is a problem it projects military power.

Where do the Americans fit into this? The Americans stand as consummately inept. We play left-handed economic tennis with the Japanese, right-handed military tennis with the Russians, we lose to both and go broke in the process. To address the dilemmas of the current situation, it would be wise to play a game where everybody has to use both hands. The Russians should get involved in the international economic system and the Japanese, in one way or another, should share the burdens of defense.
Right now there is only one country in the world that has some sym­metry in both the economic and security dimensions of its foreign policy— and that is the United States.

Accordingly, if the United States had leaders who understood this image, and who had a clear notion of what new international game they wanted to play, it would be possible to create a new international system in which we were the world leaders—much as the liberal free trade system and bipolar balance was created at the end of World War II. Ironically, to establish a viable new security role for Japan in the international system, it is the leaders of the United States that must go back to the policy drawing board.

Discussion

Comment (Susumu Awanohara):

I have a lot of trouble with what Professor Hellmann said but, stripping away some of his hyperbole, I agree with some points. Let me focus on the five “myths” about Japan's defense.

The first myth was that the Constitution prohibits Japan from spending more on defense. I find Professor Hellman's presentation not always to the point. For example, regarding collective security, the point is not whether the Japanese just picked up the justification for individual security but not for collective security from the UN Charter. I believe that it is true to say that a major defense build-up would be against the spirit of the Constitution. Though it was written largely by Americans, the Constitution is accepted by a lot of Japanese.

We appreciate how incredibly generous America has been in the post-war period, but I would not agree that, therefore, we should guarantee that we would come into a war if the Americans are attacked. This is not just the Japanese avoiding responsibility, avoiding costs. There are some of us who remember with horror what we did and I think Asians outside of Japan also remember. Also the United States is not infallible and we would not like to get involved in a war which starts in Europe and in which somehow we are used as a pawn.

Turning to the second myth on public opinion, I accept that the public has not perhaps always been well-informed but I think, nevertheless, there has been a real fear of the military. Public opinion is shaped by policy but also influences policy. It is precisely because some people change the textbooks that we have to value public opinion which tries to stem that kind of tide.

The way it was formulated, the third myth is that Asians would be opposed to Japan's rearmament even if the Americans were with them. But I think the operative phrase in that sentence is “if the Americans were with
them.” The sentence only tells us that Americans are by and large still liked, and Asians would like the United States to stay in the region but not Japan. It is not a myth that, by and large, Asia would prefer a weak Japan to a Japan which is strong beside the United States—since alliances do not necessarily last forever.

The fourth point concerns defense statistics. It is true Japanese defense spending is exaggerated by the land cost, the labor cost, and exchange rates. But I believe Japan’s potential defense capabilities are much underestimated if you consider the dual-use technology, i.e., technology that has both civilian and military applications, which is making real strides in Japan.

On the final myth of the division of labor, I tend to agree with Professor Hellman that it is a bad deal for the Americans if the Japanese are Santa Claus while the Americans are spending billions on defense. However, in times of crisis people might prefer to have a cop around than Santa Claus. In the main I agree with Professor Hellman that there is a problem if a division of labor tends to benefit Japan at the expense of the United States. So there is a problem. The Japanese government is trying to cope with it, but it is a slow process.

I am not quite sure what Professor Hellman wants. Does he want Japan to become a strong military power, trusting that it will not be aggressive again, or does he worry with the Asians about a destructive Japan? The Japanese are not liked; they are not good at doing anything but making things and selling things. That is a fact that we Japanese have to live with and, if we had the time, I could offer my opinion as to why this is so.

If I may offer some advice to Americans, many people in Japan and a large majority of thinking Asians fear a militarily strong Japan. I wish that we could find ways to avoid making that a reality. Secondly, I wish the Americans would look at foreign societies a little more carefully. There are a lot of forces within Japan with which each group within your society can work. In other words, Japan now has a plural society. For example now there are a large number of people who can imagine us importing rice. You have to bring them in and make them your friends, rather than bashing Japan and creating a general anti-American nationalistic response. Likewise with the FSX issue, it was very unfortunate that the Japanese had been led to believe that an agreement had already been reached and then a new administration comes in and wants to review an agreement already reached between governments. That way you not only alienate the Japanese who want to develop their own fighter aircraft, but also a lot of people who are not so happy about fighter development. So, look at Japan more closely and form coalitions with groups that agree with your position.

Comment:
Should we remove the greenhouse? Are you suggesting that we should get our bases out of Okinawa, remove our troops from South Korea, withdraw the 7th fleet, leave the Philippines, and rely on an Asian balance of power in which Japan would play a greater role?
Response (Hellman):

The United States should undertake a fundamental re-evaluation of its role in Asia in general and with regard to Japan in particular. The Soviets are doing it and they are a failed society. The Americans have got their troubles, but we have lots of leverage throughout most of Asia. We should be developing options. I would favor, personally, leaving open all options as the basis for negotiation. I would begin, myself, by talking about sea lanes and sea lane cooperation. I would absolutely mandate that the Japanese participate in UN peace keeping missions. I think we have to restructure the whole notion of security in East Asia. We have two alliances—one with the Koreans and the other with the Japanese—that are not even related to each other. The Cabinet should have twenty-five contingency plans that lay out various options linking trade and defense. The point is that we have to begin by recognizing we have a fundamental problem and undertake a series of actions, reforms both of institutions as well as of policies, to deal with it. And the sooner we tell the Japanese that, the better off we will be.

Comment:

When you talked about aid, you implied that there is not a perfect convergence of Japanese and American interests. Then I think a lot of this analysis starts to crumble because much of it is based on the assumption that there is convergence. We need a lot more discussion about just how much convergence is there. Secondly, the tennis player analogy was very good, but if a creature came from another planet how would he know which is normal? You identify symmetry in a particular way. I endorse your last point, that the United States needs to reassess its role. But I would hope the United States could reassess its role not so much from the point of view of trying to maintain the hegemony it created forty years ago, but rather accept a sharing role that extends across many dimensions.

Response (Hellman):

Those are very good questions. I will even be more forceful in the answer on issues regarding substitution of aid for defense. There has to be not just a convergence of interest, but an identity of interest. In some cases there is identity of interest and in some cases not. I think what's wrong is that we are not making an effort to find trade-offs. I argue the United States probably should be the senior partner but not the hegemone. That partnership, however, should be predicated on the fact that Japanese GNP is now no longer 2 percent that of the United States, but by most reckonings about two-thirds. The relationship must take this into account and also the point Mr. Awano-hara's comments imply—that the Japanese cannot jump suddenly into a new role like this.
Cooperation or Co-prosperity?
Japan's Ascendancy as an ODA Power in Asia
Bruce M. Koppel

Since 1978 Japan has been the leading source of bilateral official development assistance (ODA) to Asia. However, it is only during the last few years, as Japan has risen to become in 1989 the world's leading donor, that serious attention has been paid to the international political implications of Japan's ODA role. Japan's global ODA ascendance in the mid-1980s has occurred alongside two important parallel developments: a dramatic growth in the volume of private capital flows from Japan to Asia, and the rapid appreciation of the yen.

Taken together, these developments in Japan's program of economic cooperation have encouraged speculation about what the shifting balance of power in the global economy means. For example, in 1988 senior officials of the Japanese Government began talking openly about how Japan could use the tools of economic cooperation more aggressively to integrate the Asian economies. In February, 1989, the Prime Minister of Thailand, Chatichai Choonhavan, announced: "The World Economic War is over. Japan has won."

Concerns about hegemonic intentions on the part of foreign aid donors and powerful trading partners are not new or unusual in the developing world. Asia is no exception. What is an exception, however, is the special concerns that surround assessments of Japan. Japan is aware of these concerns. Consequently, while some in Japan (and the United States) believe that Japan's international political influence should be commensurate with Japan's global economic position, there is continuing and significant sensitivity within Japan to allusions of co-prosperity intentions in Japan's international economic relations. Similarly, in many parts of Asia, concerns about Japanese investment focus less on its level and more on the worrisome consequences that would follow any reductions.

Japan's intentions towards the rest of Asia are complex and not entirely clear. ODA may reflect these intentions, but it is neither a complete nor undistorted reflection. The reality that needs to be emphasized is a commingling of ODA with other elements of economic cooperation (trade and private investment) and political relations among Japan, other donors (notably the United States), and recipient countries. The political management of this commingling, both as a domestic and an international problem, constitutes one of the more interesting contemporary problems in Japan's relations with the rest of Asia and other donor countries.

Do trade, investment, and ODA relationships between Japan and Asia indicate the emergence of a hegemonic role for Japan?
Japanese private capital flows to Asia, including commercial loans and direct foreign investment, have increased significantly in the 1980s. The increase accompanies significant growth in ODA flows as well, although it is a separate question whether one is following or leading the other. The majority of the private capital flows are loans. In many cases the private capital flow is financing the relocation of Japanese industries as well as the establishment of export capabilities in developing countries. However, direct foreign investment is not often viewed as beneficial for its tangible contributions to capital formation, but rather as an instrument through which intangible assets (e.g., technology, management techniques, and skilled labor training) are transmitted.

