

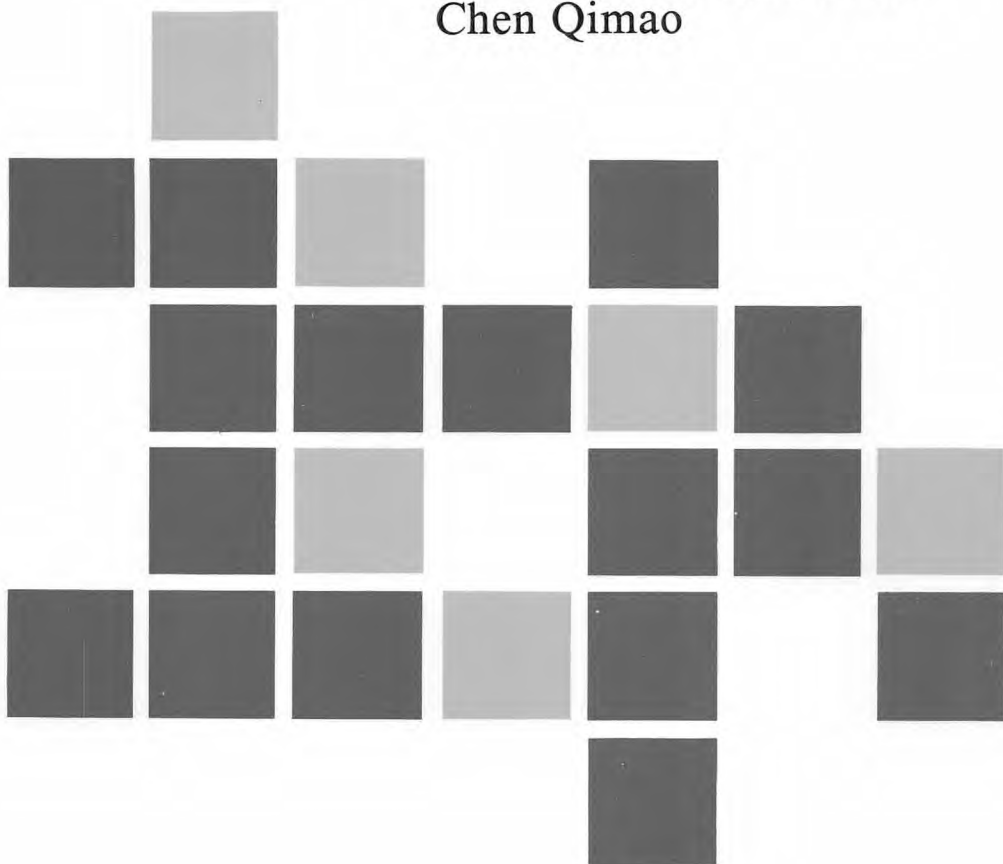


INSTITUTE OF EAST ASIAN STUDIES
UNIVERSITY OF CALIFORNIA • BERKELEY

Pacific-Asian Issues: American and Chinese Views

EDITED BY

Robert A. Scalapino and
Chen Qimao



INSTITUTE OF EAST ASIAN STUDIES
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Preface

On May 20, 1985, two groups of scholars—one from the Institute of East Asian Studies at the University of California, Berkeley, and the other from Shanghai Institute for International Studies—began four days of discussion in the latter city.

The papers upon which the discussions were based are presented in this volume, with revisions made by the authors after the sessions. Differences on many issues were to be expected, although there was often a considerable measure of agreement on the nature of domestic trends in various Asian states and the broadest regional trends. As will become clear to the reader, the major differences related to questions of policy. On the latter subject, the Chinese essays generally reflect official pronouncements, and thus represent a reasonably faithful depiction of the attitudes and policies of the PRC government. The American essays exhibit a variety of individual positions, not necessarily in conformity with the position of the U.S. government—or with the views of other American scholars.

Despite this important distinction, which is generic to our two societies at present, both the formal and informal discussions that accompanied these essays were uninhibited and wide-ranging. Sometimes, the differences apparent in the essays were narrowed; sometimes, they remained. But participants on both sides agreed without exception that our discussions had been very worthwhile, and represented a part of that process of getting acquainted that is so essential if relations between the United States and the People's Republic of China are to develop positively. Thus, we plan to continue the dialogue, meeting on a second occasion in the United States.

We are grateful to the Sarah Scaife Foundation for support to the American delegation, and to our Chinese hosts—headed by Director Chen Qimao—for the cordial reception and hospitality accorded us.

Robert A. Scalapino

Berkeley California
December 1985

1. Trends in Asia and the Pacific: An Overview

Robert A. Scalapino

Four decades have passed since the end of World War II, and the political, economic, and social changes that have taken place in Asia far exceed those occurring in the previous four centuries. Moreover, we are only at the beginning of a global industrial revolution that will coincide with dramatic new developments in telecommunications, biotechnology, and space programs on the part of the advanced industrial nations. The combination of these events is certain to pose greater opportunities for most of the world's people and, at the same time, greater challenges to existing economic and political institutions than have been faced in human history.

KEY POLITICAL TRENDS

How well are the nations of the Pacific-Asian region positioned to take advantage of—or, at a minimum, cope with—the new era? Let me begin with an examination of the domestic political situation in the principal Asian states. At the outset, one multifaceted generalization appears valid. The time of political revolution is over for most states of the region. The type of massive, violent upheaval that results in the establishment of a new political order and elite has generally already taken place and will not be repeated—in the near term, at least. But by the same token, further political change—evolutionary in nature, but cumulatively affecting the structure itself—is inevitable. Political institutionalization throughout the area remains fragile and tentative; the dependence upon personalized rule is extensive, notwithstanding the steady advances in the power of technocratic bureaucracies. And even where the general political structure seems reasonably well implanted, the ongoing socioeconomic revolution will demand periodic adjustments in existing institutions.

To assert that political change is inevitable, however, is not to state that such change will follow a singular path, or that stipulated goals will be reached without retreats. Whatever their normative proclivities, social scientists should now be aware of the fact that political systems cannot be automatically equated with given stages of

socioeconomic development. In recent decades, Asian states have experimented with various political systems in the course of seeking modernization. Moreover, even those that have held to the same basic system have gone through recurrent cycles of greater and lesser openness with respect to the political rights of their citizenry.

In the broadest terms, Pacific-Asian states can be divided into three political categories: parliamentary democracies patterned after the Western model; authoritarian political systems based on a dominant party but encouraging pluralism in the social and economic spheres; and Leninist systems committed to a one-party dictatorship, "democratic centralism," and state ownership of the means of production. These are pure types. In reality, within each category systemic mixtures and political differences exist that reflect the diverse cultural, economic, and geopolitical factors in each state. Correspondingly, some states of one type verge on another category or show evolutionary propensities in that direction.

THE PARLIAMENTARY DEMOCRACIES

What are the principal trends, and the prospect for change or stability, using these broad categories as our reference point? Among the parliamentary democracies, Japan stands out as the best-managed polity in Asia, and quite possibly in the world.¹ Unquestionably, the success of governmental policies has served to underwrite the legitimacy of the system and the long-continued primacy of a single party, the moderate-conservative Liberal Democratic Party (LDP). In reality, Japan has sustained a dominant party system under parliamentarism, thereby achieving both stability and maximum political openness. The intimate linkage between the LDP and the upper echelons of the civil service, however, and the extensive authority of the latter in the decision-making process have led many observers to refer to Japan as a bureaucratic polity.

Several developments suggest that modifications in the Japanese political system are at hand. Within the LDP, the rise of the "pure politician" whose life has been spent in the open political arena is threatening the position of the "official-turned-politician," a figure long dominant in the uppermost ranks of both the LDP and the government. Accompanying and abetting this trend has been the growth in political influence of private-sector interest groups, groups now challenging the authority of the bureaucracy in increasing measure.

The "populist" element in Japanese politics is still modest and can easily be exaggerated. As with most things Japanese, gradualism, not abrupt change, is the prospect. Thus, while Nakasone Yasuhiro is currently one of the most popular

¹ Background studies on contemporary Japanese politics would include J. A. A. Stockwin, *Japan: Divided Politics in a Growth Economy* (New York: W. W. Norton, 1975); Gerald Curtis, *Election Campaigning—Japanese Style* (New York: Columbia University Press, 1971); Robert A. Scalapino and Junnosuke Masumi, *Parties and Politics in Contemporary Japan* (Berkeley: University of California Press, 1962); and Haruhiro Fukui, *Party in Power: The Japanese Liberal-Democrats and Policy Making* (Canberra: Australian National University Press, 1970).

Japanese leaders in the postwar era if public opinion polls are accepted, he has been weakened as party leader by attacks from the political elite of his own party. Nor is there evidence as yet that either private interest groups or public opinion can be decisive on many matters of policy. The bureaucracy remains powerful.² Nonetheless, the trends point toward change, including the advent of leaders who will be more responsive to public moods and interests. In addition, coalition politics has already made its debut in embryonic form, with the Kōmeitō and Democratic Socialist Party cooperating with the government on some matters and included in consultations on occasion. In sum, after forty years during which parliamentarism was placed within a bureaucratic authoritarian framework, Japanese society has evolved to the point where parliamentarism serves as the framework within which the bureaucracy must fit. Ultimately, this development will result in a less stable polity—one closer in type to Western parliamentary systems—but the transition will be gradual.

The Indian parliamentary system, meanwhile, is testimony to the role played by British tutors in indoctrinating an elite with political values that transcended the culture and the system of which they were a part.³ With one twenty-two month lapse, India has now had nearly four decades of experience in operating a political system based on competitive parties, elections by secret ballot, and maximum political freedom. The survival of the system is itself of growing importance. Several generations of citizens have become habituated to political practices that they now consider a traditional right, as witness the extensive repudiation of Indira Gandhi in the elections that ended martial law.

Yet the clouds hanging over Indian democracy have darkened in recent years. The tasks confronting Rajiv Gandhi are major ones. One anomaly exists in the fact that the Congress Party is India's dominant party, now as in the past, but that party lacks competent leaders in depth or coherent policies. Before her death, Indira Gandhi had turned Congress into her personal instrument. Her son must rebuild the party, with new personnel and new ideas. Yet questions have already been raised about the top advisors the prime minister has selected. As in the past, the immediate course of Indian national politics is strongly dependent upon the personality, capacities, and political views of a single individual. At the same time, if Rajiv Gandhi is to chart a revised political and economic course for his country, he will have to contend with powerful, entrenched forces in the political arena and especially in the bureaucracy, who have a vested interest in the status quo. As in China, the contest between those anxious to experiment with new approaches and those determined to protect their political privileges is likely to be protracted.

Another parallel between these two continental societies exists. Like China,

² An excellent study of one of the most powerful and effective branches of the bureaucracy is that of Chalmers A. Johnson, *MITI and the Japanese Miracle—The Growth of Industrial Policy, 1925–1975* (Stanford, Calif.: Stanford University Press, 1982).

³ For recent analyses of the Indian political scene, see W. H. Morris-Jones, "India—More Questions than Answers," *Asian Survey*, August 1984, pp. 809–816; Robert L. Hardgrave, Jr., "India in 1983: New Challenges, Lost Opportunities," *ibid.*, February 1984, pp. 209–218; and Robert L. Hardgrave, Jr., "India in 1984: Confrontation, Assassination, and Succession," *ibid.*, February 1985, pp. 131–144.

India must continually wrestle with the issue of centralization versus decentralization. In recent times, the national government has weakened and the power of the states has increased, not because of decisions in New Delhi, but because of the vacuum of power there. Many argue that this development has been to the nation's benefit since it has released initiatives at local and state levels, enabling significant economic gains in the more dynamic regions. It has provided the opportunity for economic experimentation at subnational levels, and even competition among various strategies. In addition, it has nurtured new leadership, especially outside the Congress Party, through various state parties.

Pessimists point out that as the center has weakened, the task of containing violence has been made more difficult. Some argue that separatist movements based on religion, ethnicity, or language threaten the Indian nation at present more than at any time in the modern era. Indira Gandhi's responses to such movements were a failure, and the accumulated anger now presents another test for her son and his party. Does the agreement reached with a portion of the Sikh community augur better times?

Many possible scenarios for India's future can be drawn, but dramatic systemic change is improbable. The Congress Party will remain the dominant party, and probably the only national party for some time. Violence in Indian politics will continue to be endemic, but below the threshold that threatens the state. The military and police will play an active role in keeping order despite being sorely troubled over the issue of Sikh separatism due to the sizable number of Sikhs in the army. But the tradition of civilian rule will be maintained. A significant amount of political decentralization will continue, and India will develop—both economically and political— at an uneven rate, as in the past. In some respects, this will encourage separatism, and various separatist movements will evidence continued strength, but no state or region will be permitted to break away from the Indian nation. In its own unruly but vigorous manner, Indian democracy seems destined to survive.

Sri Lanka is another example of parliamentarism in an unlikely setting and, once again, a product of British tutelage. At present, however, the issue of Tamil separatism has produced fear and strife. There is no end in sight to this tragedy, and it has already resulted in virtual civil war and the curtailment of political rights. If the Tamil issue cannot be resolved or contained—and this will require the cooperation of the Indian government, wise policies in Colombo, and rationality on the part of Tamil leaders—Sri Lanka is likely to slip into a more authoritarian political pattern. Here, democracy is threatened.⁴

Other Pacific-Asian states qualify as parliamentary democracies. Clearly, Australia and New Zealand fall into this category if one is prepared to accept them as Pacific-Asian nations. So do some of the other newly independent states of the South Pacific, including Papua–New Guinea. Most observers would place Singapore and Malaysia in the column labeled parliamentary democracy.

⁴ For a recent analysis of Sri Lanka's problems, see T. D. S. A. Dissanayake, *The Agony of Sri Lanka* (Colombo: Stoestika Ltd., 1983). Also see S. W. R. de A. Samarasinghe, "Sri Lanka in 1983—Ethnic Conflict and the Search for Solution," *Asian Survey*, February 1984, pp. 250–256; and Robert N. Kearney, "Sri Lanka in 1984: The Politics of Communal Violence," *ibid.*, February 1985, pp. 257–263.

AUTHORITARIAN-PLURALIST STATES

These latter states, whatever the categorization given them, provide an entry into the second political grouping set forth earlier—namely, states possessing authoritarian political systems based on a dominant party but encouraging pluralist social and economic sectors. The great majority of Asian states currently fall within this group.⁵

All states of this type evidence some degree of political instability. In part, this is because the legitimacy of the prevailing political system is questioned by a portion of the citizenry. Indeed, in many cases, the governing elite themselves promise that the existing system is temporary, with a timetable for change often announced or, at a minimum, pledged as a future goal. Instability also comes from the fact that most of these states are undergoing very rapid socioeconomic change; hence the gap between traditional politics and a social revolution grows ever wider. And finally, the process of making the transition from an authoritarian system—even a soft authoritarian system—to a parliamentary democratic system is an extremely delicate operation, one which must depend upon the maturity of the opposition as well as the wisdom of those in power.

In some cases, as is well known, states of the second category are governed by military authorities, with or without martial law. In other cases, a military-civilian coalition has been fashioned, with the civilian quotient composed of technocrats and political figures who represent some constituency within the society. In broad terms, most Asian states combining political authoritarianism with socioeconomic pluralism are now under pressure to extend and deepen the political process. The demands are generally these:

1. To end military rule where it exists, or to enlarge the civilian quotient within the prevailing system of power sharing.
2. To subject the dominant party to genuine competition by granting greater freedom to other parties, including those that oppose the current leadership and policies.
3. To widen the arena of political rights for the citizenry, including the rights of speech, press, and assemblage.
4. To enact a constitution or to enforce constitutional guarantees if such a fundamental law already exists.

A survey of political trends in Pacific-Asian states of the second category reveals that such demands are not only widespread but, more important, in many cases evoke a positive response. In South Korea, the Chun Doo Hwan government has moved a very considerable distance in the past several years, despite having to contend with the increasing radicalization of student leaders and signs that the

⁵ For a discussion of the problems of political institutionalization in various Asian states, see the essays in Robert A. Scalapino, Seizaburo Sato, and Jusuf Wanandi, eds., *Asian Political Institutionalization*, (Berkeley: Institute of East Asian Studies, University of California, 1985).

moderate opposition is truly formidable at the ballot box.⁶ All political figures except Kim Dae Jung, who stands convicted of inciting sedition, have been allowed to reenter the political arena—and Kim himself is scarcely in the political shadows at present. President Chun continues to assert that he will abide by the current constitution which provides for a one-term seven-year presidency, and another former general—Roh Tae Woo—has been chosen to head the government party, with preparations for the 1988 elections already getting under way. The recently formed New Korea Democratic Party—led by Lee Min Woo and composed of supporters of Kim Young Sam and Kim Dae Jung, among others—promises to do battle with the government, in and out of the National Assembly, and to field its own presidential candidate. Unless the present political course is reversed, South Korea will soon witness the first leadership transition via the electoral process in its history. Yet there is reason for concern in the fact that a confrontation between the “hard liners” within the government and the “confrontationalists” among the opposition could still disrupt the liberalization process, as has happened before in South Korea. The situation is delicate.