Because of the rate of increase in financing (a portion of it a consequence of yen appreciation), the unusually high visibility of the Japanese financing groups, and the strongly competitive nature of their activities, impressions have grown in the region that a wave of Japanese investment is upon them. In some quarters this has raised concerns that a co-prosperity sphere was being established, i.e., economic relations dominated by and beneficial for Japan.

Taking both ODA and total private flows together, there is growing dependence on Japan for development financing in Asia. Because of the large proportion of loans in all this financing and because of prospects for continuing appreciation of the yen, the case can be made that this financing has the potential to generate serious external debt problems, especially in the weaker recipient economies. Since this kind of instability would not appear to be in Japan's interests—a point that Japan has made—it is reasonable to expect that Japan would have to be taking some measurably improved responsibility for accepting exports from these same countries, particularly for manufactured goods.

If Japan were accepting more exports from Asia, then examination of the quantity and type of exports would help determine what form of economic cooperation was emerging. For example, consider import penetration ratios in Japan's domestic markets. Japan likes to argue that there has been rapid and very significant growth in these ratios. However, when Japan makes this case two points are typically ignored. First, improvements in import penetration have far more to do with yen appreciation than with efforts by Japan to facilitate access. Second, claims of dramatic increases in import penetration are usually based on very specific products (e.g., specific style sweaters or specific types of camera parts).

When the ratios are examined in terms of the broader categories used to collect trade statistics, the picture is different. Penetration ratios are very low. They do not exceed 30 percent for any category of manufactured goods, and for most categories they do not exceed 10 percent. While these ratios are growing in most cases, they are growing very slowly (between 1 percent and 4 percent annually since 1980), with primary product categories growing faster than processed products and manufactured goods. This is partial evidence for persistence of a traditional Japanese trade relationship with de-
Japan as an ODA Power in Asia

veloping Asia: primary products imported, manufactured goods exported. Since 1986 the United States has been the largest market for total ASEAN exports. The percentage of ASEAN's exports to Japan consisting of manufactured goods remains low compared to ASEAN's export mix to the United States. A point made by ASEAN's economic policy-makers is that as long as the United States can absorb significant levels of ASEAN's manufactured exports, Japan's role as a market for primary products would not necessarily set in motion the imposing of hegemonic economic relations on ASEAN. This situation could be interpreted as the foundation for a strongly dependent set of economic relationships between developing countries in Asia and Japan. However, four points weaken this supposition.

1) Asia's economies are increasingly strong producers of manufactured goods and they are outward-looking.

2) Asia's economies are not entirely dependent on Japan as a market for their more advanced products. In fact, in many cases, Japan is not the major market. The complaint from these countries is not that Japan is dictating the course of their economic growth. What one hears more often is that Japan is not doing enough.

3) Japan's own economy is undergoing adjustment with some shifting of manufacturing away from Japan to foreign sites for export to Japan.

4) With an increasing tendency toward protectionism in the developed world and trade blocs in Europe and North America, Japan may be left as the only growing advanced country market for developing Asian manufactures.

Japan's direct private investment in Asia has been growing rapidly, especially since 1985. However, it is not growing as rapidly as investment by Japan in all other areas of the world except Africa. For example, private capital flows to Asia and the Pacific doubled between 1976 and 1986, but so did the flow to Latin America and the Caribbean. Japan's investments in Latin America, Europe, and the United States exceed its investments in Asia.

This is not to imply that overall investment levels in Asia are low. In fact, there is evidence of excess investment capital in Asia—from Japan, the United States, Taiwan, Europe, and Korea. Because competition is vigorous and because not everyone is playing according to the same rules, it does not appear to be a situation conducive to a co-prosperity regime favoring one country only, at least not in terms of development financing.

This is an important point when one considers the political or economic leverage any donor might have with ODA funds. However, the concessionality of such funds, as measured by their interest rates and maturities, do not always mean they are categorically less expensive or otherwise more desirable than regular commercial borrowing. For example, the Thais have essentially terminated borrowing from the World Bank based on their analysis that
the Bank's required currency mix yielded real costs that exceeded costs of funds from other sources. The Thais have found Japanese development financing—which blends ODA with various commercial credits—to be more attractive than borrowing from the Asian Development Bank.

Under these conditions it is difficult to understand how a co-prosperity relationship could emerge. Of course, it can be argued that increased dependence on developed country markets only serves to increase dependence. However, from this perspective it follows that if anyone has won the economic war in Asia it is the United States, not Japan.

Against this background, let's examine Japan's ODA more specifically. By 1978, Japan had become the leading bilateral donor in Asia. Since the mid-1980s Japan has significantly increased the flow of funds to Asia—through regular bilateral ODA channels, through special allocations to multilateral channels, and through a variety of capital recycling programs. The results are spectacular in many instances. Japan is the largest bilateral donor in every Asian country except five (Vietnam, Kampuchea, Laos, Malaysia, and Pakistan). From country to country throughout developing Asia, there is now a pattern of large and still growing annual ODA commitments from Japan. Some portion of these commitments will be grants, in some cases (e.g., Bangladesh), a large portion. However, in most cases, the largest portion of the commitments will have two characteristics: 1) the aid flows are loans channeled through the Overseas Economic Cooperation Fund (OECF) and 2) to one degree or another the loans are tied to purchases of goods and services of Japanese origin.

How do recipient countries assess this flow of funds, the conditions surrounding the flow, and the broader economic and political relations the flow represents and portends? The simplest answer is that there are high expectations in recognition of Japan's global economic power, but these expectations are tempered by historical and cultural cautions along with a confidence that Japan, unlike the United States, is a global economic power that can be "managed." This is complemented by a perception in Asia that, despite the changing role of Japan, the United States is still viewed as the preeminent economic power.

Japan defines her ODA philosophy in terms of ingredients: Japan's ODA personnel in the field speak about the kinds of ODA instruments that are available and the types of investments these instruments are financing. An implication of the ingredients perspective is that Japan's ODA is seen by recipient countries as big-project oriented but not necessarily long-term oriented. Recipient countries have difficulty talking about Japan's commitments more than two years ahead.

There are numerous indications from Japan's ODA practice that Japan is not yet prepared to engage in more collaborative relationships with recipient countries. Certainly part of this, perhaps a big part, is a product of cultural and linguistic gaps. However, there are other factors as well. Staffing levels are inadequate but worse, the organization of work for that staff brings to
the fore essentially clerical and auditing skills rather than analytic skills. Japan's private sector contractors basically do the identification, feasibility, implementation, and monitoring work in the field. A high degree of decision-making centralization in Tokyo, compounded by the fragmented decision-making and bureaucratic in-fighting among the primary actors in Tokyo, contributes to a tremendous weakening of the field offices. Field personnel can make few decisions, a point well-understood by recipient country policy-makers and project managers alike. Flexibility in programming is considerably below what the countries would like. Yet, somewhat surprisingly, concerns are expressed in recipient countries about lack of continuity. This reflects, in part, staff turnover and the very high proportion of contact between a recipient country government and Japan conducted through numerous missions sent directly from Tokyo (as compared, e.g., to the regular interactions that occur between a government and senior members of an in-country USAID office). Problems of continuity also reflect the fragmentation in Japan's ODA decision-making.

What is the status of economic cooperation as seen through the window of ODA management in the field? Two answers dominate. First, relationships appear to be transitional. In some cases the substantial increases in ODA volume of the last few years run so far ahead of any capability to manage effectively that there are expectations of change in management systems. Beyond that is a fundamental question. To the extent that dramatic increases in Japan's ODA commitments in the 1980s have been driven by the "embarrassment" of her trade surplus and the desire to take a lead in some aspect of international economic relations where Japan can get credit from the United States, what happens once the summit is reached?

Second, the relationship is not yet considered predictable. Despite the level of financing and the announcements from Tokyo of more to come, and despite considerable expectations that all this will continue, countries do not look at Japan's ODA role the way they look at the American role, especially in the "trade not aid" era. They may not always agree with what the United States does, but they believe they understand why the United States is there. They do not yet understand why Japan is there and consequently they are not certain what to expect from Japan in any longer-term context.

Do recipient countries worry that Japan's ODA is laying the groundwork for hegemonic economic relationships? Do they worry that Japan is attempting to displace the hegemonic influence of the United States or do they anticipate a dual American-Japanese hegemony? There are such suspicions, but at this point these feelings are attached more to trade and investment issues. One hears concerns expressed particularly when there are large ODA loans that are heavily tied, when large projects are pre-packaged by Japanese companies, or when there is talk that the United States and Japan (along with the International Monetary Fund and the World Bank) have agreed that aid should be conditional on a recipient's economic policy or performance. However, confidence among recipient governments that they can deal with this, or at least deal with Japan's part in it, seems to exceed concerns that
their own economic futures are somehow being compromised. It is in this context that Prime Minister Chatichai's pronouncement should be interpreted. Many governments in Asia are becoming adept at using the "Japan option" as a form of leverage and negotiating power in their efforts to manage what has become a strongly multipolar pattern of development financing.