In Taiwan, the future political picture is also unclear.⁷ Chiang Ching-kuo still dominates the political scene, and the Kuomintang (KMT) remains the only legal party. Chiang’s health, however, has declined, and the Kuomintang—in addition to contending with a contingent of independents who have been elected to office outside the party—is no longer the party of 1949. At present, over 70 percent of KMT party members are Taiwanese. The vice-president of the government is also Taiwanese, as are a number of state cabinet members. At the local and district levels, Taiwanese dominate the political scene. And given the actuarial tables, the process of Taiwanization can only accelerate.

The political future of Taiwan probably hinges upon relations between a younger generation of mainlanders, many of them children of the initial refugees, and Taiwanese politicians who have yet to achieve unity or produce a widely accepted leader. Martial rule is still in effect in Taiwan, and from time to time, an incident occurs which demonstrates the strictures on political rights that continue to operate, including control over publications. Nevertheless, political disputation is widespread and sometimes acrimonious. The permissible political boundaries have been expanded greatly in the past decade. A military succession to Chiang, moreover, now seems improbable, although rumors abound regarding possible candidates. The political developments, in sum, are in the direction of a polity providing broader, more equitable representation and participation, but with continuing uncertainties.

⁶ A recent study encompassing both Koreas is Young Whan Kihl, *Politics and Policies in Divided Korea* (Boulder, Colo.: Westview Press, 1984). For a discerning article on South Korea, see Chae-Jin Lee, “South Korea in 1984: Seeking Peace and Prosperity,” *Asian Survey*, January 1985, pp. 80–89.

⁷ A sympathetic view of political developments in Taiwan is John F. Copper, with George P. Chen, *Taiwan’s Elections: Political Development and Democratization in the Republic of China* (College Park: Contemporary Asian Studies, University of Maryland, 1984). See also James C. Hsiung, “Taiwan in 1984: Festivity, New Hope, and Caution,” *Asian Survey*, January 1985, pp. 90–96.

The most logical transition leaders have been removed from contention by illness or other factors. The precise balance between Taiwanese moderates and militants remains unclear, as do trends in mainlander-Taiwanese relations. In the coming years, succession will be a key issue.

Within virtually all of the ASEAN states, a political evolution is under way.⁸ In Singapore, the People's Action Party (PAP) dominates the political scene, but a younger generation of leaders has emerged, more sympathetic to the current mood of the citizens than is Lee Kuan Yew. Most realize that the old paternalism is no longer popular. In a situation where recent economic gains have been substantial (although substantial problems have now emerged) and no sense of social crisis exists, the average Singaporean wants political respect in addition to continuing social services. The 12 percent drop in the PAP vote in the last elections was a warning that the new leaders must take seriously.

Malaysia, like Singapore, has been able to preserve a dominant party system within the context of an open, competitive electoral process. Given the ethnic divisions and the complex geographic structure of Malaysian society, this has been a difficult task, and success is due in considerable part to the acumen of the nation's successive leaders. Despite the constant threat of a resurgent Islamic fundamentalist movement, the centrist United Malaysian National Organization (UMNO) seems likely to retain power without recourse to stronger authoritarian measures.

In Thailand, all the demands outlined earlier are being voiced. A new middle class is emerging, with its members desiring an end to military dominance of Thai politics and an end also to the numerous coups that have changed basic policies very little but have caused disturbing political discontinuities for civilian politicians. The Thai monarchy remains important, evidence of the occasional effectiveness of traditional institutions when enlisted in support of peaceful political transition. The prospects for an evolution toward greater political openness—albeit not without occasional challenges and retreats—appear good.

The pattern of political change in Indonesia is likely to be slower, with military dominance extending into the foreseeable future. For this nation, formidable problems of economic development and political integration lie ahead. The basic political pattern that has been set, however, is not one of absolutism. Civilian technocrats have been given primary responsibility for economic programs. Civilians also play a role—albeit a subordinate one—in the political arena, with the governmental organ, Golkar, likely to evolve over time from a movement into a party. Other parties have less than full freedom of expression or organization, but they are permitted a controlled level of participation—and opposition. The Islamic issue is one that in all probability will cause the government increased trouble because it can easily be harnessed to underlying economic and political grievances. But the government's

⁸ Recent economic and political developments in the ASEAN states are discussed in two collections of papers first presented at successive U.S.-ASEAN conferences: Robert A. Scalapino and Jusuf Wanandi, eds., *Economic, Political and Security Issues in Southeast Asia in the 1980s* (Berkeley, Calif.: Institute of East Asian Studies, 1982); and Karl D. Jackson and M. Hadi Soesastro, eds., *ASEAN Security and Economic Development* (Berkeley, Calif.: Institute of East Asian Studies, 1984).

political opponents of an earlier era remain weak organizationally, and are not likely to pose formidable difficulties in the decade ahead.

The Philippines—in the throes of serious economic troubles and with Ferdinand Marcos having lost the support of a sizable majority of his people—has recently presented the greatest possibility within ASEAN of protracted political instability and systemic change. The potentials of the new Aquino administration have yet to be tested. Certainly, it faces formidable problems, of both a political and economic nature. Yet in the opening days of the new era, there is an effort on the part of the president to engage in a process of reconciliation, offering amnesty in different forms, both to the old Marcos supporters and to the adherents of the New People's Army. Fundamental reforms, it is promised, lie ahead.

Despite its gains of recent years, the Communist movement with the NPA as its armed wing remains far from national power, and Aquino's policies may make its future political decisions more difficult, although no one expects the movement to fade away. The second insurgency, that of the Islamic separatists, will also remain a factor in the south, but the separatists cannot achieve the strength necessary to split the regions of Islamic strength from the rest of the Philippines.

If Philippine democracy falters in its second chance, one scenario would be the advent of the military to power, either alone or in concert with a technocratic civilian group. During the long years of martial law, the strength of the military—and its political role—were substantially enhanced. For the time being, however, the great bulk of the populace yearns for peace, reform, and development under a centrist civilian government, and such powerful institutions as the Catholic Church can be expected to bend their efforts in that direction.

THE LENINIST STATES

Among the Leninist states of Asia, politics centers upon the succession issue in at least three of the four cases, and this issue is not merely a question of replacing the top figure, but of the shift from one generation to another. One can argue, of course, that given the massive party and governmental bureaucracy that will remain in place, changes in key leadership will make little difference. This thesis, however, is half-true at best, as those who have followed recent developments in China can testify. The bureaucracy will remain a formidable obstacle to change, but a determined leader, supported by his key associates, can chart new courses even if they are only partly fulfilled.

In the People's Republic of Mongolia, a shift at the top occurred in 1984. Yumjaagiyn Tsendenbal stepped down, for reasons of health, after a political career spanning forty-four years, and was replaced by another veteran, Jambyn Batmonh.⁹

⁹ A recent account is that by Alan J. K. Sanders, "Mongolia in 1984: From Tsendenbal to Batmonh," *Asian Survey*, January 1985, pp. 122–130. Two older works of continuing utility are Gerald M. Friters, *Outer Mongolia and Its International Position* (London: George Allen and Unwin, 1951); and George G. S. Murphy, *Soviet Mongolia—A Study of the Oldest Political Satellite* (Berkeley: University of California Press, 1966).

No basic political changes appear in the offing. Recent pronouncements deal primarily with economic issues, but there are also promises to fight bureaucratism (a perennial struggle), pay attention to defense, and maintain close relations with the Soviet Union and Vietnam. Mongolia will remain a protectorate of the USSR, with a strongly Russianized political-economic system.

The North Korean political scene is characterized by the progressive build-up of Kim Jong Il, son and heir apparent of Kim Il Sung.¹⁰ The choice of Jong Il has been privately justified by North Koreans as a step to avoid the type of turmoil that followed the demise of Stalin and Mao, but there must be some embarrassment about instituting the first communist monarchy. Little is known about young Kim; his personality, ability, and views on policy remain mysteries to most outsiders. Reportedly, he has already assumed extensive authority over administrative matters and has surrounded himself with a group of his own generation. In public, however, he is often seen with General O Chin-u, head of the DPRK military forces, suggesting a need to indicate that he has firm military backing.

It would be surprising if there were not some resentment over Kim Jong Il's ascendancy among the older elites since, in choosing his confidants, he may skip not one but two generations, including those in their mid-fifties or early sixties who have laboriously climbed the ladder of power. As long as Kim Il Sung lives, however, young Kim seems safe, assuming he stays in his father's good graces. Meanwhile, a broader development is taking place: increasingly, the old guerrilla comrades of Kim Il Sung known as the Kapsan faction are passing from the scene and, in many cases, are being replaced by better educated, more technocratically inclined officials such as the present premier, Kang Song-san. Yet for the foreseeable future, the North Korean polity appears likely to remain a highly centralized dictatorship, with ultimate authority resting in the hands of a single individual or a small group.

Vietnam presents a picture of greater diffusion of power, having some legacy of collectivized leadership.¹¹ It would appear, however, that Le Duan is first among equals and, through his control over key appointments, is able to ensure compatible

¹⁰ Two general surveys of North Korea, one from personal observations, are Robert A. Scalapino and Jun-yop Kim, eds., *North Korea Today—Strategic and Domestic Issues* (Berkeley, Calif.: Institute of East Asian Studies, 1983); and C. I. Eugene Kim and B. C. Koh, eds., *Journey to North Korea—Personal Perceptions* (Berkeley, Calif.: Institute of East Asian Studies, 1983). For a background study, see Robert A. Scalapino and Chong-Sik Lee, *Communism in Korea*, 2 vols. (Berkeley: University of California Press, 1972).

¹¹ Articles dealing with Vietnam's political system include William J. Duiker, *The Communist Road to Power in Vietnam* (Boulder, Colo.: Westview Press, 1981); Douglas Pike, "Vietnam: The Winds of Change," *Pacific Defense Reporter*, 1983 Annual Reference Section, pp. 20–25; and Karl D. Jackson, "U.S. Policy, ASEAN, and the Kampuchean Crisis," in *Economic, Political, and Security Issues in Southeast Asia in the 1980s*; Karl D. Jackson, "Post-Colonial Rebellions: Lessons from Southeast Asia," in Robert A. Scalapino, Seizaburo Sato, and Jusuf Wanandi, eds., *Internal and External Security Issues in Asia* (Berkeley: Institute of East Asian Studies, University of California, 1986); and William J. Duiker, "Vietnam in 1984: Between Ideology and Pragmatism," *Asian Survey*, January 1985, pp. 97–105. *Indochina Chronology*, edited by Douglas Pike and published quarterly by the Institute of East Asian Studies, University of California, Berkeley, presents comprehensive, up-to-date materials on developments in Vietnam, Cambodia and Laos.

colleagues on the Politburo and in the government. In any case, Vietnam is controlled by old men whose legacy is war, sacrifice, and xenophobia. A generational change is at hand, but will it provide more cosmopolitan, developmentally oriented leaders? As in North Korea, there are some signs that technocrats are being elevated to important posts, but the next generation of top Vietnamese leaders, taken as a group, may suffer from the long years of war and its concomitant effect upon education, administrative experience, and overseas contacts. Meanwhile, the problems of integrating North and South Vietnam, and of controlling Cambodia and Laos, will remain formidable. Hanoi's leaders have set for themselves the simultaneous tasks of nation building and regional hegemony, suggesting that the top priorities for some time to come will be political and strategic rather than economic.

In China, the next three to five years should prove a critical period for the Party, government, and people. In the political realm, the first generation revolutionaries are passing from the scene ever more rapidly and, within this decade, all will be gone or no longer active. Can individuals of the second and third generation effectively take their places? Clearly, Deng Xiaoping has been of vital importance to the changes of recent years. No other individual had the necessary personal ties and prestige, the experience stretching over fifty years and extending into the Party, bureaucracy, and military forces. Only Deng could have reversed the previous political and economic courses so swiftly and dramatically. Only he could have firmly controlled the military. Perhaps his mission has been successfully accomplished, and his chosen successors can carry on, pursuing the path now laid out. But in a situation where personalities are still as important as institutions, questions are legitimate.

The principal challenge of the future is not likely to be the threat of a coup from the top, unless economic reforms flounder badly. It is more apt to be sabotage from the middle and lower Party and administrative cadres—individuals who feel threatened by the reforms now being attempted. Current efforts to cleanse the Party of incompetents and the ideologically unsuitable have produced limited results. A network of personal ties and “mutual protection associations” operate to thwart any thorough housecleaning, especially at provincial and local levels.¹²

At the same time, the growing hopes of the technocratic-intellectual community for increased freedom of expression seem warranted, at least for the near future. Current Party and government leaders are dedicated to raising the prestige and the opportunities for intellectuals, and even though caution is deeply ingrained in such individuals given the record of the last three decades, optimism is growing that the present trend will be sustained for a sufficient period of time to make it irreversible.

If one may generalize regarding political trends in the Leninist states of Asia, the likelihood of political changes of a structural nature seems slim, although China represents a possible exception. There, the drive toward socialist legalism, the experimentation with competitive elections at subnational levels, and the pledges of

¹² See the article “It Is Necessary to Bravely Solve the Problem of Factionalism in Leading Bodies,” *Hung Ch'i* [Red Flag], no. 22, November 16, 1984, pp. 20–22.

expanded freedom for intellectuals point in new directions. But the extent and duration of these efforts remain to be tested; there are disturbing as well as encouraging signs. In the absence of a significant middle class, and with general economic standards low, the impetus toward political change must come essentially from intellectuals. The fact that this class is still weak and dependent—especially in Mongolia, North Korea, and Vietnam—suggests that the authoritarian, bureaucratic state will remain dominant in Leninist societies. In the short run, this circumstance will yield political stability. If, however, economic development produces significant improvements in livelihood and policies encourage the emergence of a technocratic class as well as a turning out for science and technology, the gap between a traditional polity and a socioeconomic revolution may at some point become even more pronounced than in the authoritarian-pluralist states.

TRENDS IN ASIA'S MIXED ECONOMIES

When one turns to the broad economic trends characterizing the Pacific-Asian region today, cautious optimism is warranted although uncertainties abound, among them, the health of the advanced industrial economies and the policies of their governments, especially the United States. The growth rates of the more dynamic states have already declined from the extremely high levels of the recent past, but they will remain among the highest in the world. Japan, for example, should have gross national product increases of 3 to 4 percent, putting it ahead of other advanced industrial societies.¹³ The so-called newly industrializing countries (NICs) will also do reasonably well. South Korea's GNP will probably grow at 5 to 6 percent, at least for the near term. Taiwan will probably register a similar growth. Singapore has experienced a major slowdown, but its growth should pick up in one to two years. Hong Kong has also seen a restoration of high growth for the short term at least, but entrepreneurs, domestic and foreign, will reevaluate its prospects every few years, with primary attention given to political and economic trends in the People's Republic of China.¹⁴

The ASEAN states other than Singapore also have fairly good near-term economic prospects with the exception of the Philippines. In Southeast Asia, the trend is away from import-substitution production and toward export-oriented industries. Thus, the health of the global economy, and especially the U.S. and Japan economies—together with the access to these markets—is of growing importance. A reduction in foreign borrowing and an increase in private sector investment are also prime goals. Moreover, there is renewed interest in agriculture and agrobusiness, with

¹³ A recent analysis of the Japanese economy by two Japanese specialists is Yutaka Kosai and Yoshitaro Ogino, *The Contemporary Japanese Economy* (New York: Macmillan, 1984).

¹⁴ An interesting "inside" analysis of the course of Sino-British talks and future prospects for Hong Kong is Chu Yuan, "A Big Turn in Hong Kong's History," *Chengming* [Contending], no. 84, October 1984, pp. 11–14. See also the reply of Premier Zhao Ziyang to the Students' Union of the Chinese University of Hong Kong on the question of the future of Hong Kong, March 26, 1984, in Foreign Broadcast Information Service (FBIS), *China Report*, April 11, 1984, E1.

the belief that with low capital investment and the application of new scientific methods, production can be increased while surplus labor is absorbed.

There are problems, and recent trends show that earlier economic projections were too optimistic. Indonesia, the largest state within the ASEAN group, remains heavily dependent upon oil for its trade and revenue and hence dependent upon the world energy market. It has shown a reluctance, moreover, to abandon protectionist policies or to encourage the private sector, partly because of the heavy overseas Chinese influence in commerce and industry. Under the leadership of Prime Minister Mahathir, Malaysia has also flirted with economic nationalism, including the development of an industrial component, using South Korea and Japan as models—a policy ill suited to Malaysia's strengths. Singapore industries face the need to become more competitive, and the state must accept a need for lessened dependence upon certain traditional high-growth fields such as shipping and shipbuilding. Thailand has faced an increasing trade deficit leading to a tighter monetary policy on the part of the government. The Philippines, now in a period of severe retrenchment in an effort to offset past mismanagement, can expect only limited gains in the years immediately ahead, with the debt crisis continuing into the indefinite future.

Philippine growth over the next five years will probably not average more than 1.5 to 2 percent; this will also be true for Singapore in the short term; for the other ASEAN countries, real GNP increases should run 4 to 6 percent, barely sufficient to keep up with the increasing numbers of individuals coming onto the labor market, but satisfactory to good in comparison with other late-developing regions.