Assessing the direction and significance of economic cooperation between Japan and Asia is made more difficult by the fact that Japan's economic cooperation policies are in transition and the situations in the recipient countries are extremely diverse. In effect, the issue of economic cooperation is a moving target.

That is why the next decade will be so important. Here the role of the United States is crucial. If the United States maintains its role as a primary destination for Asian exports, and can at the same time find some way to moderate its own economic problems, it is difficult to see Japan effectively integrating Asia, although the vigorousness of Japanese private investment activities and the ways ODA policy could continue to support these should not be underestimated.

Discussion

Comment:
What can we learn from Japan's ODA program?

Response (Koppel):
This is a matter that is under some exploration and discussion between the two countries. Unfortunately, Americans are too often saying what it is that Japan could learn from the United States.

One issue that is being discussed is the relationship between Japan's ODA and Japan's private sector. By and large the primary constituency for ODA in Japan is the private sector. In contrast, the U.S. private sector, although it benefits, does not even know the program exists. Frankly, in my own view the primary constituency for U.S. aid are those interested in strategic security rather than economic development. I think one thing we should look at is how the private/public relationship works in Japan—not to reproduce it, but to see if we could learn something about how to more effectively develop a private sector constituency for ODA in the United States.

Comment:
What do the Japanese think is the correct economic strategy for the world?

Response (Akiyuki Konishi):
Japanese public opinion is now coming to a crossroads. Japan is now experiencing an economic nationalism, but it is a different sort that thinks about the Japanese way of life and standard of living, instead of simply symbolically thinking about the welfare of the Japanese nation or the interest of the
Japanese nation. This new economic nationalism should be guided in the right direction.

Comment:
Could you comment on whether the U.S. foreign-aid program will emphasize large-scale projects like the Japanese? Is there a possibility Japan will create an Asia free-trade area in response to economic bloc formation in Europe and North America?

Response:
Many people feel that if the United States had the money it would like to build dams and big projects. One thing to keep in mind is that more than 80 percent of U.S. aid goes to two countries: Egypt and Israel. Most U.S. aid is not discretionary, it is earmarked either through economic security funds for Egypt, Israel, Turkey, Philippines, or Pakistan, or Congressionally earmarked, so there is very little discretion. In contrast, there is wide discretion in the Japanese system.

As for the question of the possibility of an Asian free-trade zone, I do not think that is a particularly strong possibility, whatever Japan may want to do. The diversity of political and economic interests in Asia is so great that I would not expect to see very much in the way of free-trade areas.

Comment (Awanohara):
I would like to respond to the question about Pacific cooperation. There are certainly many people in the Japanese leadership advocating an official Pacific organization in which Japan would play a key role. I think there are two strands of thought. One is to form a Pacific organization, including the United States and Canada, in an attempt to keep a multilateral free-trade system open. That is the mainstream among those who are for Pacific structuring. The other, which is more difficult to pinpoint, is a group who think that if the United States and Canada form an exclusive bloc which is hostile to Japan, and if in 1992 Europe becomes “fortress Europe,” Japan should have its own bloc in the North and Western Pacific area, including Southeast Asia. But the first game plan is to keep the free-trade system open because Japan benefits from this.

Prime Minister Hawke of Australia launched a Pacific plan in Seoul early this year by saying that he would like to establish an official group, as opposed to the informal Pacific Economic Cooperation Conference that already exists. Shortly after Hawke announced that, the Ministry of International Trade and Industry (MITI) announced its own plan. MITI and the Foreign Ministry in Japan are always fighting and competing. The Foreign Ministry has been involved with the informal Pacific organization. MITI wants to proceed more quickly. Immediately after the Hawke announcement it sent a deputy vice minister all around ASEAN trying to sell their idea of a ministerial conference before the end of the year.
Mikhail Gorbachev's trip to China next month marks the full normalization of Sino-Soviet relations. This leaves only Japan, of the major powers, which has not improved relations with the Soviet Union. In fact, although diplomatic relations were restored in 1956, the two countries are still technically at war. Let's look at both sides of this still chilly relationship, starting with the Soviet Union.

In the post-war period, the Soviets have given Japan a low priority in their foreign policy. No general secretary of the communist party has ever visited Japan. There was even a period of a decade, from 1976 to 1986, when no Soviet foreign minister visited Japan. There were two reasons for this. First, the Soviets were concerned with military power; this is the primary factor in the Soviet view of the correlation of forces. Japan is not a military power and nor did it engage in power diplomacy. Second, the Soviets regarded Japan as firmly within the American orbit, in a sense as only partially independent. Because Japan was under the rule of the conservative Liberal Democratic Party, which was fully committed to the U.S. alliance, the Soviet Union was unlikely to be able to detach Japan from the United States by blandishments to Japanese leaders. Nor was it likely to significantly influence public opinion in Japan.

There has been a change in the Soviet attitude toward Japan under Gorbachev. Even before Gorbachev, Japan's growing military strength and commitments made by Japanese prime ministers to defend sea lanes and block straits required the Soviet Union to pay some attention to Japan's military potential.

More importantly, as the Soviet leaders became less confident of the superiority of socialism they started to look at other economic models, and Japan is obviously of great importance. The Soviets increased their research on Japan several years ago. Soviet diplomacy under Gorbachev and Foreign Minister Eduard Shevardnadze is trying to de-emphasize the United States and give more attention to U.S. allies in Asia and Europe. Personnel changes in the Foreign Ministry, reassigning individuals regarded by the Japanese as especially arrogant toward their country, have helped. Gorbachev also has made two major speeches—in Vladivostok in 1986 and Krasnoyarsk last year—emphasizing a more positive Asia policy. Most of Soviet attention so far, however, has been on China.

Now let me turn to the Japanese side. Public opinion polls on attitudes toward foreign countries in Japan have been absolutely clear on one thing—
consistently Japanese overwhelmingly say that the Soviet Union is the country they like the least. The other two major powers—China and United States—are usually at the top of the list of most-liked countries. The Soviets are a little bewildered by this. One Russian said to a friend of mine: “You mainly fought World War II against the Americans; the Americans dropped atomic bombs on Japan; the Americans had occupation forces in your country for seven years, and the Americans are always bullying you on trade. We didn’t do any of these things. How could you love them and hate us?” There are several answers.

First, Russia and Japan have long had a rivalry in Northeast Asia and have fought four conflicts in this century. The entry of the Soviet Union into war with Japan in the final days of World War II is viewed by most Japanese as treacherous. Soviets occupied four islands or island groups that the Japanese regard as theirs. They also interned over half a million Japanese after the war in labor camps in Siberia, and at least 100,000 of these were civilians. Many died, many were not accounted for, and it took years to get the others repatriated.

Second, there were never the extensive contacts between the Japanese and Soviets that there are between Americans and Japanese. The Soviet Union is a neighbor but it is also a very distant country. Most of the Pacific maritime provinces are closed to travel and trade. Although the Soviet Union is asking to be accepted as an Asia-Pacific country, to the Japanese it is a European country. Most of the Soviets Japanese deal with are from Moscow, and Gorbachev’s recent emphasis on “a common European home” in his diplomacy toward Europe has only reinforced this image.

Third, there is not much likelihood for a significant expansion of trade. Trade between the two countries is now $6 billion a year, and Japan’s exports to the Soviet Union are only about 1.5 percent of its total exports. The Japanese were once very interested in raw materials from the Soviet Far East; this was in the days of the energy crisis when energy and raw materials supplies were tight. This interest has gone down. Moreover, the Toshiba Machine Tool case, where a Japanese company illegally sold defense-related technology to the Soviet Union, put a real damper on trade. Japanese officials are now strongly enforcing export controls, much to the annoyance of the Chinese as well as the Soviets. Moreover, individual companies are being very cautious because they do not want to get into the same kind of trouble as did Toshiba Machine in their most important market, which is, of course, the United States.

The Soviet desk of the Japanese Foreign Ministry is noted for its cautious, almost hostile, approach to the Soviet Union. For Japanese Foreign Ministry bureaucrats, the big obstacle to normalization of relations is the Soviet occupation of the “Northern Territories.” Russia and Japan agreed in the Treaty of Shimoda of 1855 that these islands were Japanese. However, in the Yalta Agreement of 1945 they were to be “handed over” to the Soviet Union. About 17,000 Japanese were expelled from the islands. The Japanese say they should
not be bound to a treaty they never signed and whose terms were secret at the time they accepted the Postdam settlement. So the Foreign Ministry view is that a full Japanese-Soviet normalization cannot occur until the Soviet Union makes some concessions on the islands. The Soviets say that Gorbachev would like to visit Japan, which the Japanese want, but only when the Japanese are ready to sign a new peace, friendship, and commerce treaty. The Japanese position is that they cannot discuss the treaty until the Soviet Union is willing to discuss the islands.