In South Asia, the economic picture is considerably more uneven and, for the most part, troubled. Pakistan—which has performed well to date in economic terms despite the pressures upon it, due in considerable measure to the nation's encouragement of the private sector—faces a shrinkage of foreign reserves and major increases in the trade deficit, along with adverse repercussions from the slowdown in the Middle East economies. Growth may still reach 5 to 6 percent in 1985, but predictions must be guarded, and hinge partly on political developments.

In India, the new government hopes to enjoy moderate growth under a gradually liberalized economic program.¹⁵ The aim is to reduce bureaucratic restrictions so as to encourage foreign investment, and to import technology on an accelerating scale. There will be an increased emphasis upon the private sector, with an effort to improve plant efficiency and raise labor productivity. Major opposition to some of these programs can be expected not merely from the bureaucracy but also from those private industrialists who have benefited from government support and protection. Once again, political conditions constitute a variable of importance. GNP increases for the next several years should average about 5 percent.

Sri Lanka's economic performance remains heavily dependent upon developments in the political sphere—notably, the course of the Tamil separatist insur-

¹⁵ A thoughtful essay by Wilfred Malenbaum compares Indian and Chinese growth, "Modern Economic Growth in India and China: The Comparison Revisited, 1950–1980," in M. Dutta, ed., *Studies in United States-Asia Economic Relations* (Durham, N.C.: The Acorn Press, 1984), pp. 190–225.

gency. Recent economic policies were promising and a slight upswing is now in progress, but unless the violence can be brought under control, prospects do not seem good. Finally, Bangladesh remains largely dependent upon foreign aid, with growth certain to be slow.

Unfortunately, population increases in South Asia are likely to swallow up production advances, causing this region to remain poor and hence politically as well as economically troubled. Nonetheless, one should not lose sight of the fact that in Pakistan and India, some regions are developing much more rapidly than others, giving rise to prosperous classes. As in China, the developmental pattern will be extremely uneven. Moreover, in both major South Asian countries—and particularly in India—a huge grey economy exists, operating outside governmental plans and, for the most part, outside its knowledge as well. It is within this grey economy that the real vitality of the society is displayed, and its role is sufficient to render official statistics misleading. If market forces can be given increased support, the infrastructure for greater advances are present in most South Asian states: a trained managerial class; scientists and technicians able to adapt advanced technology to the country's requirements; and a huge labor pool, including a growing number of skilled and semiskilled workers.

ECONOMIC DEVELOPMENTS IN THE ASIAN SOCIALIST STATES

Turning to the socialist states, the probability is for mixed trends in the immediate future. Typically, governments employing the Stalinist "big push" economic strategy enjoy striking gains in the early years, as human and natural resources are mobilized and directed toward select targets. Gradually, however, serious problems emerge: bottlenecks develop, reducing efficiency and productivity; the central planning system cannot cope with the increasing complexity of the economy; incentives are insufficient to induce quality improvements in production; and an autarkic economic system limits the ability to take advantage of the science and technology of more advanced nations.

A majority of China's top leaders are now cognizant of these defects, and in the process of undertaking a series of sweeping economic reforms. The easy tasks have been accomplished. The difficult challenges lie ahead. The peasant has finally been liberated, not in 1949 but in 1979, and productive gains in agriculture are testimony to the basic soundness of the family responsibility system. Some side effects, to be sure, require correction and—more important—the more costly, complex tasks must now be tackled: state investments in water conservancy, increased chemicalization and mechanization and, above all, transport and communications.

It is in the urban industrial sector, however, that the critical tests are to be faced.¹⁶ By general acknowledgment, price reform and a reduction of subsidies are

¹⁶ The materials on China's urban reform program are voluminous. A few Chinese accounts worthy of study include Wang Renzhi, "On Several Questions Concerning the Invigoration of Enterprises," *Hung Ch'i* [Red Flag], no. 21, November 1, 1984, pp. 2–7; Gong Yuzhi, "Economic Reform and Ideological Emancipation—Two Items of Philosophic Thought," *ibid.*, pp. 8–11; "Deng Xiaoping on Socialism with Chinese Characteristics," *Liaowang* [Outlook], no. 34, August 20, 1984, pp. 8–10.

essential to the future health of the Chinese economy. Yet both operations are extremely delicate. Prices for energy and natural resources, including food, have long been too low; prices for most manufactured products have been too high. The adjustments now taking place are painful and, together with the effects of an overheated economy, have produced substantial inflation. Currently, urban wage increases are not keeping pace with price rises and, combined with other problems like housing and transport, make for unhappiness. The larger issue lies in the fact that three economies exist in China today with their boundaries and relative weight unclear: the centralized, controlled economy; the decentralized, guided economy; and the market economy. Can these diverse sectors successfully coexist, and if so, what balance is to be struck? It is for these reasons that the coming years will be crucial, especially since they will coincide with the generational changes in leadership noted earlier.

In North Korea also, the defects of the Stalinist model and an autarkic economy have been discovered.¹⁷ Here, these defects have strategic as well as economic significance, since DPRK economic performance is now only about one-fifth that of the Republic of Korea, a situation that is profoundly worrisome to North Korean leaders. Once again, as in the early 1970s, the effort to turn out for technology is getting under way, with hope being placed first on the Eastern European–Soviet societies and China, but with a desire to follow the South Koreans in seeking stronger economic relations with Japan—a nation already accounting for approximately one-sixth of North Korean trade. While North Korean delegations have visited China and shown an interest in such experiments as the Special Economic Zones, there are no indications as yet that basic structural reforms of an economic nature are being contemplated despite the new legislation permitting joint ventures. Perhaps such reforms will come at some later point, but for the present the model remains more Stalinist than Dengist.

Vietnam, as noted earlier, has cast its priorities in a manner not conducive to rapid economic development. There has been a retreat from the initial socialist goals, especially in the South, but this retreat is a product of necessity, not of desire. With national resources being poured into the huge military establishment and the occupation of Cambodia, neither the funds nor the personnel exists for economic modernization. Debts owed the Soviet Union are accumulating, and while the economy has recovered somewhat from the abysmal depths of the late 1970s, Vietnam remains in deplorable shape. Consequently, the black market must be tolerated together with various forms of private entrepreneurship, legal and illegal, in both agriculture and commerce. This means that a considerable gap between the North and South exists in terms of economic system, raising the question of when and how it will be closed.

REGIONAL TRENDS AND FUTURE OPTIONS

With certain notable exceptions, the economies of Asia appear likely to operate

¹⁷ See the writings of Joseph S. Chung, Sang-Chul Suh, and Ki-Hyuk Pak in *North Korea Today* and Chung's major study, *The North Korean Economy: Structure and Development* (Stanford, Calif.: Hoover Institution Press, 1974).

effectively in the years immediately ahead, if at a reduced momentum in the case of Japan, the NICs and the ASEAN states. As we have noted, the premium will increasingly be upon private investment rather than foreign borrowing; export-oriented rather than import-substitution production; a movement toward higher technology; and, in some instances, a renewed emphasis on agriculture and agrobusiness.

These trends cut across ideological and systemic lines, suggesting increases in economic interdependence not only among the mixed economies of Asia, but between such societies and Asia's socialist economies. This does not necessarily support the convergence theory, but it does suggest that political relations among Asian states are likely to be affected by these developments in diverse ways as are domestic political trends. It also signals the fact that the importance of international and regional financial institutions will grow for all Pacific-Asian states in the years ahead. In addition, the need to go beyond bilateral negotiations and work toward some form of broader Pacific economic cooperation will become ever more apparent.

We stand at a crossroads. One set of pressures points to heightened protectionism, limited technology transfer, and shrinking international economic assistance—diverse forms of defensive economic nationalism. Another set of pressures suggests the possibility of increased international investment and joint ventures; markets opened more widely; the sharing of technology on an expanded scale; and increased economic assistance from North to South—the flowering of a richer economic internationalism.

In determining which path will be followed, the United States and Japan bear a special responsibility. Further mismanagement of the American domestic economy could spell disaster not merely for the United States, but for many other nations as well. Huge deficits, high interest rates, and the resulting overpriced dollar produce temporary benefits to foreign investors and manufacturers, but at some point, confidence in the U.S. economy will be shaken if the recent course is pursued, with grave results. Fortunately, there are now certain signs of change in the economic policies of the U.S. government. Meanwhile, Japan's new global economic power gives that nation an obligation to develop internationalist attitudes and policies. Its trade barriers and market inaccessibility are indefensible, as is its reluctance to share technology more broadly. But the developing nations of Asia also have important responsibilities: to eschew protectionism, to provide suitable conditions for foreign investment, to pursue economic programs attuned to national capacities, to curb corruption and inefficiency, to avoid massive indebtedness. Greater interdependence means greater interresponsibility.

MAJOR STATE RELATIONS

Finally, let me turn to certain issues of an international nature, focusing mainly on questions of relations between and among the major states and trends in regional security. Compared to the 1970s, there has been a reduction of tension in the Pacific-Asian region despite the continuance of two hot wars, the conflicts of Afghanistan and Cambodia. In Northeast Asia, Sino-Soviet negotiations have resumed, and

modest increases in economic and cultural relations have taken place.¹⁸ The risk of a Sino-Soviet war was probably never as high as some observers believed, given the impossibility of either side winning such a war. But the scenario is now dialogue rather than angry monologues. The Soviet military expansion in the Pacific-Asian region continues, however, and while a portion of that buildup is directed toward the global strategic contest with the United States, a portion is directed toward China and Japan. Moreover, there is no indication that the Soviet military encirclement of China will be relaxed.¹⁹ Unless and until this action is undertaken, truly amicable relations are improbable.

The People's Republic of China, however, has finally achieved a foreign policy compatible with its national interests. Defining its policy as one of nonalignment, China repeatedly proclaims that it will accept alliance with neither the United States nor the USSR, and seeks identification with the Third World.²⁰ This is a low-risk, low-cost foreign policy, and one in line with Chinese nationalist sentiments. In reality, however, Chinese foreign policy could be more accurately described as one of tilted nonalignment, with the tilt toward Japan and the West, especially the United States. Whether the measurement be economic, cultural, or strategic, Chinese relations with Japan and the United States are far more extensive than those with the Soviet Union. As long as China's current economic policies remain intact and its strategic concerns continue to be unmet, moreover, this situation is likely to continue.

The coming months should provide greater indication about whether there can be an upturn in U.S.-USSR relations. In several respects, conditions are ripe for such a development. The economies of both nations are burdened by heavy military expenditures. Pressures also come from those states aligned with the two global powers, since the burdens and risks of the current impasse spill over to them. A new Soviet leader may wish to make his mark by inaugurating a more promising era of international accord than he inherited, and an old American leader may wish to leave his mark by defying critics and achieving historical acclaim as the president who brought about a meaningful American-Soviet accord. But those closest to the scene assert that progress will be incremental, with long, rugged negotiations ahead.

Meanwhile, relations between the United States and China should be reasonably cordial in the immediate future. The most complex issue, rhetoric notwithstanding,

¹⁸ Two important collections of essays dealing with Soviet policies in Asia can be found in Donald S. Zagoria, ed., *Soviet Policy in East Asia* (New Haven, Conn.: Yale University Press, 1982) and Herbert R. Ellison, ed., *The Sino-Soviet Conflict: A Global Perspective* (Seattle: University of Washington Press, 1982). See also Thomas Perry Thornton, "The USSR and Asia in 1983—Staying the Brezhnev Course," *Asian Survey*, January 1984, pp. 1–15; and Donald S. Zagoria, "The USSR and Asia in 1984," *ibid.*, January 1985, pp. 21–32.

¹⁹ A brief analysis of Soviet military forces in the Far East is presented in *Asian Security—1984* (Tokyo: Research Institute for Peace and Security, 1984), pp. 64–70.

²⁰ Brief, authoritative pronouncements on Chinese foreign policy include the following articles in *Beijing Review*, January 14, 1985: Huan Xiang, "Where the World Stands—A Foreview"; Qian Junrui, "Economy Shows Signs of Recovery"; Wu Xiuquan, "Relations with US, Soviets on Track"; and Chen Zhongjing, "South-South Ties Grow Stronger," pp. 15–18.

ing, will probably not be Taiwan but economic matters—especially trade and technology transfer.²¹ Japan will continue to hold primacy in the China market, but trade with the United States should advance in a satisfactory manner, with exports of high technology products on the American side and consumer products exported from China. Cultural relations will continue to advance, but with an increasing insistence on the part of Americans for greater reciprocity. Political relations will be generally good, but the United States will resent being coupled with the USSR as a threat to global peace, and it will also challenge Beijing's assessments of American policies in Central America, the Middle East, and certain other regions. A broad agreement regarding most Pacific-Asian policies, however, has been achieved, and that is likely to hold. Cooperation on problems like those pertaining to the Korean peninsula, Indochina, ASEAN, and Afghanistan will continue. And these are issues that are truly vital to both nations, particularly China.

Until recently at least, Sino-Japanese relations were proclaimed by both Chinese and Japanese leaders to be better than at any time in this century, and there seemed no reason to dispute that claim.²² Nearly one-fourth of all China's trade is with Japan and, once again, after a hiatus of about five years, the Japanese private sector is viewing investment in China with favor, although questions persist. Government-guaranteed loans have been advanced to China, and joint ventures are slowly developing. With respect to technology transfer, however, there is marked reserve on Japan's part, a policy characteristic of Japanese practices elsewhere. In truth, Japanese entrepreneurs are primarily interested in trade at this point, awaiting further results of the economic reform program—and the reluctance to transfer technology may engender problems with China, especially if the current negative trade balance with Japan persists and grows. The student demonstration against "Japanese economic imperialism" that took place in Tianamen square in September 1985, moreover, shocked many observers, and suggests complex emotional attitudes under the surface.

On a broader front, a soft regionalism is emerging in Northeast Asia, with Japan at its center. This regionalism rests primarily upon economic relations, but with a growing political increment and with modest strategic implications. Under Nakasone, Japan has not only extended economic assistance to South Korea and China but, as noted, has expanded its trade and investment while continuing its economic and cultural ties with Taiwan and has remained the only nonsocialist state to have significant economic relations with North Korea.²³ Politically, Japan has entered into a dialogue with neighboring states on a range of regional issues and, on occasion, has

²¹ See Thomas P. Bernstein, "China in 1984—The Year of Hong Kong," *Asian Survey*, January 1985, pp. 33–50.

²² See Mu Youlin, "A New Chapter in Sino-Japanese Friendship," *Beijing Review*, September 24, 1984, pp. 4–5.

²³ Prime Minister Yasuhiro Nakasone has provided a brief but comprehensive view of Japanese foreign policy in his 1984 Alastair Buchan Memorial Lecture, reproduced in *Survival* (International Institute for Strategic Studies), September/October 1984, pp. 194–199.

served as liaison or communicator between other states. And defense leaders have also engaged in conversations and an exchange of information while Japan, for its part, has accepted limited regional responsibilities relating to the use of its bases and a plan for air and sea surveillance.

Japanese-Soviet relations remain minimal and hostile, but in the recent past both Japanese and Russian leaders have signaled a desire for some improvement. If an American-Russian thaw were to materialize, it might facilitate improvements in relations between Tokyo and Moscow. There are still Japanese entrepreneurs who see opportunities in the development of Siberia, although programs would have to be made more economically attractive by the Russians than has been true in the past.

The key to Japanese foreign policy, however, remains the alliance with the United States, a relation that is equally vital to America, and one currently troubled by a massive Japanese trade surplus.²⁴ Under American pressures, Japan has given ground slowly and reluctantly on economic issues, and consequently has received limited political advantage when the concessions have been finally made. The latest and most acrimonious issues have related to financial liberalization and to access to Japan's telecommunications market. A compromise will probably be effected on these and related matters, but pressures on Japan may well intensify, including Congressional action. With two-way trade likely to exceed \$80 billion again in 1985, however, and joint ventures as well as investment escalating, the U.S.-Japan economic relationship cannot be seriously disrupted without enormous cost to both parties.

Relations with respect to defense are less tense, although once again the American call is for a greater sharing of the burden and the Japanese response is a reluctant, halting one. Joint defense planning and joint military exercises are now institutionalized, and Japanese military budgets have been regularly increased by some 6 to 7 percent in recent years. But despite Nakasone's personal views, the so-called 1 percent barrier (a principle that military expenditures should not exceed 1 percent of GNP) has not yet been broken. Japanese public opinion and the attitude of other Asian states combine to retard military expansion. For the foreseeable future, Japan's military capacities—and commitments—will remain strictly limited.

In South Asia, India's relations with the other major Pacific-Asian states are likely to undergo a subtle, undramatic shift. The close military and economic ties with the Soviet Union will remain reasonably firm because they are of mutual benefit, and there is no viable substitute at this time. Rajiv Gandhi, however, does not possess the anti-Americanism of his mother, and his inclinations, as noted earlier, are to support a stronger private sector and the importation of higher technology. Thus, there are

²⁴ Diverse perspectives on U.S.-Japan relations can be found in *U.S.-Japan Relations: New Attitudes for a New Era* (Cambridge, Mass.: Program on U.S.-Japan Relations, Center for International Affairs, Harvard University, 1984); Robert F. Reed, *The U.S.-Japan Alliance: Sharing the Burden of Defense* (Washington, D.C.: National Defense University, 1983); Herbert Passin, *American and Japanese Leadership Opinion on International Issues* (New York: East Asian Institute, Columbia University, 1984).

reasons to expect an improvement in relations with the United States as well as greater interest in Japan—long a remote nation to Indians. Sino-Indian relations may also improve, with a new formula now having been accepted for border negotiations.