What if the Soviets give back these islands? I asked this question to one Japanese businessman. “It would just give us one less excuse to dislike the Soviet Union,” he said. There may be a lot of truth in this. The Soviets believe they will not get much in return for giving back the islands, so they do not have much incentive to be forthcoming. They are also worried about reopening World War II boundary questions in Europe.

Despite all of the above, it is quite possible there could be an improvement in Soviet-Japanese relations. In the 1980s Japan found that increased support for the United States on such issues as Soviet aggression in Afghanistan and Soviet support for Vietnamese aggression in Cambodia offset economic frictions in its relations with the United States. As these issues are resolved and U.S.-Soviet relations improve, the value of anti-Soviet positions in terms of U.S.-Japan relations decline. Moreover, the Soviet Union may be addressing one of Japan’s biggest complaints—that the Soviet Union does not treat Japan as a great power. After the normalization of Sino-Soviet relations, the emphasis in Soviet diplomacy could turn toward Japan as the last major country with which the Soviets need to normalize relations. They could make concessions of value, for example, by unilaterally withdrawing forces from the Northern Territories, or officially refloating an earlier offer to return two of the island groups.

Even if Soviet-Japanese relations are normalized, this does not threaten the U.S.-Japan relationship. The U.S.-Japan relationship is based on the remarkable openness of U.S. society in contrast to the Soviet Union. The Soviets talk about openness—for example, export processing zones—but a real opening of the Soviet system would be very threatening domestically and runs against a tradition of Russian secrecy and withdrawal. The day seems far off for a Soviet-Japanese relationship at all comparable to the U.S.-Japanese one. In the meantime, the greatest threat to U.S.-Japanese relations comes from miscalculations by Americans or Japanese.
Current Issues in Sino-Japanese Relations

John Quansheng Zhao

We have seen on television the student demonstrations in Beijing. One thing missing this time is the anti-Japanese sentiment that was present during the student demonstrations of 1986. Those demonstrations used anti-Japanese slogans as an excuse for the students to express their unhappiness toward their government's policies. Nevertheless, there are problems between the two countries today.

I will offer a brief historical review of the relationship between China and Japan and then focus on current issues, including political, strategic, and economic relations. Next I will discuss Chinese perceptions of Japan, and how the Japanese view China. In conclusion I will discuss future developments and the implications of Sino-Japanese relations on the United States.

Sino-Japanese relations can be traced back for more than a thousand years. We can see the relationship as one between teacher and student. For a long time Japan was a student and borrowed heavily from China in terms of culture and its political system. China, for a short period, even regarded Japan as a tributary state. The 1848 Opium War in China and the 1868 Meiji Restoration in Japan marked the change in the relationship. Japan became the teacher and China the student in terms of modernization, but clearly the two countries have followed different paths for their modernization.

Let us first look at the current situation in political and strategic terms. From the victory of the Communist revolution in 1949 to the early 1970s Chinese foreign policy was basically influenced by the Cold War atmosphere, and therefore regarded Japan as a “running dog of American imperialism.” Now the words used to describe Japan are quite different, such as “a good neighbor” and “a good friend.”

Despite the rapid development in bilateral relations since China normalized its relations with Japan in 1972, problems between the two countries remain. First, Taiwan is still a potential issue between the two countries, even though Japan made an official statement declaring Taiwan part of China during Prime Minister Kakuei Tanaka’s visit to China in 1972. Many Japanese remember that from the Treaty of Shimonoseki of 1895 to Japan’s defeat in World War II, Japan ruled Taiwan as a colony and therefore had special relations with Taiwan. Many Japanese officials, when we discuss Taiwan today, tell me they would like to see Taiwan independent rather than return to China. They would like to see a special relationship between Japan and Taiwan. An example of a Taiwan issue is the controversy over a student dormitory in Kyoto called “Guanghua Hostel,” or “Kokaruo” in Japanese. Beijing and Taipei both
claim the ownership of this dormitory. Japan is caught in the middle. To Beijing, this is an issue of national sovereignty and is related to whether Japan will keep its promise on the issue of Taiwan. To Tokyo, however, this is a legal dispute to be solved by the court, and the government should not intervene. To the present the dispute remains between Beijing and Tokyo.

Secondly, there is a territorial dispute between China and Japan involving the island of Diao-yutai (in Chinese) or Senkaku (in Japanese). Both Japan and China have declared ownership of the island, which is currently occupied by the Japanese. In this issue Beijing and Taipei have adopted a similar stance because of a common national interest. In the early 1970s the dispute over the island triggered anti-Japanese demonstrations in Taiwan in particular. The issue remains unresolved. When Deng Xiaoping talked with the Japanese prime minister he proposed leaving the issue to the next generation, which was praised by both sides as a clever move. But it still is of concern given the potential for oil exploration on the island.

Another issue relates to potential Japanese militarism. This is openly discussed. The best known example is the revision of textbooks in Japan describing Japan's aggression in World War II. Rather than stating Japan "invaded" China and other parts of Asia, the wording was changed by the Japanese Ministry of Education to "entered," which provoked widespread protests all over East Asia.

Prime Minister Nakasone's 1986 visit to Yasukuni Shrine to honor the war dead also became an issue between the two countries, especially since the remains of General Tojo (commander-in-chief of the Japanese army in China during the war) and other war criminals are interned in that shrine. More recently, Japanese Prime Minister Noboru Takeshita said that the nature of Japanese behavior during World War II will be determined by future generations. It seems that Takeshita was following the example of Deng Xiaoping in attempting to put disputed issues aside. However, this is a different issue altogether—internationally there is a basic consensus over the nature of Japan's behavior during the war, and there is considerable attention from Korea, Taiwan, and other countries in the Asia-Pacific area about Japan's militarism.

I will now move on to economic relations. The Japanese have been quite successful in trade and economic relations with China. As early as the mid-1950s Gaimusho, the Japanese foreign affairs ministry, initiated a policy called "seikaibunri." That is the separation of politics from economic activities. In simple terms it means, "As long as you do not represent government you can visit China." When I interviewed the first Japanese ambassador to China, Heishiro Ogawa, he said he developed this idea to keep in line with America's containment policy toward China while allowing Japan access to economic benefits from the China market. That policy was quite successful through the early 1960s, and allowed the two countries to have "unofficial" trade contact.

Japan has been a major source of capital, technology, and manufac-
tured imports to China for a long time, making Sino-Japanese trade twice the size of Sino-U.S. trade. For many years Japan has been the number one trading partner of China, accounting for one-quarter to one-third of China’s total foreign trade. Japan has a very large share of Chinese markets in virtually every field except airplanes, which market belongs to the Boeing Company of the United States.

But problems have developed between the two countries over trade—the biggest is the trade deficit. In 1985 the Chinese had a US$6 billion trade deficit with Japan and since then it has worked hard to reduce this deficit. There is also criticism of Japanese protectionism against Chinese goods. The Japanese blame the Chinese, saying China should control its imports of consumer goods. The Chinese counter that Japan should reduce trade barriers and further open its markets to Chinese goods.

The second problem area is investment. The Chinese government has urged Japan to enlarge its direct foreign investments in China. The Japanese have been cautious due to concerns about the domestic, political, and economic environment of China. They also argue that although the Americans have much more direct foreign investment than the Japanese, if you combine direct investment, loans, and bonds to the Chinese, the total amount from Japan is greater than that of the United States.

The issue of technology transfer is another sore point. Japan basically has two concerns. First is its membership in COCOM, an organization established in 1949 for controlling transfers from Western countries to the Communist bloc. The second is possible future competition from China in the area of technology. Because of these concerns, Japanese technology transfer is much slower than what the Chinese desire.

I will now briefly discuss the growth in cultural and social bilateral exchanges between the two countries. There are about 40,000 Chinese students currently studying in Japan. According to some reports, about half are not regular students. They are so-called “language students.” These students are working and earning money in Japan under the premise of studying Japanese language. Some Japanese companies’ top executives told me that to enhance their understanding of China they would like to hire a few Chinese students, who completed their studies in Japan, as part of Japan’s internationalization.

Moving on to Chinese views of Japan, culturally the Chinese feel superior to the Japanese, but they are quite alarmed about the possibility of Japanese rearmament. On the other hand, the Chinese are looking for models to follow for their own economic and political development and feel that Japan is much closer to China culturally and socially than Europe or the United States. I occasionally hear from people in Beijing that maybe the LDP’s (Liberal Democratic Party) one-party rule model is a way to maintain Communist rule in China while allowing opposition forces to exist.

In terms of Japan’s role in Asia, last year I attended a conference in Seoul with people from Korea, Japan, the United States, and China to discuss Japan’s role in Asia. The Korean scholar told us that on an emotional level he did
not want Japan to be a leader, but on a practical rational level he believed that Japan should be a leader of the Asia-Pacific area. I said it is my understanding the Chinese would never want Japan to become a leader. From the Chinese perspective Japan should be a “partner” rather than a leader in the region. The Japanese scholar also gave a similar view saying, “We are very hesitant to assume this leadership” basically because the most appropriate way for the Chinese to see the Japanese is in a partnership.

How do the Japanese see China? To Japan, China is the second most important country after the United States. Generally speaking, Japan is ambivalent about China. There is great reverence for China's traditional culture. However, there is contempt for China's modern weakness and guilt over the war. And finally there is ambivalence over China's military and political power in Asia. Japan would like to see a stable but not too powerful China. Japan would like to keep China on the economic periphery as well, and is worried about the recent Sino-Soviet rapprochement.

What are the implications of Sino-Japanese relations for the United States? If we look at the triangular relationship over the last 100 years we can say it has advanced from a highly unstable one to a relatively stable one. Now none of the three need to make a choice between the other two. For example, the United States had to make a choice between Japan and China during World War II, and this dilemma continued after the war until Sino-U.S. rapprochement. Japan faced a similar dilemma during the Cold War period—they risked offending the Americans when they desired improving relations with China.

Now there are many common interests. The United States and Japan see China as a force for stability and prosperity in Northeast Asia, and both now support China's modernization drive. China no longer opposes the U.S.-Japan military security agreement, and both the United States and China support Japan's demand for the return of the northern islands from the Soviet Union and would like to see Japan's future security guaranteed.

However, there are some differences in the relationships. In comparing the United States' and Japan's attitude toward China, Japan is more cautious and somewhat pessimistic. And while Japanese and Americans are competitors in terms of the China market, the Japanese so far have been more successful than the Americans.

China and the United States also see Japan differently. China still views Japan as highly nationalistic and is very sensitive about the future re-arming of Japan, whereas the United States views Japan as basically a democratic and pacifist nation.

It would require close consultation in the future to maintain stability in the relationships among the three countries. Policies such as trade and high technology transfers to China will require further coordination between Japan and the United States. In terms of Japan's re-armament, I would like to suggest there should also be more consultations between China and the United States. China should also inform the others of its moves toward further im-
Discussion

Comment:

Dr. Zhao mentioned some political and strategic differences between China and Japan, and it seems to me that we can add one more potential issue—the North Korean issue. The relationship between China and South Korea has improved a great deal. However, politically, I think these two countries have a long way to go. China still supports North Korea strongly. So it seems to me that the North Korean issue might be a potential constraint in the Sino-Japanese relationship.

Response (Zhao):

This is a very important issue. Regarding the Korean peninsula, Japan, China, and the United States share a common interest—to maintain stability in the peninsula. However, there are still differences of opinion.

The United States and Japan have long proposed cross-recognition. The United States and Japan would officially recognize the North, and, in exchange, China and the Soviet Union would set up official relations with the South. China and the Soviet Union have been unwilling to do so, given their relationship with the North. Their basic stance has not changed, but we have seen cross-contact. Economic relations between South Korea and China have increased rapidly, but the Chinese would like to keep contact with the South low key because they are afraid that other countries could be encouraged to set up official relations with both the People's Republic of China and Taiwan, and cause a "two China" problem.

Comment (Morrison):

Let me briefly add to that. Kim Il Sung played off very well the Sino-Soviet rivalry, and one hopeful sign is that with more normalization of Sino-Soviet relations that will not happen anymore. In fact there is some competition between China and the Soviet Union for improving official diplomatic relations with the South. Recently, the South Koreans have talked about not a strict cross-recognition, but rather that they could go ahead unilaterally. They do not demand that the other side reciprocate. The Soviet Union and China are not yet prepared to go that far, but things are definitely improving. However, I feel a fundamental change cannot occur until there is a leadership change in the North.

Comment:

Dr. Morrison, in your talk on Soviet-Japanese relations, you mentioned economic conflict between the Soviet Union and Japan. I am much more interested
in the mid-1970s phenomenon when there was a lot of talk about joint ventures between Japan and the Soviet Union in natural resources. Now South Koreans are interested in Siberia.

Response (Morrison):

Japan in the 1970s had an economy that needed those resources. It imported a lot of energy, it used a lot of raw materials, it was worried about scarcity in its traditional sources of supply, particularly from the Middle East and even from Indonesia. However, the Japanese companies were not very confident about going ahead themselves. They really wanted to be in partnership with American companies. Part of the reason for that, I think, was to defend themselves politically.

South Korea is in a different economic situation than Japan is now. It is more like Japan was in the 1970s and so South Korea is interested more in those resources for the same reason South Korea is more active economically in Alaska than Japan is.

Comment:

Please comment on the triangular relations between Japan, China, and the Soviet Union.

Response (Morrison):

I think that these relationships—the Sino-Soviet relationship and the Japanese-Chinese relationship—are competitive. Even though we see normalization, we have to remember that competitive pressures will continue to exist. One reason that I think that a continued U.S. presence is important in this region is because it helps to dampen the potential for a serious Chinese-Japanese rivalry that could heighten tensions within the region.

Response (Zhao):

To go back ten years, the Chinese made it very clear that they would develop relations with the Soviet Union, but not at the expense of their relations with the West, namely Japan, Western Europe, and the United States.

Three years ago I was in the Soviet Union to participate in a seminar called the Pacific Seminar. I was intensively asked, “Why do the Chinese still move slowly toward the direction of rapprochement with the Soviet Union?” It is really important for the Chinese to maintain good relations with the Soviets based on strategic, economic, and political issues. However, China will never go back to the 1950 honeymoon period with the Soviet Union. So normalization with the Soviet Union is not hurting relations with the West.

Comment:

We never hear discussion of the German prime minister visiting the cemetery of the war dead, yet former Prime Minister Yasuhiro Nakasone’s visit to the war memorial to honor Japan’s war dead caused a big uproar. In discussion
of Asian development, the economic development of Japan is resented, so I guess the question comes down to "Why do we observe this difference of Asian victims versus European victims?" What does Japan need to do to cope with this situation? What changes do we expect principally on Japan's part. Do the World War II victim memories impede the development of Asia?

Response (Morrison):
This is a question to which a Japanese should really respond. One of Mr. Nakasone's themes was to put the World War II period behind him, but, in visiting the Yasukuni Shrine to the Japanese war dead, a shrine that is identified with militarism and a worship of the emperor, he reopened many of those issues. The so-called "textbook" issue also showed that that legacy is not completely closed.

Last year, as part of a program at the East-West Center, I brought a number of young Asia-Pacific leaders to Japan, and one of the most interesting discussions we had was between these young leaders and a broad cross-section of Japanese. The question was how does Japan relate to the rest of Asia? The Japanese were saying, "Well, we understand that you do not like us because of the war." But the younger generation Asian leaders said, "No, it is not because of the war. It is because of what Japan is doing now, a certain amount of envy of Japan, and how Japanese behave in Southeast Asia and China." The war is an important memory that we can drag up when we want to and need to. So there is a legacy, but it is kept alive by current resentments that are not as prominent in Europe where the main wartime protagonists have similar income levels.

Comment:
We Japanese have a syndrome of amnesia about certain things. Visiting Yasukuni Shrine was perhaps the gravest mistake Nakasone made during his prime ministership. It is my feeling that Asian people are more Confucian and broad-minded so they are more prepared to forgive. Not forget, but forgive.

In the case of Europe, Germany started war twice. Those who remember that are much harsher toward the Germans. On the other hand, in Asia it happened only once. It does not mean that we are going to forget about the war and Japan's defeat. There are still some narrow-minded, chauvinistic, nationalistic elements in Japan. These things are very, very deep in our minds. I think Japanese would want a discussion about these issues, especially now that there is a new emperor. For Japan it is not actually the end of the war yet. Emperor Hirohito could not visit his own territory destroyed during the war.

Comment (Awanohara):
I'd like to comment on the difference between Japanese and Europeans. We Japanese have not dealt with the issues in the way the Germans have. The Germans are very severe with themselves and the Japanese have not been.
The second reason why this drags on is a reflection of current fear and dislike of the Japanese that reminds people of the past. I think it has to do with Japanese inability to treat non-Japanese and Japanese equally.

In Southeast Asia, which is farther away from Japan than Korea, they have tried to forget the past and get on with the current job of development. Success in Korea is softening the view of Japan of the past. China is really the most stridently suspicious and competitive, and it is, I think, the strongest opponent of Japanese military build-up.

Comment:
Is there a perception in Japan that the immediate security threat from the Soviets is diminished? Does this not, in some sense, upset the balance in U.S.-Japan relations? While in the past security considerations have often offset economic and trade frictions, this might not be so much the case anymore between the United States and Japan.

Response (Morrison):
I am not sure, at least with Congress, how much security considerations have ever offset concern with U.S.-Japan trade problems. But I think on the Japanese side there was certainly a perception in the 1980s that by being a strong ally of the United States they gained points in Washington. Part of the so-called "Ron-Yasu relationship" was built on that. President Reagan appreciated the Japanese support on U.S. positions toward the Soviet Union.