AREAS OF CRISIS

In sum, relations among the major states of the Pacific-Asian area reflect a mixed picture, but one which, on balance, favors lowered tension. Will that affect the situation in the three regions of Asia where conflict is ongoing or threatened? On the Korean peninsula, the prospects for a continuing North-South dialogue seem better than at any time since the breakdown of discussions in 1973. For its own reasons, both economic and political, Pyongyang has reversed its previous stance and agreed to talk with the Chun government on economic relations as well as on humanitarian issues through Red Cross meetings. Thus far, the dialogue has been intermittent, and it remains to be seen whether meaningful agreements can be reached. None of the major states wants another Korean conflict, however, and the American defense guarantee to South Korea is credible to the North. Hence, the chance of war is remote. And because it wishes to turn out, including to Japan and the United States, North Korea finds good reasons to continue a dialogue with South Korea. Yet the type of violence exhibited in the Rangoon bombing may not be at an end. Pyongyang may elect to pursue a dual strategy of negotiations on the one hand and subversive activities on the other. Rangoon, however, cost Pyongyang heavily in prestige. Logically, the next step would be the development of North-South trade and limited exchanges, including mutual appearances at various private as well as official international conferences. At this point, however, the two sides in the negotiations remain divided on fundamental objectives, with the South pursuing the course just outlined while the North seeks to make every step an instrument of rapid unification on the basis of the “one nation—two systems” formula. The Korean peninsula seems less dangerous as a focal point of possible conflict than it did a short time ago, but the absence of agreement on fundamental issues and continued massive militarization of the peninsula warrant concern.

There is no reason to be encouraged about the situation in Cambodia. The prospects here are for continued low-level conflict, with repercussions along the Sino-Vietnamese and Sino-Laotian borders. At the same time, there are no indications that this conflict will escalate into a major war. China remains credible to Vietnam despite its reluctance to undertake a second lesson. Hence, Thailand is not apt to be massively assaulted. Chinese aid to anti-Vietnamese Khmer groups will continue, with Thai assistance. Thus, while it has badly damaged Khmer resistance forces, Hanoi cannot end the guerrilla operations. One uncertainty is the unity of ASEAN, but thus far the Vietnamese have been their own worst enemies, presenting a rigidity that baffles even the Indonesians on occasion.²⁵ Nevertheless, Jakarta and, to a lesser

²⁵ An interview with Pham Van Dong conducted by Patricia J. Sethi in *Newsweek* was published in that magazine on May 14, 1984.

extent, the Malaysian government harbor suspicions about Chinese objectives in Southeast Asia that make it difficult for them to cooperate fully in any effort to humble Vietnam. The immediate prospects, however, are that the unity of ASEAN will take priority over the differences of opinion regarding Vietnam unless a combination of military prowess and political flexibility on Hanoi's part greatly increases the pressures for a settlement on Vietnam's terms. Even if that were to happen, however, it is doubtful that China would accept Vietnamese hegemony over Indochina, thereby leaving the issue unresolved.²⁶

Finally, Afghanistan remains a battleground. Again, no end is in sight. The Russians continue a war of attrition, holding the main cities and the principal arteries of communications. They have kept their troop level relatively low and are taking casualties that can be afforded indefinitely. And they are counting upon training a new generation of Afghans who will be loyal to their cause. Yet the Afghan resistance fighters show no signs of abandoning the struggle, and they are obtaining military supplies sufficient for that purpose. Moscow is not prepared to accept a political settlement that would leave the issue of the Kabul government in doubt; and the resistance is not prepared to accept a Russian-dominated regime. The conflict will go on, but once again the chances of escalation into a larger conflagration are slim.

Both the United States and the Soviet Union remain critically important to the international alignments within the Pacific-Asian region. They are the only global powers, and their actions or inactions have immediate repercussions throughout Asia. In the past, the Soviet thrust has been primarily military, whereas the U.S. impact has been economic and political as well as strategic. Under Gorbachev, will Soviet Asian policy show greater flexibility and sophistication? In any case, Asia can no longer be separated from the global strategic contest, even as it cannot be separated from the main international economic and political trends. Nevertheless, one can detect a process of Asianization under way, separate from—albeit interrelated to—the so-called “superpowers.” This process is more broadly based than Japan's earlier efforts to build a Greater East Asia Co-Prosperty Sphere, but it partakes of some elements of this venture. In the soft regionalism of Northeast Asia, in ASEAN, and in the growing influence of both Japan and China throughout the region, as well as in the groping within South Asia for stronger regional ties, we see a new pattern that will loom large in the twenty-first century.

²⁶ See Larry A. Niksch, “Vietnam and ASEAN: Conflict and Negotiation over Cambodia,” unpublished paper prepared for a conference sponsored by the Defense Intelligence College and the Center for Strategic and International Studies, Georgetown University, December 4–5, 1984.

2. The Current Situation and Prospects for Asia and the Pacific

Chen Qimao

During recent years, the overwhelming majority of Asian-Pacific countries and territories have achieved vigorous economic development. Meantime, rivalry between the superpowers for military superiority in the region has intensified, leading to constant tension and turbulence. The situation draws worldwide attention and the Pacific issue has become an internationally popular topic. This chapter seeks to analyze the economic and political status of this region and investigate its prospects.

MAINTENANCE OF FAVORABLE TRENDS IN ASIAN-PACIFIC ECONOMIC DEVELOPMENT

Except for the Indochina peninsula and the Philippines, almost all the Asian-Pacific countries and territories have undergone rapid economic development during the past few years. According to the American Chemical Bank's annual economic report on Asian countries, the yearly GNP increase rate for 1983 and 1984 were, respectively, 3 and 5.3 in Japan; 7.5 and 11 in the Taiwan Province of China; 5.2 and 8 in Hong Kong; 9.5 and 7.5 in South Korea; 7.9 and 8.5 in Singapore; 4.2 and 4.2 in Indonesia; 5.9 and 6.8 in Malaysia; and 5.8 and 5.6 in Thailand.¹ The economy of the People's Republic of China has been flourishing amid policies of openness and reform. In 1983, the gross value of Chinese industrial and agricultural output increased by 10.2 percent, and the national income increased by 9 percent. The year 1984 witnessed another 14.2 percent increase over the previous year in the gross value of industrial and agricultural output and a 12 percent increase in the national income,² testifying to a national economy full of vitality in all sectors.

This flourishing economic development in the Asian-Pacific region forms a striking contrast with the slow-paced economic recuperation and growth in Western

¹ Xinhua, *Jingji Cankao* [Economic Information], January 21, 1985.

² Zhao Ziyang, "Report on Government Work," Xinhua, April 12, 1985.

Europe and the economic difficulties experienced by many other areas in the Third World. Scholars from various countries have dedicated their efforts to explore the secret of the rapid economic growth in the region. It is beyond the scope of this chapter to offer a systematic answer to this question. The only view I wish to put forward here is that the success of Asia and the Pacific in making new economic breakthroughs during recent years and finding a way out of the stagflation harassing the capitalist world, though partly the result of some favorable external factors, is primarily determined by internal causes.

As far as external causes are concerned, the economic recovery of Western developed countries has undeniably lent itself to the remarkable economic development in some Asian-Pacific countries and territories. In 1984, the U.S. economy especially turned up and developed a great momentum, reporting a 6.8 percent increase rate in the GNP and a marked increase in market demand. This event certainly had a favorable influence on those export-oriented Asian-Pacific countries that looked to the United States as their biggest trading partner. *Time* magazine estimates in its November 1984 issue that 1984 saw a 46 percent increase in Japan's export to the United States, a 51 percent increase in Singapore's export, a 17 percent increase in Indonesia's export, and a 32 percent increase in Hong Kong's export.³ And according to a 1984 report in Japan's *Sekai Shuho*, Taiwan increased its export to the United States by 31.2 percent.⁴ Undoubtedly, the bearing of such increases on the economic developments in these countries and territories should not be underestimated. Another article in *Business Week* published in June 1984 states that the "four small tigers in Asia"—that is, Singapore, Taiwan, Hong Kong, and South Korea—increased their export to the United States by 47 percent in the first quarter of last year as compared with the same period of the previous year. No wonder that magazine points out that U.S. economic recuperation enabled the "four small tigers" to make an immense fortune.⁵

Why, then, under the same circumstances of Western economic upturn do a number of countries and territories in the world, including some in the Asian-Pacific region, still suffer serious economic difficulties? The reason is to be found within rather than without. One of the most important explanations is that, despite such unstable factors as the intensified arms race between the superpowers and military operations on the Indochina peninsula brought about by the Vietnamese invasion of Kampuchea, the majority of Asian-Pacific countries and territories, except for the three Indochina countries and the Philippines, have been able to maintain comparative political stability. China has enjoyed an internal situation characterized by growing stability and unity ever since the Third Plenary Session of the 11th Central Committee of the Chinese Communist Party at the end of 1978. It is now carrying out a comprehensive reform of its economic system in a planned way, with an orderly transference of power from the older to the younger generation with a view to

³ *Time*, November 12, 1984.

⁴ *Sekai Shuho*, May 14, 1985.

⁵ *BusinessWeek*, June 25, 1984.

guaranteeing the continuance of the policies in practice. Pursuing an independent and peaceful foreign policy, China has made a great contribution to the opposition of hegemonism and the relaxation of tension in the Asian-Pacific region and has played a significant role in safeguarding regional peace and stability. It has also reached a settlement on the Hong Kong issue, on the basis of the "one state, two systems" concept, through negotiation with the British government, thereby setting a good example for solving problems left over by history and disputes between countries by negotiation as well as ensuring the stability and prosperity of Hong Kong.

As a regional organization devoted to cooperation among the developing countries in Southeast Asia, ASEAN has held high the banner of peace, freedom, and neutrality. It has assumed an active role in combating Russian and Vietnamese expansion and supporting the anti-Vietnamese struggles of the Kampuchean people and has contributed to the stabilization of the Asian-Pacific situation. Since Prime Minister Nakasone came into power, Japan has paid much attention to the strengthening of its defense forces, yet it has not deviated from the path of the peaceful development of its economy and has also exerted a positive influence in stabilizing the Asian-Pacific status quo. The Korean peninsula, where tension once reigned, is worthy of special note, but since the latter half of 1984 the dialogue between the North and the South has been resumed and the state of affairs has relaxed somewhat, bringing new hope to the situation.

A stable domestic and international situation constitutes an important condition for uninterrupted economic development in most Asian-Pacific countries and territories. The fact that the three Indochina countries are haunted by economic difficulties because of unceasing wars and that the Philippines has recorded a 6 percent negative growth due to domestic unrest proves this point on the negative side.

Another essential condition for faster economic development in the Asian-Pacific region is the adoption of practical development strategies and policies. Japan has effected a systematic readjustment of its industrial structure since the oil crisis in 1973, concentrating on the development of knowledge-intensive and technology-intensive industries while at the same time reducing and confining to a reasonable degree those capital-intensive and labor-intensive industries that consume large quantities of energy and materials. Since entering the 1980s, it has advocated building the whole nation on the basis of advanced technology. As a result, Japan has won a leading position in the world's new technological revolution with electronic and information technology as its center; it has further redoubled its efforts in the development of science and technology and upgraded its industrial setup toward a more technology- and knowledge-intensive level capable of producing high added value.

Abiding by an export-oriented strategy, Singapore, South Korea, the Taiwan province of China, and Hong Kong have likewise readjusted their industrial structure, taking pains to develop burgeoning industries and replacing the old product lines with more up-to-date ones. In consequence, they have kept a rising trend in their foreign trade and drastically expanded their export, which, in turn, has broadened the scale of their economies. The ASEAN countries, with the exception of Singapore, depended

formerly on the export of a single primary product and were therefore vulnerable to changes in external conditions. In the past few years they have gradually set up export-oriented processing industries with their abundant indigenous resources and cheap labor force in an attempt to diversify both their export products and export markets. As a result, they have been able to improve their economies.

On the basis of the economic readjustment that has begun to take effect, China has accelerated the reform of its economic system by further carrying forward the policy of enlivening the home economy and opening up to the international market. It has opened up another fourteen coastal cities in addition to the four existing special economic zones, giving a great stimulus to the sustained, steady, and coordinated development of the entire national economy.

This high-speed economic development in the Asian-Pacific region over a long period has aroused more and more interest all over the world. Recently the Western press and people of different circles have enthusiastically discussed the "rise of the Asian-Pacific region" and the "challenge of the Pacific." Some observers think that the world's economic center is now moving toward the Asian-Pacific region; some believe that the Atlantic region has fallen into decline and the Pacific region will become the new global political economic center; still others declare that the future of the world lies in the Pacific, and that the twenty-first century will be a Pacific age.

How should we make an appropriate evaluation of such an important problem, concerned as it is with the repatterning of global structure? From the academic point of view, I am inclined to conclude that, what with the noticeable Asian-Pacific economic development and the aggravation of the superpowers' competition here, the strategic position of the Asian-Pacific region in relation to the whole world has indeed been greatly enhanced. In a certain sense, the Asian-Pacific region can be regarded as one of the most dynamic areas in the world. It is true that throughout history the economic-political development of the world has never been a balanced one. It is too early yet, however, to affirm that Asia and the Pacific will outstrip Western Europe in economy, for the following reasons:

1. Though the economic center of the United States, which adjoins both the Atlantic and the Pacific Ocean, has a tendency to move westward, its eastern part still commands a great measure of economic strength; therefore, the U.S. economic center cannot be said to have already shifted to the West Coast. Since 1980, the volume of U.S. trade with the Asian-Pacific region has surpassed that with Western Europe, but in terms of capital flow the United States has a far closer relation with Western Europe than with the Asian-Pacific region.

2. In spite of Japan's powerful dynamics for development, there are many vulnerable points in the Japanese economy. Japan has neither sufficient natural resources nor such an enormous domestic market as the United States. Though sophisticated in applied sciences, it lags far behind the United States and even some European countries in basic sciences.

3. South Korea, Singapore, Hong Kong, and Taiwan, classified as the newly emerging industrial countries and territories because of their swift development, have not up till now in fact formed their independent economic dynamics, as they still rely

to a very great extent on the U.S. market and investment. Their economies cannot even bear comparison with those of some small West European countries.

4. The ASEAN member countries other than Singapore have all made some economic progress. Nevertheless, judging from their industrial structure, product mix, and foreign trade, none as yet has been able to graduate from the status of material supplier.

5. Though China possesses tremendous potential and its economy has developed at a high rate during recent years, it remains a developing country with a rather low average income as a result of its backward foundation and big population. And its average output value will still be rather moderate even after it has quadrupled its production by the end of the twentieth century. The true prosperity and affluence of China will not materialize until the middle of the next century. Consequently, any statement to the effect that the "rising Asian-Pacific region" will supersede "declining Western Europe" is definitely not well grounded. Neither do I consider it fit and proper to prophesy the replacement of the Atlantic region by the Pacific as the new global political-economic center. Ever since human society came into being, its development has been multicentric, not monocentric. This phenomenon has never been truer of the world than today. The Asian-Pacific region can only be said to have the *possibility* of becoming one of the new world's centers. Those viewpoints that treat a certain region as the sole global center have been disproven by the facts of the historical developments of human society and the reality of the present world.

THE SUPERPOWER STRUGGLE FOR MILITARY SUPERIORITY IN ASIA AND THE PACIFIC

The top Soviet leader has changed three times since 1982. After his appointment as General Secretary of the Central Committee of the Soviet Communist Party, Mikhail Gorbachev has expressed his desire for a major improvement in Sino-Soviet relations and a willingness to ease Soviet-U.S. relations, while at the same time laying stress on the continuity of Soviet policies. People are waiting with great interest to see whether substantial readjustments will be made in Soviet foreign policy after Gorbachev assumed the leadership of the Central Committee of the Soviet Communist Party. Needless to say, no serious scholar will ever base his or her judgment on mere declarations or speeches, but on actual facts. Taking into consideration all the facts of recent years, we can only conclude that the Soviet Union has continued reinforcing its military buildup in the Asian-Pacific region in order to carry out its southward thrust policy.

In the course of last year, the strength of the Soviet Pacific Fleet was further increased to two aircraft carriers and twenty-four nuclear submarines (one third of the total number of Soviet nuclear submarines). Soviet strategic and theatrical nuclear power in the Far East has also been strengthened again; the number of SS-20 medium-range missiles has increased to more than 135. The Soviet base that has Petropavlovsk as its center has become a strategic missile base as well as a missile-carrying nuclear submarine base aimed directly at the continental United States. The

completion and operation of the second Trans-Siberian railroad has ameliorated the logistic supply of Soviet troops in the Far East and heightened their mobility.

Particular attention should be paid to the permanent military base the Soviet Union has constructed in Vietnam's Cam Ranh Bay, where bombers, fighters and reconnaissance planes, marines, and a subfleet comprising some twenty ships are stationed. This deployment has smashed U.S. efforts to lock up the Soviet Pacific Fleet in the Japan Sea and has given the Soviet Union an advance position from which it can threaten the Strait of Malacca and monitor the U.S. presence in the Philippines, Guam, and Japan. In April 1984, Soviet marines and Vietnamese army units jointly carried out landing maneuvers with several Soviet ships including the aircraft-carrier *Minsk* participating, thus fully revealing the USSR's strategic offensive intentions in this region. Boggled down as it is in the quagmire of the "Vietnam-style war" in Afghanistan, the USSR goes on sending troops there in a bid to change its passive position. It has been reported that Soviet troops in Afghanistan were increased from 115,000 to 140,000 in 1984.⁶ This demonstrates that the USSR has not and will never relinquish its scheme of utilizing Afghanistan as an important passage and a base in realizing its southward expansion strategy.

Confronted with the expansion of Soviet military forces in the region, the United States has quickened the adoption of its Asian-Pacific strategy and the realignment of its Asian-Pacific front with a view to perpetuating its military predominance in the Pacific. Since its military power there is no longer adequate to take on the USSR by itself, the United States now places greater emphasis on the employment of its political and economic advantages, the coordination of military operations with its allies, and the reestablishment of the control line between North-east Asia and the Indian Ocean so as to protect the strategic sea passage of the West and stop Soviet expansion. The Reagan administration's new military strategy in this region is that in the event of any conflict, the Soviet warships should be "contained" in their home waters. For the last year the United States had made some headway in reinforcing its Asian-Pacific military deployment. The U.S.-Japanese-South Korean "cooperation system," which forms the front line against the USSR, has come into *de facto* existence in the wake of President Reagan's visit to Japan and South Korea. The United States has begun to arm its Seventh Fleet with "War-Axe" Tomahawk missiles and deploy F-16 fighter planes carrying nuclear weapons in the Mizawa base of Japan.

The U.S.-ASEAN relationship is becoming increasingly intimate. The United States, Japan, Canada, Australia, and New Zealand send either their foreign ministers or representatives to the ASEAN annual conference, turning it, in this way, into an important arena in the coordinated actions between the United States and both its direct and indirect allies in containing the USSR. In May 1984, the United States, Japan, Canada, Australia, and New Zealand jointly conducted Pacific rim military maneuvers on an unprecedented scale. Since the Labor Party came into power, New

⁶ Associated Press, London, December 27, 1984.

Zealand has forbidden U.S. warships carrying nuclear weapons from entering its harbors. This step, though not yet fatal to the U.S. overall anti-Soviet strategy, has created a crevice in the ANZUS alliance, one of the buttresses of the U.S. anti-Soviet front line. Assessed in its totality, the U.S. strategic position in the Asian-Pacific region has bettered somewhat during the past year.

With the aggravation of U.S.-Soviet competition and the escalation of their arms race, Asia and the Pacific have in fact turned into another confrontation area, second in importance only to Europe with the heavy military presence of the superpowers. Subsequent to shooting down of the South Korean airliner over the Soviet Far East in 1983, the incident of the crash between the U.S. carrier *Kitty Hawk* and a Soviet nuclear submarine, and the incident of the Soviet carrier *Minsk* firing flares onto a U.S. escort vessel took place successively in March and April, 1984. The occurrence on the high sea of events so similar to traffic accidents on highways adequately reflects the seriousness and acuteness of military confrontation in this region.

It should be especially pointed out that Vietnamese expansionists have stepped up their aggressive war against Kampuchea and have occupied the bases of the tripartite forces of the Democratic Kampuchean Coalition Government. The Vietnamese strategy is to close the Kampuchea-Thailand border and cut off passage across it, first to prevent resistance forces from receiving military supplies and then to divide and destroy them. Meanwhile Vietnam is further sowing discord in order to disrupt the Democratic Kampuchean Coalition Government, to disintegrate ASEAN, to impair ASEAN-Chinese relations, and finally to coerce the international community to accept a political settlement of the Kampuchean problem in accordance with its own proposals—in a word, to realize its dream of a Great Indochina Federation. For this purpose, Vietnam has stepped up its harassments of the Chinese and Thai borders concurrently with the intensification of its aggressive war against Kampuchea. Obviously, its aggravating expansionist actions have been supported by the Soviet Union. The escalation of Vietnamese aggression and expansion has not only worsened the plight of the Indochinese people, it has also become a prominent factor threatening the peace and stability of Southeast Asia in particular, and of the Asian-Pacific region as a whole.

The intensification of the U.S.-Soviet rivalry and the escalation of their arms race in Asia and the Pacific is a reflection of the region's enhanced strategic position as well as a result of U.S.-Soviet contention on a global scale. Nevertheless, the focus of rivalry of these two superpowers still resides in Europe. Their competition in recent times has chiefly centered on the scramble for nuclear supremacy, as is highlighted by the question of the development of medium-range nuclear weapons in Europe. This circumstance further proves there has been no change in terms of the focus of their rivalry. It is only because of the direct presence of such powerful military blocs as NATO and the Warsaw Pact countries, each of which possesses enough nuclear weapons to annihilate the other several times over—in addition to the division of the European spheres of influence at the Yalta conference—that a nuclear stalemate has been formed there. A war in Europe will necessarily have repercussions on the United

States and the Soviet Union proper, and this condition, therefore, excludes the possibility of either side's taking any rash measures.

On the other hand, in view of its huge geographic size and unbalanced development, far more complicated circumstances exist in the Asian-Pacific region. Since the Vietnam War and the Watergate incident, U.S. influence in this region has been visibly reduced. The old order of U.S. domination has been shattered, while no new order has been fully established in its place. Rapid in economic development but malleable in political structure, with regimes in many countries undergoing transition or reform, the Asian-Pacific region allows a great deal of room for the two superpowers to vie in. The enhancement of the Asian-Pacific position in the world economic picture during recent years has especially invited the United States and the Soviet Union to extract economic benefits from the region. As a result, starting from their respective global strategies, both sides have tried to acquire and maintain superiority there. The further aggravation of their confrontation and rivalry constitutes the main cause for the continual presence of tension and turmoil in the Asian-Pacific region.

PROSPECTS FOR REGIONAL DEVELOPMENT: AN EVALUATION

Characterized by a complicated economic and political situation and an entanglement of divergent goals, the Asian-Pacific region can be regarded as one in which all the conflicts of the present world are concentrated.

Here the conflict between East and West is embodied, for Asia and the Pacific constitute a strategic area, second in importance only to Europe, for which both the United States and the Soviet Union are scrambling.

The North-South conflict also exists here. Despite the complementary aspect of the economic relationship between developed and developing countries, the unequal relations between South and North as dictated by the old international economic order is still in evidence.

Between the two developed countries in the region—the United States and Japan, political and military allies as they are—there exists a deep economic conflict, leading at times to radical friction. Perhaps this phenomenon may be categorized as a North-North conflict.

Various conflicts are also to be found between and among the developing countries in the region. In particular, the persistent expansionist and aggressive actions of the Vietnamese hegemonists have made Indochina one of the outstanding hot spots in the world.

Lately, Sino-American relations have been somewhat improved, and Sino-Soviet relations are somewhat less strained. This is of course in line with the interests and the wishes of the Chinese, American, and Soviet peoples. However, because the United States government has not actually abandoned its "one China, one Taiwan" policy, the obstacle to the steady and sustained development of Sino-American relations has not yet been eliminated. Though the Soviet government has time and again expressed its willingness for a major improvement of Sino-Soviet relations, up to now it has refused to show any flexibility regarding the removal of the three main

obstacles (Soviet occupation of Afghanistan, Soviet stationing of mass troops along the Soviet-Chinese border and in Mongolia, and Soviet backing of the Vietnamese occupation of Kampuchea); the Soviet military threat to and encirclement of China has continued to be a most grave reality.

Undoubtedly, the future development of Asia and the Pacific will be decided by the interaction, counterbalancing, and unfolding of all these intricate and complex conflicts, making a specific prediction extremely difficult, if not entirely impossible. In any event, the following general evaluations may be inferred from the postwar development trends and reality of the Asian-Pacific region:

1. On the basis of postwar political and economic developments, and especially as a result of the victories of the postwar national liberation movements, a number of centers have come into being independently of each other in the Asian-Pacific region. Both in the region and worldwide, Japan has come to wield considerable economic power in the West, second only to the United States; it is endeavoring to follow up by becoming a political power as well. ASEAN, playing a significant role in developing regional economy and safeguarding regional security, has gathered momentum as a mainstay in the preservation of Southeast Asian stability. Australia is uniting with the South Pacific islands to organize a South Pacific island nations' group with New Zealand and itself as a center. China, persisting in its independent and peaceful foreign policy, is becoming a stabilizing factor in the region. To observe the principle of independence and self-determination and to develop national economy is characteristic of the main direction all Asian-Pacific nations have taken.

Under these circumstances, the days are over when a single power could monopolize the whole Asian-Pacific region. Though the United States has recently come out in favor of a "return to Asia," the restoration of the monopoly in Asia America enjoyed during the postwar period is out of the question. Covetous as it is to control the Asian-Pacific region as a replacement for America, the Soviet Union finds its ambition hard to gratify, for it has neither the might nor the needed political popularity. Japan has time and again declared that it has no intention of reestablishing a "Great East Asian Co-Prosperity Sphere." In fact, it is unable to do so. Some hold the view that the Soviets will take every advantage of the transition of governments or reforms in some Asian-Pacific countries to make trouble or to augment its own influence there. We certainly ought to be on guard against this kind of danger, but we should not magnify it. It is utterly erroneous, and extremely detrimental in practice, to attribute all demands for reform by the local people to foreign interference and instigation. In the foreseeable future, the Asian-Pacific region will continue its process of multipolarization, with each individual nation further inclined toward independence and self-determination.

2. The intensification of the superpowers' confrontation and rivalry in the Asian-Pacific region is fraught with the danger of war. But in a broader sense, this contest for influence is an inseparable part of U.S.-Soviet rivalry on a global scale. Fully aware of the destructiveness of future wars, both the United States and the USSR have tried to avoid any head-on clash despite their white-hot scramble for power globally. All Asian-Pacific countries, with the exception of expansionist

Vietnam, are opposed to war and hope to build up their countries in peaceful surroundings.

The Korean peninsula, once very tense, has shown signs of relaxation as a result of North Korea's initiative and the positive attitudes of South and North Korea. So long as all regional peace-loving nations and peoples unite with each other and resolutely combat hegemonism, the maintenance of lasting peace and stability in the Asian-Pacific region will be more than just a probability. Of course, new and unforeseen local troubles, chaos, or even wars are not impossible. If handled properly, however, they will not cause general disorder or a large-scale war.

3. By virtue of its enormous population, rich natural resources, brave and hard-working people, and possession of the most promising market in the world, the Asian-Pacific region has a great potential for economic development. Provided hegemonist and expansionist actions are curbed and the situation of comparative stability is maintained, it is possible for the regional economy to keep up its rapid development in the period to come. Another side to the picture emerges, however, when we take into consideration the rise of trade protectionism in developed countries, the loss of interest in orders for goods processed with a cheap labor force because of the adoption of robots and automated systems, and the tightening of controls over the transference of new technology, all of which will surely create new difficulties for some developing countries and areas, including the newly emerging industrial ones.

The key to the solution here rests with whether the regional developing countries are able to adapt their strategies in time to changing conditions, and whether the United States, Japan, and other developed countries are willing to take the long-term view in seriously improving North-South relations. If the Asian-Pacific developing countries and territories can maintain their vigorous economic development, it will be of great benefit to the economic development of the developed countries as well as to the peace and stability of the region. In this sense, a substantial improvement in North-South relations can be regarded as the crucial factor guaranteeing the stability, security, and economic development of the region.

China is a Pacific country. Absorbed in the realization of the Four Modernizations program, the Chinese people wish for an international environment of lasting peace and stability, and the Pacific Ocean as literally an Ocean of Peace. China resolutely seeks sustained peace and stability for Asia and the Pacific. We are firmly against the arms race between the superpowers in the Asian-Pacific region, against the Soviet invasion of Afghanistan, and against the Vietnamese invasion of Kampuchea. We hope that there will be a steady and constant development in Sino-American relations, and an improvement in Sino-Soviet relations. It is equally our hope that American-Soviet relations will relax. We are willing to join hands with all peace-loving countries in the region and devote ourselves to the opposition of hegemonism, the safeguarding of peace and security in the region and the world, the strengthening of friendly cooperation among the Asian-Pacific countries on the basis of the five principles of peaceful coexistence, and the promotion of economic development in the Asian-Pacific region and the world as a whole.

3. Pacific Rim Trade and the U.S.-China Connection

Benjamin Ward

East Asia is arguably the world's most dynamic region. It is growing more rapidly than other regions, is adapting rapidly to technical change occurring elsewhere, and is the world leader in generating high-quality, low-cost products using those new technologies. These traits are not restricted to a single country, nor to a single economic system, nor even to a single set of "optimal" economic policies. It is not really true, as a wit once suggested, that "In East Asia everything works, elsewhere nothing does!" but effective processes of modernization are an extraordinarily pervasive feature of the area.

This paper describes and assesses the role that international trade and trade policies have played in East Asia. Trade is the most basic form of international cooperation. It often precedes formal ties between countries, and its growth usually leads to an expansion of cooperative arrangements of many kinds. Trade too has been growing more rapidly in East Asia than elsewhere and has unquestionably played a vital role in the more general economic success. It has also spawned a variety of cooperative agreements related to further economic growth and stability and to international security. Trade represents the structure of day-to-day relationships that supports the development and continuation of these perhaps more fragile "superstructure" arrangements. Certainly changes in trade patterns have often had traceable political influence, as students of major twentieth-century wars can attest. So, in a sense, understanding trade patterns and their prospective changes is a first step toward understanding international patterns of political cooperation and conflict.

Two countries are of special interest for this paper. The United States has been a major force in shaping international trade in East Asia. It is one of the two major trading partners of half the nations of the region. East Asia has become of increasing importance to the United States over the last quarter of a century at the same time that its importance to the region as trading partner has increased substantially. China, on the other hand, has played a much smaller role in East Asian trade. Even today China ranks sixth among the countries of the region in terms of volume of trade, even though

it has the second largest industrial plant and gross national product. But Chinese policies have recently been oriented toward a substantial expansion of that role. And both China and the United States have been moving toward closer cooperation on a number of fronts. What do the changes in the roles of these two major actors on the East Asian scene bode for future patterns of regional economic trade and cooperation? That is the second theme of this paper.

The next section of the paper summarizes some key elements of the patterns of world and regional trade that are relevant for our topic. That is followed by several sections outlining trade-relevant properties of the major countries and groups of countries in the region. A final section ties the discussion together with special reference to the nature of, and prospects for, U.S.-China relations.

A note on the definition of the region: By "East Asia" we refer to China, Japan, the "Asian Gang of Four," the ASEAN countries (which means occasionally counting Singapore twice), North Korea, Vietnam, and Australia. Occasionally the other smaller countries of Oceania will be included and, once or twice, so will Burma, the nations of the Indian subcontinent, and Soviet Siberia. Unless explicitly noted, the narrow definition is the one in use. By "Pacific Rim" we mean the countries just listed plus the United States. Though by geographic right Canada and the nations of Latin America that touch the Pacific should also be included, they are still of relatively small importance to regional trade and will be excluded.

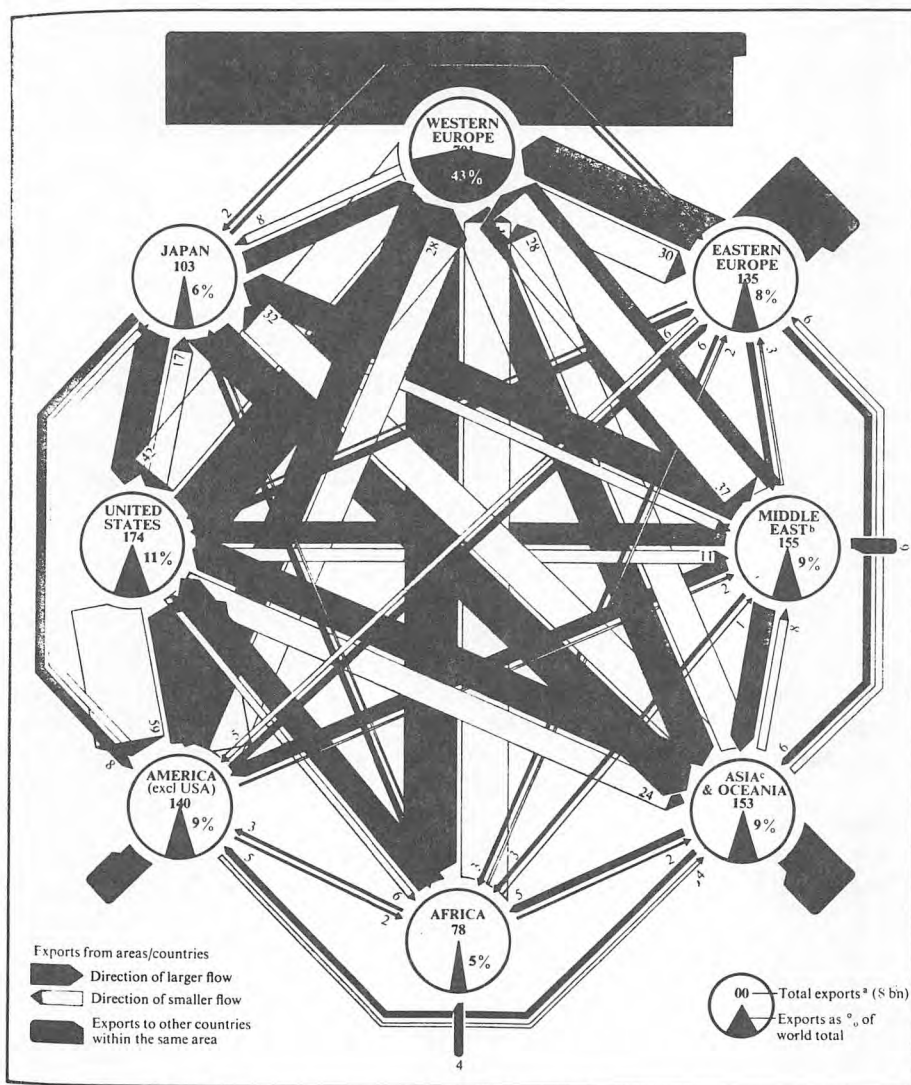
THE STRUCTURE OF EAST ASIAN TRADE

East Asia is, as is well known, the world's largest major geographic region when the measurement is in terms of population. It has four times the population of Europe without the COMECON (or Eastern bloc) countries, and four times the population of the Americas without the United States. Because of its rapid growth, some may be surprised by its current relative size when measured in terms of economic output. East Asia's gross national product is now over 60 percent of Europe's and, even with Japan excluded, is at about the same level as the Americas without the United States. Its output is over twice that of either Africa or the Middle East. Relatively speaking, East Asia is not only dynamic, but big.