I intended to say that as relations between the United States and the Soviet Union have improved, Japanese support of our Soviet relationship is less important to the Executive branch and perhaps Congress. That is, as you suggest, the value of Japan's position as a member of the Western alliance probably erodes vis-a-vis the U.S.-Japan trade problems.
Japan's Role in Asia

James M. Derham

I hope to supply to this conference with the Washington perspective on a complicated and important subject, “Japan’s Role in Asia.” I do not intend to offer an official Administration position or an exhaustive analysis. I do hope to provide a picture of what aspects of Japan’s role in Asia Washington is most interested in, the type of policies we would like to see Japan follow in the region, and also note the interest and possibilities for new institutional arrangements in the region.

There are upsides and potential downsides to the larger role that Japan must play in the world. Nevertheless, a fundamental objective of United States economic policy towards Japan is to get Japan to play a role commensurate with its economic strength. This policy has many aspects: trade liberalization; larger, better, and more closely coordinated aid flows; and macroeconomic policy coordination. Each of these objectives or agenda items traces back to the overall goal.

A more basic question is, why is it in the United States’ interest to have Japan play a larger role? I would say there are two reasons. First, for the general well-being of all. Participants in the international economy are better off if each nation participates to its capacity. Japan, as the world’s second largest economy, benefits itself and benefits others by opening its markets, channeling its capital to where it will be most productive, and fostering economic development. Secondly, Japan is an ally, a nation that shares our commitment to democracy and market economies. To that extent, advancing Japan’s interests—providing Japan with a larger role in the world—advances U.S. interests.

The Scope of the Challenge in East Asia

Because of the geographic and cultural connections between Japan and the rest of the East Asian/Pacific region, Japan’s economic power is most directly and deeply felt in this region. History, including recent history, shows, however, that Japan’s impact in the region is not necessarily considered benevolent or welcomed by all.

The potential impact of Japan on the region is awesome. Japan’s $2.5 trillion dollar economy clearly dominates the East Asian/Southwest Pacific region, accounting for 70 percent of the GNP in this area. Japan’s trade in the region is more than double that of the second largest trader—Hong Kong. In investment, transfer of technology, and development assistance, the flows
from Japan dwarf those of any of the other East Asian economies, including China and Australia.

How should Japan exercise this economic muscle in East Asia? To break this into the issues there are three key questions. First, should Japan do more in the security area? Second, what role should trade and capital flows, particularly development assistance, play? The third question is whether new institutional arrangements for the region are advisable.

**Mutual Security**

One of the buzzwords in Washington is burden-sharing. When directed towards Japan, the connotation is that Japan should assume part or all of the role the United States has played in safeguarding stability in the region. The argument, baldly put, is that the United States spends over 5 percent of its GNP on defense, while Japan spends little more than 1 percent. They should be doing more.

While plausible, this quick analysis overlooks some key elements in the security picture in the Western Pacific from the United States' point of view.

First, we need to examine the often implicit assumption that we maintain our military presence in the Pacific to defend others. It is true that Japan and other countries in the region benefit greatly from their defense relationships with us. However, the United States maintains a forward-deployed strategy because it is the most militarily effective means of defending United States territory and the American people. This strategy has been maintained throughout the postwar era because it maximizes the United States' national interests in the most selfish sense. It is by no means clear whether or what aspects of our defense posture we would want to relinquish to the Japanese in East Asia.

Second, there is the question of Japan's expenditures. While 1 percent of GNP—Japan's current level of defense spending—may seem quite modest, 1 percent translates into over $25 billion per year in defense expenditures. Using the NATO standards for defense spending, Japan's expenditures total $40 billion and in absolute terms are third in the world, exceeded only by the United States and the Soviet Union.

In terms of forces, Japan already possesses more than five times the number of ships in the 7th fleet, as many F-15 fighter aircraft defending its territory as we have in the continental United States, and a sizeable ground force. Their anti-submarine warfare capabilities are excellent, with plans to obtain nearly 100 P3-C aircraft, and a growing conventionally powered attack submarine force. Moreover, Japan's defense expenditures have been growing the last two decades at the rate of 5 percent real growth per year.

What would be the role of a larger Japanese military force? Under current arrangements between the United States and Japan, the United States has the responsibility for nuclear deterrence and offensive operations in the region while Japan defends its territory, airspace, and selected sea-lines of communications out to 1,000 miles. Should Japan be urged to substitute its
forces for our Japan-based forces? Most of our 60,000-man force in Japan has a dual mission: not only to defend Japan but also to maintain peace and stability elsewhere in the Far East. Is the region prepared for Japan to assume our regional defense responsibilities? We, our Asian friends, and most Japanese themselves, believe our collective interests are best served by Japan's maintaining a strictly defensive force closely allied with United States forces.

This is not to say there is no room for Japan to expand its defense efforts. Most important is cost-sharing for the United States military presence in Japan. United States' costs for maintaining our forces run some $3.5 billion per year. Japan bears some $2.5 billion in other costs, or approximately 40 percent of the total for our forces. We should encourage Japan to assume an even greater share. If Japan assumed the responsibility for all the yen costs related to our bases, their share would be about 70 percent of the total. This is one way Japan can increase its defense spending without altering the region's current military security framework.

Trade and Development Assistance
There are other ways in which Japan can do more to ensure a prosperous and growing East Asian community. One is opening its markets wider to imports from its Asian neighbors, particularly manufactured goods.

One of the public goods that the United States has provided to the international economy is access to its market. It is no longer healthy, however, for the United States to bear the major part of these costs while Japan bears considerably less.

From Meiji times over a century ago, Japan has treated Asia as a supplier of raw materials to be processed and finished in Japan and then exported as finished products. Now the upstream-downstream trade relationship with Asia is changing as a result of yen appreciation and the growing economic competitiveness of the Asian NIEs. Japan's trade relationship with its Asian neighbors is shifting towards a horizontal structure, based on a two-way flow of increasingly higher value-added manufactured goods.

Japan's transformation into a major importer of manufactured goods, however, is far from complete. Although Japanese manufactured imports have risen rapidly to about 50 percent of total imports, this is still way below the 60 to 80 percent range of other Organization for Economic Cooperation and Development (OECD) countries. Moreover, Japan's manufactured imports make up about 3 percent of its GNP, compared to the United States' 7 percent and the Federal Republic of Germany's 18 percent. Although over 70 percent of all Japanese imports from the NIEs are now manufactures, up from 55 percent a few years ago, a vertical (upstream-downstream) relationship still characterizes its trade with other Asian nations. Moreover, the Japanese retain their comparative advantages in many manufacturing areas. Despite high penetration into Japan of specific electrical and precision machinery like TVs, cameras, electric fans, and numerous other items, imported machinery still is only a small percentage of the total Japanese domestic market.
The trends are clear and, assuming that the yen remains strong, they will not be easily reversed. As Japanese patterns of trade in Asia change, the likely beneficiaries are the United States and our other trading partners in Asia. Some economists see a shift to a different triangular relationship developing among the United States, Japan, and their East Asia trading partners. Under this scenario the traditional roles of the United States as the main absorber of Asian exports and Japan as the main supplier of intermediate and capital goods will shift to a more balanced pattern. As a result there will be increased opportunities for United States companies to expand manufactured exports to the NIEs and strong incentives for the NIEs to move their exports away from their current overreliance on the United States toward an increasingly open Japanese market. These trends will benefit all concerned.

Development assistance is another way Japan can do more to share the burden of international responsibility. The United States has encouraged Japan to increase its ODA as a means of contributing to international stability and development. Japan has responded generously by pledging to disburse at least $50 billion between 1988 and 1992. Japan's ODA remains strongly oriented towards the Asia-Pacific region. In fact, the stable and prosperous environment in East Asia since 1975 owes much to Japanese aid and trade.

On a disbursement basis, Japan will pass the United States this year or the next to become the world's largest donor of economic assistance. Actually, Japan has long surpassed us in the ratio of ODA to GNP—the United States is 0.23 percent while Japan is now 0.31 percent—and in ODA per capita—the United States spends approximately $40 annually and Japan spends $46.

Japanese ODA has some serious quality problems, which we continue to discuss with the government of Japan. We believe that improvements can be made. While more needs to be done, Japan has already taken some positive steps to address our and others' concerns:

- According to OECD statistics, 65 percent of Japan's total ODA disbursements in 1987 were untied.
- Last year Japan committed to gradually untie key engineering and consulting services contracts.

In both areas we would urge further increases in the untied component. Japan has been reluctant to impose policy conditions on its bilateral aid. However, Japan supports policy conditionality through co-financing with multilateral institutions. We continue to encourage Tokyo to support the policy dialogue of other donors and to initiate its own discussions of reform with recipients. Already in the Philippines, discussions on the Multilateral Assistance Initiative, for which Japan has been a key backer, have elicited a strong Japanese commitment to support economic reform.