Furthermore, East Asia is rich in resources. Though a net importer of oil, its energy prospects are very good. Much the same applies to supplies of the basic metals—iron, aluminum, and copper—and to most other commodity inputs. For several of these, including iron ore and bauxite, adding Australia to "East Asia" turns the region from a net importer to a net exporter. The region is a net grain exporter, and in recent years its basic food production relative to population has been increasing. Primary education is relatively widespread, and in a number of countries the pool of secondary- and college-educated is near the top among the world's regions.

Figure 1 provides an overview of the regional pattern of world trade. Eight trading units are defined, with the Pacific Rim represented separately by the United States, Japan, and "Asia and Oceania" (the expanded definition of East Asia excluding Japan) which, taken together, account for 26 percent of world exports, as the

Figure 1.
World Trade: Main Sources and Destinations^d
(\$ bn, 1979)



*Total includes special categories, etc., whose destinations could not be determined. ^bMiddle East here includes also Cyprus and Turkey. ^cExcluding Japan and Middle East. ^dExcluding exports of Zimbabwe, trade between East and West Germany, and inter-trade of communist countries of Asia.

SOURCE: The Economist, *The World in Figures*, 1981, p. 48. Reprinted by permission.

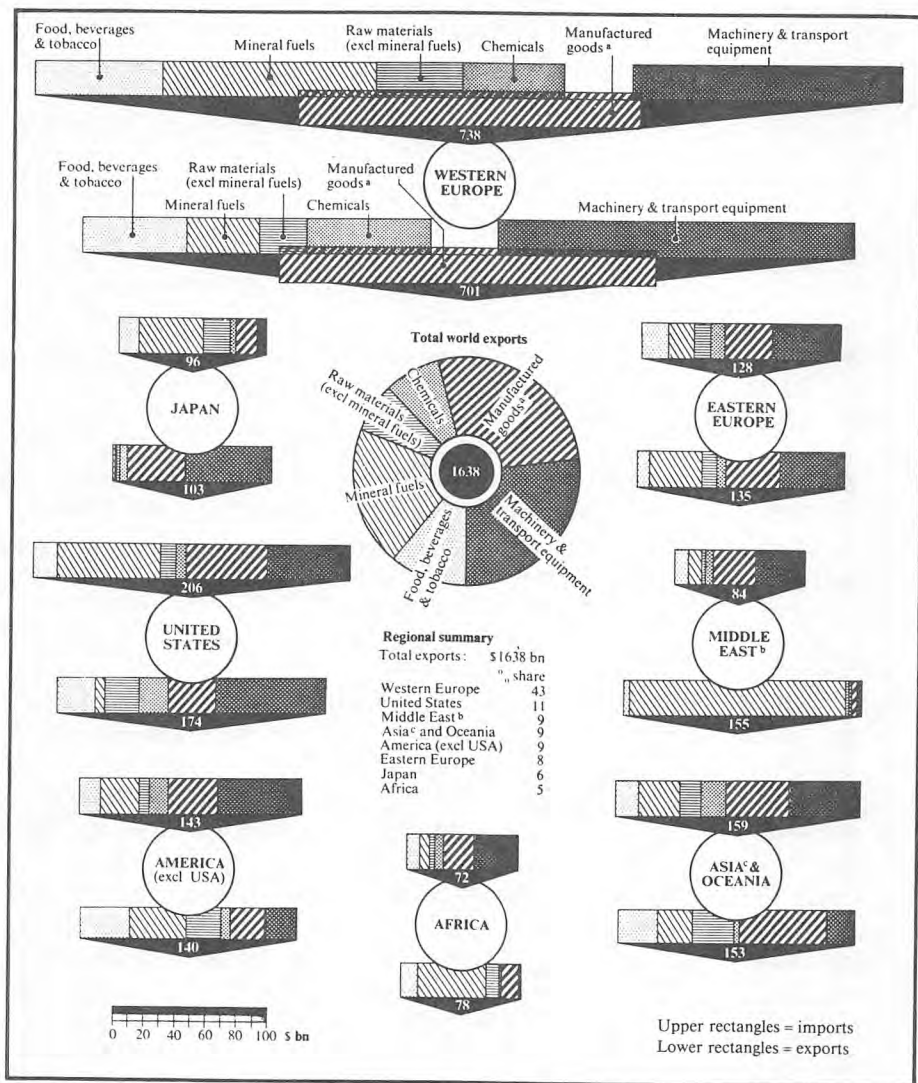
percentage figures within the circles indicate. The other number within each circle represents the sum of the dollar value of exports (in 1979) of each of the countries represented by the circle (e.g., US\$153 billion for Asia and Oceania). The width of the arrows is proportional to the value of exports to the region of destination, with the dollar value printed at the end of each arrow (e.g., US\$32 billion for exports from Asia and Oceania to Japan). The folded-over arrows outside the octagon of regions depict the total value of intertrade, that is, the exports from the countries of the region to one another (e.g., of the total of US\$153 billion of exports by Asia and Oceania, US\$39 billion represent exports by these countries to one another).

Figure 1 illustrates a well-known fact about developing countries: they tend to do very little trading with one another. The arrows connecting Third World regions are all skinny and so are the folding arrows representing trade internal to the regions. However, the developing countries of East Asia are already moving away from this situation, at least relatively. The Third World export ratio of Asia and Oceania is 37 percent, almost twice that of America (excluding the U.S.), almost three times that of Africa, and well above even the oil-rich Middle East. This was true, though to a lesser extent, a generation ago, and so probably reflects partly the region's geography (especially the importance of sea trade). It is also partly a consequence of the existence of the two entrepôt city-states, Hong Kong and Singapore, whose trade with China and Malaysia respectively represents a substantial portion of the difference. But it also reflects a fundamental aspect of modern economic growth, namely, the tendency for international interdependence to grow with the economy. So the internal trade is partly a consequence of the region's economic success.

A related feature of world trade is the strong tendency of Third World countries to trade with developed economies. Indeed, over two-thirds of Third World trade has First World destinations. Furthermore, this trade tends to be focused on the major developed country of the region. In a somewhat muted form, this is true of East Asia as well. Four of the major countries of the region do more than half their trading with the United States and Japan, and eight of them more than a third. The pattern of these trade dependence ratios is similar to that between the United States and the other states in the Americas. There is one important difference, however: In East Asia there are two major developed countries, each with very different trade policies and patterns of exports and imports. Other regions face a single major developed country (Western Europe, whose EEC customs union dominates the figures, presents a mostly unified face to individual Third World countries). As Figure 1 shows, trade by Asia and Oceania is fairly evenly split (55 to 45) between Japan and the United States. This diversity may provide a major opportunity to avoid some of the more unpleasant consequences of economic dependence.

Figure 2 shows the regional structure of world trade in 1979 by major commodity groups. The total value and structure of imports is shown in the bar above each of the eight circles, with similar information for exports below. The interior circle shows the overall world structure of exports. Asia and Oceania share with other developing regions a tendency to import a lot of manufactures (machinery and transport equipment plus manufactured goods, which includes textiles and electronics as major

Figure 2.
World Trade: Main Imports and Exports^d
(\$ bn, 1979)



^aExcluding machinery and transport equipment; including trade not separately distinguished ^bMiddle East here includes also Cyprus and Turkey ^cExcluding Japan and Middle East
^dExcluding exports of Zimbabwe, trade between East and West Germany, and inter-trade of communist countries of Asia

SOURCE: The Economist, *The World in Figures*, 1981, p. 49. Reprinted by permission.

components), the share running to 50–60 percent of imports. As far as exports are concerned, Asia and Oceania have moved much farther toward emphasis on manufactures (about 50 percent). This has been the trend as countries and regions move up the path toward modernization. Indeed, Asia and Oceania is close to the world share for these categories, which is impressive given First World dominance of the figures for international trade. But it is also a reflection of the dependence of developing East Asia on the textile and electronics industries for their export success.

Countries that use export growth as a major stimulus to domestic economic growth must of course find willing trade partners. The last quarter century has provided very clear guidelines for where to look, as the preceding paragraph indicates. East Asia has been fortunate in its relative access to two of the major trading countries. Currently, American plus Japanese imports amount to about 60 percent of First World imports (excluding European intertrade) and their average annual increment of imports a similar portion of that total. Furthermore, total Japanese imports are about 85 percent, and U.S. imports almost twice the total exports of Asia and Oceania. These figures are indicators of the opportunities that exist for the effective trader with the right goods to sell. Given all the barriers to trade that exist in the modern world, breaking in is not easy. But the last quarter century demonstrates that it is not only possible, but frequently accomplished.

East Asia is an ethnically diverse region. There are two respects, however, in which Chinese culture may play an important role in current economic affairs. China is the largest and, for much of history, the most powerful country in the region. It has not only played a major direct role in the region's political history, there has also been a very powerful cultural influence mixed into many of the region's societies. The consequences of this spectrum of influence are controversial (the Japanese economist Morishima representing a rather extreme version in his emphasis on the differential impact of Confucianism on Japan and China), but at least this history must make it a bit easier to achieve mutual understanding between nations, other things being equal.

Second, there is the existence of a large number (perhaps 25 million) of ethnic Chinese living abroad, particularly in Southeast Asia and the United States; and of course the populations of the two entrepôt city-states are predominantly Chinese. Their importance in the commercial and small-scale manufacturing sectors of their countries of residence has naturally led to foreign trade activities, and so to the establishment of a trading network of considerable importance to the region's intertrade. Though they have at times been a source of domestic disharmony, the expatriate Chinese remain an important human resource in the development of the trade network.

Transport costs are not a major cost of foreign trade, amounting on average to a few percentage points of the total price of a good. In a highly competitive market, however, those few points can make the difference between success and failure, and physical propinquity may have some additional advantages in terms of ease of contact among traders. East Asia's position in this respect is not unfavorable. For example, all of the region's major ports from Haiphong north are closer to the nearest Japanese ports than is any Pacific port of Latin America south of Mexico to the nearest U.S.

port, or any non-Caribbean port of the east coast of South America to the nearest U.S. port. Also, the East Asian ports from Shanghai north are no farther away from the nearest American ports than are such major South American ports as Valparaiso, Rio de Janeiro, and Buenos Aires. The flight times for travelers are even more favorable to most of East Asia.

In sum, East Asia has faced a relatively favorable environment for the development of international cooperative arrangements. The region is rich in resources, human and natural, is relatively favored geographically (except for trade with Europe), and has a well-developed commercial tradition. The region has had more than its share of wars and other forms of violent change, but that has not prevented it from leading the world in the processes of economic development and interaction over the last quarter of a century.

JAPAN

Japan has been a major engine of growth for most of the countries of East Asia. Her impact is reflected in the fact that she is one of the top two trading partners of every country in the Pacific Rim, excepting only North Korea, New Zealand, and the Soviet Union. Japan's economic growth rate began to accelerate about the time of the Korean War and remained over 10 percent per annum for a decade and a half. Even though in recent years growth has about halved, Japan is still the most rapid grower among the major industrial countries. Since her demographic transition was completed before the growth surge, her per capita growth rate of 6 percent over the last quarter of a century ranks her not only first among industrial nations but among the top half dozen in the world (most of her competitors also being East Asian).

Japan's lack of the raw materials required as inputs for a modern economy has had a substantial impact on her economic policies. A major function of the famous general trading companies (*sogo shosha*) has been to facilitate the stable and reliable acquisition of these raw materials on the world's notoriously volatile commodity markets. This has meant that Japan has spread her imports around among a great number of countries; Japan takes more than a fifth of her imports from no country and more than a tenth from only two (the United States and Saudi Arabia). The ability of the trading companies on one hand quickly to find the best bargains available on the market, and on the other to negotiate barter arrangements for Japanese (or other) manufactures where markets are controlled or absent, is a very important though as yet unmeasured factor in Japanese success.

In terms of foreign trade policy Japan has been somewhat schizophrenic, combining both import substitution and export promotion. This pattern, which is very common in East Asia and in the more successful of the newly industrializing countries, combines protection of the domestic market against foreign manufactures with various schemes and subsidies to make exports competitive. During the 1960s, the time of most rapid growth, the yen was probably overvalued, so that much of the export preference was actually a compensation for this self-inflicted handicap.

Of course, the domestic price of imported commodities benefited from the overvaluation.

Under pressure from the United States and the financial impact of the first oil crisis in 1973, Japan was forced to float the yen. From about the same time, also under foreign pressure, there has been a moderate movement in the direction of liberalization of the foreign trade regime. How significant these measures are remains somewhat controversial. The Japanese distribution system, capital market, and government procurement practices still present major obstacles to foreign penetration of Japan's markets. If the upsurge in protectionist sentiment around the industrial world survives the recent major recession, the Japanese may be forced once again to reappraise this range of policies, though it is probably Japan's extraordinary success in producing competitive, high-quality products that makes her vulnerable rather than her relative importance in the world's markets. As Figure 1 shows, Japan generates only 6 percent of the world's exports, half the United States' share and a small fraction of Western Europe's.

Figure 2 shows that manufactures, including machinery, constitute over 80 percent of Japan's exports, and that this is a unique level of concentration. Partly, of course, the reason is a negative one: Japan lacks mineral and agricultural wealth. But there are also two positive reasons, and they are probably the more important ones. In the first place, Japan has become the world's most adept country in terms of what is called the "second stage" in the product cycle. Product cycle theory argues that foreign trade shows a noticeable pattern of changing success among countries. The first commercial developer of a new product or production process reaps benefits for a time, but then tends to be replaced by industry in another country that is able substantially to cut costs and to carry out a continuing series of modest improvements in quality. This country's benefits continue until the importers of the product reach a level of domestic demand at which they can build competitive (given some protection) goods at home. Automobiles, motorcycles, small trucks, and various consumer electronics products all have moved along this cycle, and for all these goods Japan has been extraordinarily successful in exploiting the second stage of the cycle.

The second factor has been called by J. R. Hicks the "theory of commercial development." This theory relies on the idea of the S-curve, the logistic, in which the cumulative value of a variable, starting from zero, begins a slow growth, accelerates into a period of rapid growth, and then slows again to near zero growth as saturation approaches. Hicks argues that trade in any given commodity between two countries frequently follows this pattern. Consequently, a good rate of growth between countries can continue only if there is a frequent shift and expansion in the number of traded goods. The ability to find new markets is the key to continuing success in foreign trade. Once again, the Japanese have displayed extraordinary skill. Among the institutional arrangements that have facilitated this ability in commercial development the trading companies loom large, representing perhaps the world's best market information system. Also important, though more controversial, has been the support for traders and prospective trade goods provided by the Japanese government, both

through the Ministry of International Trade and Industry (MITI) and through its policies on savings and investment.

Historically, it has usually been true that foreign investment follows foreign trade. That has certainly been the case with Japan. As her trade has grown, she has increasingly tended to finance trade surpluses with foreign investment. In recent nonrecession years this foreign investment has reached levels of over US \$40 billion, and most of it has been funneled to her more substantial trading partners. If one views this development from the perspective of an individual product or process, it would seem that Japan is embarked on a policy of investing herself out of a market, for the investment is mostly in facilities that will eventually be capable of competing with existing Japanese plants. But in combination, the theories of the product cycle and of commercial development indicate the probable falsity of that impression. In a dynamic world, Japan will continue to find new products on which to exercise her powerful skills and in time will no doubt become an important actor in the first stage of the product cycle.

The development of foreign trade also depends heavily on the domestic structure of the economy. By the late 1950s, Japan already had a big enough domestic market to support a number of large producers of the key export goods. Despite the protection against foreign competitors, domestic competition no doubt reinforced the pressures of world markets to control costs and quality. A major advantage Japan possessed was the low wages and the low level of strikes in manufacturing industry. Also important was the relative youth of the population and the privatization of pensions. As the economy grew, low wages were the first of these factors to be eroded. The effect was a substantial shift during the 1970s away from the more labor-intensive export products. These activities were transferred abroad, mostly to other East Asian countries. At present, Japan is entering a period of rapid growth of the older population and strong political pressures to establish a system of social security like those in other industrial countries. This circumstance implies that over the next generation Japan's relative advantage in total labor costs will be still further and substantially reduced. Japanese competition will probably come to look increasingly like competition from Western Europe or the United States.

THE ASIAN GANG OF FOUR

In recent years Hong Kong, Singapore, South Korea, and Taiwan may well be the most intensively studied set of developing countries in the world. And with good reason, since they may also be the most successful developers of the post-World War II era. All have had growth rates of 10 percent or more for over a decade and all are in the top half dozen nonoil exporters over the last quarter century in terms of per capita growth. The growth has affected most segments of their societies positively, and though a good deal of poverty still exists, the relatively substantial distribution of the benefits of growth to the poorer segments of the population contrasts sharply with the more unequal growth process in Latin America and Africa.

None of the four has important mineral exports, sharing this trait with Japan. Of

course, the two city-states are also without significant agriculture, while agriculture is an important part of the domestic economies of the other two and was an important source of export earnings in the first decade of Taiwan's postwar growth. In those two countries, as in Japan, land reform and postreform policies played an important role in supporting both the rapid growth and the wide distribution of some of the benefits of growth. As is generally the case, as economic development has proceeded, domestic agriculture has been reduced relatively in importance. All these countries, including Japan, are now net food importers.

One of the most interesting features of this set of countries is the diversity of policies that have supported economic growth. Hong Kong from the beginning has been a laissez-faire economy, to the extent that during the 1950s and 1960s the government hardly kept statistics on capital flows through the economy. Supported at first by *entrepôt* trade, the economy moved steadily in the direction of adding domestic content to the trade goods. Government financial policy was classical: recessions were dealt with by raising interest rates and reducing government spending. The effect seems to have been relatively mild and short recessions. Foreign investment has always been tolerated and has been fairly important at times.

South Korea and Taiwan started with policies of import substitution, keeping the currency overvalued and providing incentives to substitute domestic production for imports at the expense of the export sector. By the early 1960s, both had switched to export promotion, though continued overvaluation of the currency meant that in Korea, at least, net export promotion was very small. American economic aid, important in the early years for both economies, was greater for Korea. Foreign investment was also more important in Korea; in its period of most rapid growth in the 1960s, net foreign private investment in Taiwan was close to zero. Foreign investment, much of it direct, was of central importance for Singapore, but much less important elsewhere. Attitudes toward debt were also quite different, with Korea letting its foreign debt accumulate and showing considerable tolerance for inflation, both in sharp contrast with Taiwan.

There are some important underlying similarities, however. For all four economies, the results of growth are comparable structures for exports and imports and also, though with more variation, for the domestic structure of industry. All have a high level of labor-intensive manufactures of relatively low technology intensity, all face the pressures of rising real wages, though Korea less so than the others so far, and all have achieved a considerable amount of "natural" import substitution as a result of the rapid growth of domestic demand. None of the countries is a problem with respect to international debt. All have experienced difficulties in shifting to higher technology production, something their economists and policy makers have been talking about for more than a decade. And all feel seriously threatened by the protectionist currents that have emerged in the developed world over the last decade.

Ties with the United States and Japan have been strong. Though there has been some trend toward diversification, both Taiwan and South Korea do half or more of their trading with these two countries (for Hong Kong it is about a third; for Singapore, a quarter). Exports to Japan have played a relatively declining role,

probably because of the relatively more open economic environment in the United States. The special connection with the United States enjoyed by both Taiwan and South Korea has clearly been a major factor in the economic success of these two countries. But Japanese foreign investment has been growing in recent years, and, combined with the movement away from labor-intensive exports by Japan, these two factors illustrate an important indirect benefit provided by the Japanese connection. On the other hand, the success of the two city-states points to the role that domestic market environments, export orientation, and entrepreneurial spirit have played in the success of all four countries.

The relative roles of Japan and the United States in the growth of South Korea and Taiwan are worth some emphasis. These are usually regarded as the classic cases of export-led growth, and both have the advantages of lying close to Japan in terms of geography, culture, and previous economic relations. In the late 1950s, Japan received a dominant portion of their exports, over three-fifths in the case of Korea and almost two-fifths in the case of Taiwan. In both cases, there was a dramatic decline in Japan's share over the period of rapid growth of the 1960s and 1970s, to just over a fifth for Korea and only a seventh for Taiwan. The U.S. share, on the other hand, increased two-and-a-half fold to 30 percent for Korea and trebled to 35 percent for Taiwan. To the extent that their growth was in fact export led, the United States, not Japan, was the "engine of growth" for these two economies (and for Hong Kong as well). The role of the United States as the major growth node, incremental dollar terms, lack of foreign access to Japan's domestic market in manufactures, and the special political connection of each of these countries (and Japan, for that matter) with the United States are of central importance in explaining the relative roles of Japan and the United States.

In a recent book Mancur Olson has argued that periods of economic success have generally been preceded by an institutional shakeup that has destroyed or greatly weakened the organizations oriented toward redistributive or economically defensive activities, leaving the economic field free, so to speak, for production oriented activities. Each such economic upsurge is gradually weakened as the successful organizations turn toward defense of their acquired wealth or entitlements, and so a new shakeup is required every generation or so if economic development is to continue. All four of these countries, and Japan as well, endured such a shakeup in the 1940s or early 1950s. Their growth has been much lower since the oil shocks. Are the redistributive forces coming to the fore again and so threatening continued progress? As yet, I would say they are far from dominant, nor do they seem to be an important factor in the worldwide slowdown, except insofar as the oil shocks required the world economy to adjust to a massive redistribution in favor of the Middle Eastern oil producers. But redistribution is a factor in the political adjustments required by the increasing productivity and increasing scarcity of labor in these economies. So far, the vulnerability of these economies to the recent sharp slowdown in the growth of world trade has been surprisingly low, and their response to a change for the better unsurprisingly swift. But all of the NICs share a certain economic fragility as more and

more of their eggs are put in the basket of exports of trade goods of increasing demand volatility.

THE ASEAN COUNTRIES

The ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) excluding Singapore are primarily raw material exporters and importers of finished goods. Moderate levels of economic growth have been achieved over the past two decades (though Indonesia's period of growth did not begin until the later 1960s), but population growth rates above 2 percent have kept per capita growth of gross national product at a little over 4 percent for three of the countries and less than 3 percent for the Philippines. Income inequality is substantially higher than for the "Gang of Four" or Japan, but somewhat lower than in the typical Latin American developing countries. A measure of the welfare of the poor, the infant mortality rate, displays considerable variation. Malaysia, at one end of the spectrum, ranks with some of the better Latin American performers, such as Chile and Uruguay, on this dimension, while Indonesia's rate is still over 100, ranking with the poorer Latin performers such as Nicaragua and Bolivia.

There is considerable diversity in the economic policies pursued by the ASEAN commodity exporters. The Philippines is a classic case of import substitution orientation and is the poorest economic performer in the region. An overvalued currency and other policies produce a concentration of import-intensive economic activities in Manila and a handful of other urban centers. Movement toward export promotion has been noticeable in the 1970s, but insufficient to prevent a recent debt crisis, the only major one in the region. As a result of these past policies and the fiscal austerity required to obtain new loans from the International Monetary Fund, the Philippines was the only country in the region to suffer a decline in output during 1984.

At the opposite end of the spectrum is Malaysia. Rich in rubber, tin, oil, and timber, located on one of the world's great commercial arteries, the Malacca Straits, Malaysia has been oriented toward export promotion from the beginning. Malaysia has the smallest population of the four—less than a tenth of Indonesia's and less than a third of the population of the other two—and her ports are strung out along a good portion of her length. Consequently, the benefits from the growth of trade have been spread more evenly and more rapidly through the population. The fact that Malaysia has been an oil exporter over the last dozen years has been a major help, but the help was somewhat limited: crude oil exports have accounted for around a fifth of her export earnings. So Malaysia is the region's classic case of successful export-led growth.

Industrial policy has proved to require diverse responses among these nations and has been hampered by the uncertainties inherent in the world market environment of the last dozen years. Indonesia has embarked on several major industrial development programs, mostly associated with the country's oil and gas wealth, but the resources are concentrated in a few areas, especially the north coast of Sumatra, and

the benefits are not widely shared by other regions. Both Indonesia and the Philippines being, geographically speaking, two collections of islands and not especially rich in major ports, face special difficulties with regional development, while at the same time regional equity is a major political desideratum. Ethnic diversity complicates still further the problem of spreading the effects of growth. The persistence of protectionist policies has, by reducing the total gains, served to magnify these difficulties.

Ties to the United States and Japan are strong, especially so for the Philippines and Indonesia. Each imports about half its goods from these two countries; the Philippines exports over a half and Indonesia about two-thirds of its goods to the two. This high degree of dependence has its consequences; for example, the recent recession hit harder and lasted longer in the Philippines, for whom the United States is the number one trade partner. It is probably no accident that the two poorest economic performers in East Asia are also the two countries with the highest dependence on trade with Japan and the United States. Though South Korea and Taiwan are not far behind on this dimension, the much greater variety of goods traded by the latter two significantly reduces the actual level of dependence.

Being lower in the growth spectrum and still able essentially only to export commodities, these four are the most vulnerable of the Pacific Rim countries to changes in world market conditions, and trade is sufficiently important to them that this vulnerability no doubt plays some role in the higher level of political uncertainty and instability. Nevertheless, the ASEAN countries' ability to survive the great economic shocks of the 1970s points to underlying strengths. These remain countries with a good deal of capacity for further economic growth, given reasonable policies and some luck.

Australia, too, is a commodity exporter, but has an advanced industrial nation's standard of living and income distribution. Australia may represent a case of successful pursuit of a policy of moderate import substitution. Growth has been relatively slow in the postwar period, though about average for the English-speaking developed countries. But Australia has moved steadily toward integration with the Pacific Rim in its trade and now does about 40 percent of its trade with Japan and the United States, and about a quarter with East Asia. This realignment can be expected to continue. New Zealand's growth pattern is similar, but less so. With a quarter of the level of Australia's foreign trade, Australia looms much larger in New Zealand's trade horizons and East Asia smaller (less than one-fifth). Both countries have experienced a major shift away from trade with the British Commonwealth, and particularly with the United Kingdom, with Japan taking up most of the slack and the United States taking up most of the rest.

THE THREE ISOLATES

North Korea, Vietnam, and the Soviet Union are three East Asian countries with very restricted economic ties to the rest of the region. Vietnam has little more than one-tenth of the foreign trade of its neighbor Thailand, and North Korea not

much more than one-twentieth of that of South Korea. Both do about 40 percent of their trade with the Soviet Union, with China ranking second for the former country (with one-fifth), and Japan ranking next for each country (with one-tenth or more). Food, textiles, and nonferrous metals are the exports, with commodities dominating.

With its substantial agricultural and limited mineral resources, and a population similar in size, Vietnam might be expected to become a developing country on the lines of its neighbors, Thailand and the Philippines. Of course, dramatic changes in economic policies, and some years of transition, and even then the very rudimentary state of Vietnamese industry would place her at a considerable relative disadvantage. But since there is no evidence of any substantial movement in this direction, Vietnam's position in East Asian trade does not seem to be worth much comment at the present time.

North Korea is more interesting, since serious efforts seem to be underway by a number of the relevant political actors, including the country's own leadership, to bring her into more developed trading relations. The North Korean economy, with a generation of apparently very rapid industrial growth in an environment of extreme isolation for a country of such modest size (roughly, the same population as Malaysia but with a much smaller resource base), is a problematic international trader. North Korea's mineral industry seems to have been slowing down in recent years, and with little marketing experience and an inflexible economic system she faces very intense competition in areas such as steel products or textiles. Some failures to make payments on the external debt have already had a negative impact on North Korea's trade with Western Europe. In sum, even assuming the existence of the necessary political will, North Korea has little prospect of becoming even a significant trader, in comparative East Asian terms, over the next decade.

The Soviet Union has massive unexploited resources in its Siberian region. Coal, oil and gas, copper, and asbestos have been most frequently cited as the resources to be brought under early exploitation. The opening this year of BAM, the new Baikal-Amur trunkline running to the north of the Trans-Siberian railway, is a major and long-awaited step in this direction. At least during periods of relative détente, Soviet commentators have emphasized the eastward orientation of development plans, particularly for East Siberia. The economics of East Siberian resource development suggests that a Pacific orientation is more cost effective for these resources than attempting to move them westward toward existing Soviet industry.

But there is still a long way to go. The Soviet Union's foreign trade is, in dollar terms, about 60 percent of Japan's. Among the Soviet Union's top fifteen trade partners, East Asia is represented only by Japan, which absorbs about 3 percent of Soviet trade. The Soviet Union's trade with East Asia is about equal to the total trade of the Philippines, or about half that of China. Costs and technical difficulties are very great, involving operations in a climate and general environment rather like that of the Alaska pipeline. Furthermore, the Soviets have had little success in attracting foreign investment to the region so that, partly as a consequence, none of the major projects is close to completion. Indeed, it is not yet clear that even the 1990s will see any dramatic increase in Soviet commodity exports through Siberian ports.

In sum, in terms of Pacific Rim trade the Three Isolates are likely to remain isolates, economically speaking, for some time to come, almost irrespective of any changes that might occur in the political climate.

THE UNITED STATES

The United States shares about one-eighth of world trade. This is a misleading figure, however. Since most developing country trade is with First World countries, the focus for major trade expansions has had to be on the industrial countries. And in growth-node terms, as noted earlier in this paper, the United States plays a more central role than the one-eighth figure suggests. In the 1970s, annual American dollar increments in imports were twice the Japanese increments and about three-fourths of Western Europe's. Soviet imports expanded very rapidly during the period (over 8 percent annually) but in dollar-increment terms were only two-thirds of the American figure.

A second factor in appraising sources for developing country exports is the structure of trade. In this respect Japan is unique. A country looking for prospective markets for manufactured goods finds that the Japanese have the lowest share of manufactures in their imports of any country in the world. Over half of American imports are manufactures, which is two and a half times the Japanese proportion and far above Western Europe's. During the 1970s, for every dollar increase in Japan's imports of manufactures, the United States added five dollars worth of manufactures to its imports. The combination of competitiveness and protectionism achieved by the Japanese is particularly discouraging for East Asian nations seeking regional export expansion.

Studies of the nature and competitiveness of American trade indicate, as one would expect, that manufactured imports tend to be goods that are produced by labor-intensive techniques, while American exports tend to be skill-intensive and research-intensive products. Over the last two decades there appears to have been some decline in the competitiveness of a number of American products, in the sense that unit costs of production relative to other trading countries have tended to increase. The Japanese have tended to move more swiftly out of labor-intensive production activities as their domestic labor costs have increased. Once again, this circumstance has served to make the United States a more attractive target for exporters of manufactures.

These factors represent underlying trends that have played an important role in the relatively slowly changing patterns of trade during the 1960s and 1970s. The past two years, however, have brought about a unique and dramatic change in the nature of world trade, one that may make the underlying patterns in merchandise trade less relevant in understanding future trade prospects. I am referring, of course, to the recent changes in the American current account.

The recent world economic recession was the sharpest of the postwar period, producing dramatic and durable increases in unemployment in most of the First World. Beginning two and a half years ago, the United States led the way out of

recession, but the response in other developed countries was relatively weak. This led to an acceleration of the strengthening of the dollar against other major currencies that had begun in 1980. The process was magnified by budget deficits and accompanying high interest rates in the United States. Foreign funds flocked to the United States to take advantage of the high interest rates, the profits boom, and the expectation of future economic success.

From the point of view of foreign trade, the effects were a stagnation of the dollar value of American exports and a 40 percent increase in the dollar value of imports over the past two years. The \$100 billion increase in imports, combined with an even larger trade imbalance (currently running at over \$100 billion annually) provided a unique opportunity for foreign traders and their economies. Over half of the increase in (non-COMECON) world trade may be a product of this stimulus. Japan was, of course, a major beneficiary, as were the "Gang of Four" countries; benefits to ASEAN were more modest. This represented a fivefold increase in the annual dollar increment of American imports over the average increase of the later 1970s. Furthermore, the share of manufactured goods in the increase in imports did not decline.

It is too early to understand the significance of these developments for future trading patterns; two speculations may be in order, however. First, it is easier to stay in a market than to break into it. The foreign traders who have established footholds and expanded market shares in a wide variety of product markets in the United States have achieved an advantage over other tardier competitors. This is especially true for manufactures where product differentiation is more of a factor.

Second, there is an impact on American domestic markets. The massive influx of goods has been an important factor in holding down inflation in the United States. This enforces a more competitive and cost-conscious attitude on broad segments of American industry. The stimulus may well be enough to turn the American economy right around in terms of longer-run trends in relative competitiveness.