Increased ODA from Japan particularly to key recipients in Asia, such as the Philippines and Indonesia, would certainly serve overall Western in-
Japan's Role in Asia

Interests and should be encouraged. Nevertheless, aid is a foreign policy tool of influence, and we need to recognize the political and commercial implications. Any large increase in ODA outlays would rapidly make Japan far and away the largest aid donor and benefactor to not only the ASEAN countries but also to other regions where the United States traditionally has played this role.

Multilateral Initiatives

Looking at the Pacific Rim we see a striking success story. Many have spoken of the Pacific Century and the Pacific Rim as the world of the future. Certainly the world's economic promise to the end of this century depends on how well the United States, Japan, and our Pacific partners manage their affairs.

Relations with the Pacific Rim must emphasize outward looking economic policies that promote trade and growth. The Administration is considering closer coordination with ASEAN and the other regional groups, perhaps even new institutional arrangements.

Recently there have been a number of Pacific Basin proposals. To mention just a few: former Prime Minister Nakasone's Pacific OECD, Australian Prime Minister Hawke's recent initiative, and the Japanese MITI Trade Minister's Group. Former Ambassador Mike Mansfield urged serious consideration of a U.S.-Japan and/or Pacific Basin Free Trade Arrangement.

The diversity of the Pacific Basin economies in terms of size, political/economic systems, and level of economic development greatly complicates any proposed plan or initiative. In deciding how to proceed, decisions will have to be made with regard to which Pacific economies are essential for launching a new initiative.

However, to be successful, any initiative must be outward-looking and inclusive. It should not seek to create a closed trading bloc in the Pacific. That would be to no one's benefit.

One possibility would be to form some kind of Pacific Basin forum where like-minded countries could compare experiences, discuss ideas, and prepare analyses on subjects that are of interest to most countries in the region. Sometimes discussion and joint research might lead to cooperative action, and sometimes they might simply improve policies internal to different economies. This would be along the lines of the work that goes on in the annual economic summits, the OECD, and other organizations.

To date the Administration has not endorsed any particular formulation. There is interest but also there appear to be constraints—particularly in membership and scope of activities. However, the general concept has merit—Secretary Baker is especially interested—and the United States hopes to work together with our friends in the region and move forward.
United States Role in the Pacific

The Asia-Pacific region remains an area of high strategic importance and competing interest among powerful nations. Since the Second World War, the United States has been the stabilizing influence in the region. Japan's increasing role is welcome but for the foreseeable future the United States will be the fundamental guarantor of the balance of power in this area that spans one-half the globe.

The United States can continue to play this role because of our strengths in providing security, an open and innovative economy, and democratic values.

Today's transformations, particularly Japan's emergence, are leading to a healthy reexamination and renewal of our ties with the nations of the region. We should approach this period with confidence, understand the new realities, but also appreciate the strengths of the United States and the role which others expect of us and which we can play. On that basis we can be optimistic about continued growth and prosperity in the region, with Japan clearly more influential but with the United States maintaining its leadership role.

Discussion

Comment:
It has been said that in U.S. policy toward Japan political issues have always dominated the economic and commercial interests, and that getting Japanese participation for the Star Wars program was more important than doing something about the Japanese trade surplus. Would you comment?

Response (Derham):
On any of these issues—whether it is a defense, trade, or financial issue—we look at the issue on its own terms. There are also other considerations, including our overall relationship with the Japanese and our relations with other countries. In the governmental process, presumably all these things are factored in, and if the government is working correctly the result is in the national interest.

Without going into specifics, that is the process that we try to follow in Washington. All relevant points of view are taken into account and at the end the President makes a decision. There will always be unhappiness with the decision in some quarters. For example, in a trade issue, the industry directly involved most likely would want the maximalist position but from a bigger perspective that may not always be advisable.

Comment:
Some critics say the United States really does not have a comprehensive view. When it presents itself to Japan, it is arguing about oranges, beef, or other
specifics, whereas Japan does seem to have a somewhat more comprehensive view.

Response (Derham):
I think that is probably a legitimate criticism to an extent. In our system conflicting interests are not mediated within the system before we go out to the Japanese. In the Japanese system conflict is internalized first, worked out, and then what finally surfaces is a unified approach to an issue. Having said that, I am not sure that the end result is that much different whether the U.S. or Japanese process is followed.

Comment:
Karel Von Wolferen, in an article in Foreign Affairs, argued that only foreign pressure can force Japan to move. Do you agree?

Response (Derham):
I agree with much of what Von Wolferen says. Certainly to get change we need to put pressure on the Japanese. There are two questions here. One is what is the right amount of pressure. The second question is whether we become a tool of a domestic group interested in getting change. If the United States is continually involved in this way in a Japanese political process, it is very frustrating on our side as well as wearing on the relationship. For example, some people begin to argue that we need to escalate the pressure earlier. But, no doubt, we do have to exert pressure.

Comment:
In what way can you apply pressure?

Response (Derham):
Our leverage on trade issues comes from Japan's access to the U.S. market. This is usually implicit, but it is clearly understood by both sides. When it works correctly you never have to carry out the threat. That is the most effective way.

Comment:
Can you comment on U.S. trade policy toward Japan, and particularly the likelihood of action against Japan under the so-called “Super 301” in the new trade act calling for the United States to identify unfair trade practices in other countries for priority attention?

Response (Derham):
The law was clearly drafted with Japan in mind, according to several of the congressional leaders involved.
James M. Derham

The second point, as I commented before, is that many people believe that pressure tactics work with respect to Japan. The question is when is there too much pressure, which might backfire?

Third, the law is a tough law but its aim is to open markets and that is to mutual benefit. It is not as if the United States is trying to get countries to do something harmful or against their overall interests.

Comment:
What kind of debate is going on in Washington regarding Japanese foreign investment?

Response (Derham):
The proposed Bryant amendment provides for registration of investment. It does not mention Japan specifically, but some of its supporters say they have Japan in mind. While the expectation is that it would pass the House of Representatives, if it also passes the Senate, it is pretty clear that it would be vetoed. The problems the administration has with the bill are two. One is that even registration of investment could have a chilling effect on certain investment from overseas and could encourage foreign restrictions against U.S. investment abroad.

The second problem is that in registration certain information is required that is not required of domestic investment of the same type. In that sense it is discriminatory against foreign investment and does not provide national treatment to foreign investment.

Comment:
From 1984 to 1987 in the United States the sales of cigarettes dropped almost 30 percent, but cigarette exports increased because we had successfully opened the Japanese cigarette market and the markets in Taiwan and South Korea, too. It seems to me nothing is worse than cigarettes in order to open foreign markets and that this is actually a source of anti-Americanism in these countries. How do you feel about opening cigarette markets in foreign countries while cigarette sales are dropping in the United States?

Response (Derham):
I am not familiar with the other countries but I was in the Japan office when we did get the Japanese to eliminate the tariff. It was just an export issue. We wanted the same treatment for our exports of cigarettes as the domestically produced cigarettes in Japan. If the Japanese government, or whatever government, has health restrictions then that is a completely different issue. If they want to restrict advertising or limit sales, as long as it is nondiscriminatory, it is not a trade issue.
Implication of the New Asia for the United States and Japan

Closing Discussion

Comment (Morrison):

As Ambassador Walker noted at the beginning of this conference, the Asia-Pacific region is extremely exciting and dynamic. We all appreciate its economic dynamism. Many countries are moving ahead—the NIEs, the near-NIEs, Japan, and China. Only a few countries are not doing well. The region is also politically dynamic. There is much pressure for political change, as we have witnessed in the Philippines, South Korea, Taiwan, Burma, and China. It is also dynamic in a strategic sense. Relationships that have been with us for a long time are changing. Since 1960 Sino-Soviet rivalry has been one of the central conflicts in the region, but very soon the leaders of those two great nations are meeting. Things are changing in Indochina. Vietnamese troops that have been in Cambodia for nine years are to be withdrawn by September. There are even modest signs of improvements in inter-Korean relations.

How does the United States relate to this change? We are ambivalent. On one hand, we are attracted to this dynamism and we want to be regarded as a part of this region. We talk about being part of a Pacific community and about these ideas that Mr. Derham mentioned of institutional arrangements associating the United States with the region. We also see what is happening in the Asia-Pacific region as a confirmation of the values that we have espoused—free markets and liberal political systems.

That is the good side, but the other part of the ambivalence is a certain fear about what all this means for us. For the first time we see non-western societies that have attained high accomplishments in technology, science, education, and other areas where we have been accustomed to thinking of the United States as being the leader. What does that mean for our role in the world and our ability to lead the world?

Moreover, there is a sense in which Americans are profoundly disturbed about the implications of Asian social and economic development for our way of life. We have worked hard to enjoy a high standard of living and now we see people who are working fifty or sixty hours a week who are willing to live in small houses, and who accept sacrifices that we do not want to accept. They are exporting their goods to our country, and they seem to be buying our country. This appears to be a real threat to our way of life.

Ambassador Walker said we have “to get our house in order.” What does this mean? It means that we have to fundamentally review what is happening in this region and its implications and reorder our policies. We have been pursuing basically the same policies since the end of World War II, despite even
the trauma of Vietnam and the many changes that have taken place in this region. In part because Asia is doing so well, we are taking for granted a set of relationships and policies of the past.

Mr. Derham said that in order to appreciate this region and relate to it we have to understand the strengths that we bring. It is a very important part of our future agenda to identify both the strong points and the weak points of our position in Asia. Economics is often regarded as a weak point, and yet in many ways it is also a strong point. The United States is the region's leading economy with a larger GNP than all other Asia-Pacific economies. We also have a capability in basic science and technological innovation.

What are the other strong points? A very important one is that the United States is the only country in the region that is a multi-dimensional, global power. Japan in many respects is still a regional power in outlook. They look at a smaller range of issues. We also are an economic power, a political power, a cultural power, and a military power. The Soviet Union is only a military power. Japan is an economic power but weak on the other dimensions of power.

A key aspect of U.S. power and the U.S. ability to relate to this region is our open society, including our open markets and the openness of our universities and research institutions. The Japanese do not have in Southeast Asia a large group of Japanese-trained and Japanese speaking individuals to relate to. We, however, have many, American-trained Asians who are in influential positions in government. These Asians are familiar with our ways of doing business and even with our political and social institutions. In many ways we have a more than level playing field because of these friends, but we have not used this sufficiently to our advantage.

This comes back to a closing point about the mission of educators. The East-West Center was set up about twenty-eight or twenty-nine years ago to help Asia develop. We hoped to make friends and promote understanding in Asia by helping Asians with their problems. Now we are beginning to address a new range of issues. Our president, Victor Hao Li, talks about developing the U.S. national capacity to deal with Asia. Tens of millions of Asians study English, but we have only a few thousand Americans studying Asian languages. Tens of thousands of Asian businessmen come to the United States, but there are only a few hundred of American businessmen who are really comfortable in Asia.

We need to develop our capacity to understand Asia not just at the university level but also at the secondary level, and even at the primary level. It is not something that is going to be done overnight. We have to work in a sustained manner.

Comment (Awanohara):
I will state what my outlook is and what I feel Japan has to do in the future. With the current political instability in Tokyo there may be some backtracking away from internationalism in the short term. The farmers may try to
Implication of the New Asia

exploit the instability to get back some of the protection that they lost, and consumers may try to repeal or at least create some loopholes in the sales tax law implemented as of April 1. The sales tax is very unpopular and is one of the reasons why the Takeshita government became so unpopular, fueling the criticism of corruption.

There is also some concern about nationalism. The cases of rice and the FSX jet fighter illustrate how important and necessary foreign pressure is, but how misapplied pressure can alienate friends and unite them with the vested interests that you are trying to attack or constrain. Another good example was the case of the Chinese student dormitory in Kyoto. The question was whether it belonged to Taiwan or China. The courts ruled in favor of Taiwan. China was very angry, and attacked the Japanese court system. What happened then was that the liberal, middle-of-the-road newspapers and opinion leaders who usually support China had to oppose China in defense of an independent judiciary. It was frightening to watch a coalition forming between the middle of the road Japanese, who are basically pro-Chinese, and those Japanese who want to revise the textbooks to rationalize the last war.

So pressure is needed, but pressure can work in the wrong way. In the long term I am optimistic that Japan would accommodate, under duress. There is no choice. The yen appreciation did a lot of things to change the structure of the Japanese economy, not sufficiently, but in the right direction. And agriculture, although it is still a strong political force in restricting the flexibility of the government, will significantly weaken over the coming ten years. In the long term the trend is toward accommodation.

In another area, we will have to figure out, which we never had to do until recently, why we need defense. What is it for? Who are our potential enemies? How much do we need? We will have to figure these things out and articulate them because we have grown so big. We will also have to work out a political philosophy. Until now we did not have to do that either. We just concentrated on our economic activities and that was made possible by the protection of the United States. This can no longer be taken for granted.

Most fundamentally, we Japanese must come to consider ourselves as citizens of the world. It may sound banal but I hope you can realize that it does not come naturally to Japanese. It is not an indigenous idea that all men are equal and that we are all brothers and sisters. Japanese have for thousands of years thought of themselves as one family, distinct and apart from all others. And I think this is basic to some of the trade problems that we have been discussing at this conference and some of the questions that we have discussed as to why Asians forty or fifty years after the war remain so distrustful and resentful of the Japanese. The question is whether we can come to be good citizens of the world and whether our companies can become good corporate citizens of wherever they are.
Comment:
I would like to express concern about the notion that there is a decline of ideology in Asia. This is simplistic and neglects history. There is, perhaps a decline of the viability of socialism, but I think that in each of the major countries we have talked about there are significant ideological movements within the political spectrum—from the left and from the right.

Response (Morrison):
I agree that there is a lot of ideology in the region. Some of that ideology is nationalistic in character, some of it is religious in character, and some of it is ethnic in character. It is not necessarily the ideologies of the left and right, but an infusion of political and social values that remain fundamental to politics, economics, and foreign policies. I foresee a long struggle between some imported political notions and some traditional political notions that have not sorted themselves out. It will take a long time to develop the kind of national consensus about political values that we are accustomed to in our country.

Comment:
All of a sudden you have the NICs doing very well, but Africa is stagnant, and Latin America has not moved. The Pacific Rim is relatively successful in what I would think of as its early modern phase. What is different about the Pacific Rim that makes it more successful than other developing areas?

Response (Morrison):
I do not completely agree with Linda Lim that Confucianism has nothing to do with this. I thought to some extent she set up Confucianism as a kind of straw man. When people say that Confucianism is relevant it is not as a determining cause. Rather Confucianism provides a cultural disposition toward education, savings, investment, loyalty to institutions, and acceptance of authority that, when combined with good economic policies and political stability, is clearly a powerful force for “catch-up” development. This at least bears investigation.

Comment:
The Japan/American Society of Georgia felt that Confucianism was important enough that we had a program on the influence of Confucianism. There is undoubtedly something about the Confucianist values not only in terms of individual commitment but also to institutions, such as the family. Education is also very important in Taiwan, South Korea, Singapore, Hong Kong, and Japan, which is not the case in Latin America or even in this country.
Implication of the New Asia

Comment:
The human capital factor is the difference. Brazil has had its natural resources and all its great potential, while Japan has few natural resources. The only explanation that jumps out at one is the human capital.

Comment:
Dr. Morrison, in the summary statement you had described Japan as a regional power and the United States as a global power. Do you believe there are certain qualities a nation must have to be a leader?

Response (Morrison):
To some extent situations create leadership, and the post World War II situation created the kind of vacuum that made it almost a necessity for the United States to play the role that it did. Japan is not facing that kind of situation. The decline in the relative power of the United States and the lessened ability of the United States to support the international institutions has created a problem but not yet a crisis. Japanese are worried about this and maybe after a period of preparation Japan can evolve a leadership role closely related to their national interests.

Dr. Awanohara pointed out that for the Japanese it is not really natural to play this kind of a role in the world. Historical experience is relevant. Japan cut itself off from the rest of the world for two centuries, and then pursued a kind of European-style imperialism that led to a disaster of such magnitude that it deeply affected Japan's outlook on international involvement. But there is now a generational change, and at some point there will be a new generation of Japanese for whom a different kind of a role in the world is natural. The one area where it seems to me that a role is already becoming natural is in the financial area. Japan is the world's biggest asset country, and the Japanese do have an interest in what happens in debt-burdened countries.

Response (Awanohara):
Let me try to respond to a few of the points. Why is the Pacific different? One of the popular Japanese theories about this is that the Pacific is different because of the "flying geese" pattern of development. There is the United States in the lead, then Japan, and then the other countries. Japan starts producing for the domestic market, importing raw materials, but will lose comparative advantage in labor intensive manufactures because of high costs, and the next rung of countries take over. This is generally benign and it is dynamic; everybody is moving up.

Next is the question of ideology. This is a convenient theory and indeed early versions were enlisted to justify the greater East Asian co-prosperity's sphere. The Japanese rationale for the co-prosperity's sphere was that in return for Asian resources, Japan would bring to Asia its moral energy and technology, and there would be co-prosperity. There is, in fact, some concern rising
in Japan that the whole Pacific discussion today is a revival of this old ideology which was self-serving and justified a system in which Japan largely benefits. This ideology is still very much alive.

On the question of leadership, what can the Japanese contribute? The British brought the idea of parliamentary democracy and the United States brought its version of democracy and other ideas. The Japanese did not quite have it. Emperor worship was not the same as democracy. In other words, we have not been as good as the Americans or British in having some political ideology or human way of life to which the others could aspire. That is why we have to start with what we have and that today is only our economic strength.