How long will the import boom and the strong dollar last? Forecasts are notoriously unreliable in this area, and the current situation is truly unique. Something can be said, however, about a few of the relevant factors. It seems clear that the American budgetary deficit will remain large for at least several years. This effect will keep upward pressure on interest rates and will provide some direct stimulus to the demand for goods, both domestic and imported. In the absence of some economic catastrophe such as war or international financial collapse, these forces should keep the dollar relatively strong and the American market both relatively attractive and receptive.

In the shorter run, the surpluses generated abroad by the American "deficits boom" are stabilizing, easing the pressure on debtor nations facing domestic austerity measures and on the international banking system. And to the extent that the surpluses are financed by direct investment in the United States, they supply further fuel to the growth of the American economy.

Most of the vast store of dollars acquired abroad, however, has been sunk into shorter-term debt, and particularly into U.S. government securities. This is a notor-

iously volatile segment of the financial sector and adds to what has been called the "commoditization" of international money; the risk of sudden dramatic changes in dollar exchange rates is increased. And over the longer run, the United States will presumably have to make some substantial adjustments in the structure of its balance of payments to accommodate its new status as a net debtor with respect to its international assets. Factors such as these substantially cloud the crystal ball.

CHINA

The Chinese economy exhibits the dualism associated with the process of economic development to a greater degree than perhaps any country in the world. China ranks seventh in the world in terms of Western estimates of gross domestic product and clearly ranks in the top ten in terms of the value of industrial output. Nevertheless, three quarters of her population is still rural in location and occupation. Much of Chinese industry still lags technologically, and technical and engineering skills are extraordinarily scarce for such an industrial plant.

China's foreign trade, however, is not so easily classified. Large, resource-rich countries typically have relatively low trade ratios (the ratio of the value of exports and imports to the value of domestic output), though trade involvement has been increasing for most countries over the past quarter century. China is at the low end of this scale with a ratio of .15. This circumstance is reflected in the fact that in terms of the dollar value of foreign trade, China ranks sixth among East Asian countries, barely higher than her world ranking in terms of output. Newly industrializing countries have used foreign borrowing as a major tool in their modernization; in China, except for a brief episode in the late 1970s, foreign borrowing still plays only a minor role. Industrializing countries have been economically volatile, their rates of growth varying with the international business cycle; China has probably not been less volatile, but this has been a consequence of domestic policy changes and problems of implementing policies rather than a reaction to the ups and downs of the world market. In the world recession year of 1982, China was probably the world's most rapidly growing economy. "Unique" is the word for China's foreign trade system.

China's exports are only about 6 percent of the exports of East Asian countries. In prospective terms, this is an advantage in that even a substantial expansion of Chinese trade would not entail a dramatic change in China's relative position in East Asia. That is all the more true given the relatively rapid rate of growth of East Asian exports compared to other regions. Furthermore, Japan-China trade has been growing relatively rapidly; Japan is China's leading trading partner, and China has recently moved into third place among Japan's trading partners. The China-Japan connection is a very natural one. It is based on propinquity, on the complementarity in factor mixes (labor-intensive and resource-intensive versus skill-intensive) and on comparative advantage with respect to products (oil and minerals and textiles versus machinery and complex semifabrics). It would be natural for this share to increase further, and perhaps the major constraint on future China-Japan trade will be a

Chinese desire for some diversity among her trading partners. As has already been suggested, the past history of Japan's trade with other East Asian countries indicates that this might be a wise move.

Three possibilities exist for a very substantial increase in the volume of China's foreign trade, one that would change her relative position among the world's—or East Asia's—trading nations. One possibility is for a dramatic increase in the availability of oil and petroleum products (or of other primary materials) for export. A second is for China to take advantage of her low labor costs and become a major exporter of labor-intensive manufactures. A third is for China to exploit her position as the developing world's most attractive borrower to finance a major trade expansion.

The third possibility, excluded by current Chinese policy, may well be the prudent move. The first possibility, it appears, will not become reality at least over the next half-dozen years. The disappointing results of early exploration for offshore oil and the substantial infrastructure demands of substantial expansion of onshore production point in this direction. China's plans for rapid growth of her already large industrial establishment makes her a major consumer of minerals, and other mineral exports do not play a major role in her current export structure. Recent successes in agriculture reduce an important segment of imports, which saves foreign exchange but not by enough to change China's relative position in the world's foreign trade.

This leaves the second possibility, namely, a dramatic expansion of manufactured exports. This segment of China's trade has been growing relatively and amounts currently to about a third of exports. As Figure 2 suggests, there is certainly room for expansion, since China's share of manufactures in her exports is still somewhat below that of the Americas (with the exception of the U.S.) and well below the 50 percent figure for Asia and Oceania. Furthermore, some of China's East Asian competitors for this trade, particularly Japan and the "Gang of Four," are facing substantially rising labor costs. Finally, it is an area of foreign trade where countries in the past have succeeded in swift and dramatic increases in their exports, breaking out of the patterns of the past with a vengeance. The examples mentioned earlier serve in this context as well. Though it will obviously not be easy to achieve, the second possibility cannot be excluded.

THE CHINA-U.S. CONNECTION

U.S.-China trade has grown rapidly but erratically over the past decade, but the United States, though it is currently China's third ranking trading partner by dollar volume, still holds only a tenth of China's trade, while China has barely 1 percent of U.S. trade. In good trading years Chinese imports have been dominated by agricultural products (wheat, cotton, and soybeans, in that order). These imports have been quite volatile, partly for political reasons, partly because of China's varying needs. Machinery, plastics, fertilizers, and paper products have played a smaller but more stable role. America's imports have been dominated by various textiles and clothing products, with petroleum products and a variety of chemicals a somewhat distant second and third.

Two developments, which were unexpected by many, have put something of a damper on the prospects for any substantial increase in the share of China trade held by the United States; these are the possibly durable decline in Chinese demand for agricultural imports, and the possibly extended postponement of substantially more petroleum exports. The major constraints to further trade now seem to be: (1) China's ability to absorb a large influx of either goods or investment; (2) the American ability to negotiate appropriate deals; and (3) China's ability to provide goods suitable for the increasingly competitive American market.

Having tested the limits to its absorptive capacity in the late 1970s and finding that very rapid absorption of foreign goods and investment was very wasteful, China has now adopted a much more modest program of growth for the next planning period. Because of the volatility of world markets in recent years, this trend may not be easily discerned in the trade statistics for the 1980s: China's dollar-volume trade grew rapidly in 1980, stagnated for two years, and grew rapidly again in 1983 and 1984. Trade for 1984, however, was less than 20 percent above the 1980 level, so average growth over this period was quite moderate.

America's share of China's trade actually declined during the 1980s, with Japan being the beneficiary. We have already discussed some of the reasons for this effect, but there remains a major difficulty in China trade for Americans, namely, their difficulty in adapting to the special conditions of China trade. The Japanese general trading companies have provided an expert interface between Japanese producers and Chinese agents, which has proved to be a major advantage for both parties. Relations of trust can be established and maintained with principals on both sides of the fence, and knowledge of the unique and rapidly changing conditions governing China trade can be specialized in a small number of agencies. The American trading enterprise has not yet organized itself in a way that is competitive with these Japanese organizations.

There are comparable, and perhaps even more serious, problems on the Chinese side. The problem is reflected in the Chinese reaction to the unprecedented American import boom of the past two years. China did not take full advantage of this major opportunity. Exports to the United States fell in the second half of 1983, largely as a result of fruitless Chinese retaliation for enhanced American enforcement of some discriminatory textile import controls. Exports for 1984 did increase by about US \$1 billion to \$3.5 billion. Partly as a consequence, China's share of American imports had not changed significantly as compared with 1980, in striking contrast to the levels achieved by some other East Asian countries, and despite the low level from which the exports were expanding. As noted, the reasons were partly political. But probably more fundamental is the very limited ability of Chinese foreign traders to respond rapidly to changing opportunities on the world market. The decentralizing and liberalizing of foreign trade activities has already gone some distance but will have to go much farther if, for example, China is to utilize its comparative advantage to expand substantially its manufacturing exports. This is a ferociously competitive market; to succeed, the trader must have up-to-date information and be able to respond swiftly both in pricing and in adaptation of products and technologies. China is not yet institutionally prepared for such activities.

The United States and the People's Republic of China have a variety of common interests. Trade is certainly one of them, and expansion of that trade is to the advantage of both. There have been disagreements in the past, and there will be disagreements in the future. Both, for example, must find a way to weather the protectionist storm that is currently sweeping the world's politics, though it is being countered at the moment by the extraordinary current openness of the United States to foreign goods. A reasonable prognosis is that, as time goes on, successful trading will breed not only more trade but greater mutual understanding of the unique problems facing each nation.

NOTES

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THE STRUCTURE OF EAST ASIAN TRADE

Data on the relative size of regions is taken from World Bank (1984, 218–219, 222–223). In what follows, the terms “Europe” and “Western Europe” refer to all countries in the region that are not members of COMECON.

Figures 1 and 2 and the data on trade structure (shares held by various countries and groups) are taken from *The Economist* (1981; the reference is not to the news magazine but to a volume of data collected by the same organization. Figures 1 and 2 appear on pp. 48–49 of this volume; individual country data are taken from the relevant sections of the work). They are estimates for the year 1979, which might reasonably be called the last “normal” year we have had in international trade (though there was a major oil price increase that year, its impact was not strongly felt in these figures until the following year). For some countries, especially North Korea and Vietnam, they are little more than guesses. Data on earlier trade structure are taken from a reconstruction of Figure 1 for 1960 (or the nearest available year), based on United Nations, World Bank, and International Monetary Fund (IMF) publications cited in the bibliography. These are also the sources for most of the data in Figures 1 and 2. There are serious reliability problems with much of the data on the flow of goods between countries, but these data will probably support the relatively crude use to which they are being put here.

The 37 percent figure for Third World trade would be reduced by only one or two percentage points if China’s pure (i.e., with no value being added in Hong Kong) re-exports through Hong Kong were reassigned on the basis of their final destination.

On the relative importance of Japan and the United States in East Asian trade, if Australia is excluded, East Asian exports to the two countries are about equal in 1979; in fact, using United Nations estimates, the United States receives about 10 percent more of East Asia ex-Japan’s exports than does Japan. As one moves either forward or backward in time from the late 1970s, the American role increases relative to Japan. It is worth noting that 1979 was the last year in which, by IMF count, transatlantic trade exceeded transpacific trade in dollar volume.

Data on raw material resources are taken from *The Economist* (1981, 29–34) and U.S. Central Intelligence Agency (1980, 4, 9). Comparative education and health data are collected in World Bank (1984, 256–267).

The figure for overseas Chinese is a guess taken from *The Economist* (April 28, 1984, 80f.). For an alternative appraisal to Morishima’s, see Perkins (1975).

Data on distances between ports are taken from U.S. Naval Oceanographic Service (1964, various). Aerial travel to East Asia is favored additionally by the greater volume of East-West, as opposed to North-South, traffic, and by a more favorable distribution of major cities within the region as compared to Latin America.

JAPAN

In this and the following sections, basic trade data is taken, unless otherwise noted, from *The Economist* (1981), World Bank (1984), and IMF (1984). Japan's economic performance over the postwar period is appraised in Patrick and Rosovsky (1975); foreign trade is analyzed in Krause and Sekiguchi (1975, 1980).

For an analysis of the role of the trading companies, see ARTEP (1981). The standard American work on MITI is Johnson (1982). Japanese fiscal and financial policies are appraised in Ackley and Ishi (1975) and in Wallich and Wallich (1975), respectively.

For a comparison of trade and foreign investment practices of Japan and the United States, see Roemer (1975). For factors influencing Japan's competitiveness, see Patrick and Rosovsky (1975).

THE ASIAN "GANG OF FOUR"

For comparative data on income distribution, see World Bank (1984, 272–273).

For an analysis of the movement of these two countries and Japan toward net import of food, see Fei, Ranis et al. (1982).

Analyses of the development process in these countries in the context of foreign trade can be found in Lee (1981), Galenson (1979), Adelman and Robinson (1978), and Little (1981).

It should be noted that Olson (1982) believes that the recent slowdown is indeed partly caused by a general movement in the direction of redistributive government policies worldwide.

ASEAN

Studies of economic policies and development in these countries include Garnaut (1980), Krause (1982), Wong (1979), and Glassburner (1984). Australia's role in East Asian trade is given special attention in Garnaut (1980).

THE THREE ISOLATES

Vietnam's trading volume and economic structure are described in *The Economist* (1981, 180) and in Theriot and Matheson (1979). North Korea's recent trade record is described in Kawai (1983).

The BAM project and Siberian resource potential are described and appraised in Shabad (1979). The opening of BAM and immediate prospects are reported in *Far Eastern Economic Review* (December 6, 1984, 91f).

THE UNITED STATES

For a nice survey of postwar American foreign trade, see Branson (1980). A major and detailed study of the relative competitiveness of America's trade goods is U.S. Department of Labor (1980); see also Roemer (1975).

The “deficits boom” is too recent to have provoked scholarly analysis as yet. The facts are reported in various places; recent updates appear in *The Economist* (February 23, 1985) and the *Wall Street Journal* (March 1, 1985).

CHINA

I am relying on Western, and particularly World Bank, statistics in describing the Chinese economy, since these are constructed with a view to providing comparability with the data available on other economies. Recent accounts of China’s foreign trade in dollar terms have appeared in Davie and Carver (1982) and *The Economist* (February 16, 1985, 65f.). The more recent statistics come from IMF, *Direction of Trade Statistics*, February 1985, and *Far Eastern Economic Review*, February 28, 1985, 94f.

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4. Multilateral Lending Agencies in East Asia

Thomas B. Gold

INTRODUCTION

My first trip to Latin America was a week in Mexico in August 1982. That turned out to be the week that the international repercussions of Mexico's foreign debt crisis galvanized the United States and multilateral lending agencies into taking concerted action to rescue debtor and creditors.

Since then, there has been a stream of articles in the press as well as scholarly and political journals on the debt crisis, its effect on developing and industrialized countries and on commercial banks. At the center of the debate are the multilateral lending agencies (MLA)—the International Monetary Fund (IMF) and World Bank (WB)—and regional development banks such as the Asian, Inter-American, and African Development Banks. These agencies style themselves as policemen and regulators who will pull the world through this mess. Other observers see them as part of the problem itself: maintaining an unequal world capitalist system as tools of the Western powers and Japan and their banks and transnational corporations; propping up corrupt authoritarian regimes that oppress the masses to do the capitalists' bidding; or, as metastasized international bureaucracies, throwing unending amounts of the West's money at incompetent and corrupt states who are building socialism and are hostile to those who feed them.

This is far from an academic debate. At a time when the United States faces a severe budget crunch with an administration and Congress hostile to concessional aid and state capitalism, and when mobs in the Sudan are marching on the American Embassy which they take as a symbol of the IMF-imposed austerity program that is lowering their standard of living, the role and existence of the MLAs hangs in the balance.

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So far the center of crisis has been in Latin America and Africa. Although East Asia—north and south—has not escaped, with one glaring exception the problems seem solvable within the framework erected by the MLAs. This paper will examine the role of the MLAs in East Asia in terms of their role in helping those countries adjust to the global debt crisis and stimulate further development. I will introduce the agencies, explain why they have emerged as major global actors in the past half-decade, and describe some of their activities in East Asia, focusing on China, South Korea, and the Philippines. I will argue that, despite the agencies' global approach to solving the economic crisis and American advocacy of support for the private sector, MLA programs will probably strengthen states and their role in the economy, with the potential of reviving the mercantilist economic nationalism they were originally created to prevent.

THE MULTILATERAL LENDING AGENCIES

The multilateral lending agencies both reflect and reinforce increased global interdependence and the international division of labor. Severe problems in the routine functioning of this world system offer opportunities for MLAs to restructure and redefine relations and roles of participants based on the agencies' ideology of how the system should work. They are not impervious to influence from individual powerful actors and their own role can change as a result.¹ Though nominally financial institutions with a limited mandate, especially in times of crisis at the system level and within countries the ideologically inspired actions of the MLAs have repercussions beyond economic matters that extend to political and social spheres as well.

In this section, I will review the mandate, organization, and evolution of the International Monetary Fund, the World Bank, and the Asian Development Bank (ADB) up to the second oil crisis of 1979–80 and the subsequent global recession, which gave these agencies both the opportunity and the incentive to assume a resurgent assertive posture.

The International Monetary Fund

The IMF was born of the postwar desire and determination of a number of countries to create a new international monetary order and to prevent the recurrence of the beggar-thy-neighbor economic nationalism that helped cause the Great Depression and World War II. Delegations of forty-four nations and a representative from Denmark met at Bretton Woods, New Hampshire in July 1944 to create an institution that would: (1) devise and administer a code of conduct to guide international monetary activities such as exchange rate policies and payments on current account transactions, with "the par value system of 'fixed but adjustable' exchange rates"² at

¹ See Robert O. Keohane and Joseph S. Nye, *Power and Interdependence* (Boston: Little, Brown, 1977).

² Cheryl Payer, *The Debt Trap* (New York: Monthly Review Press, 1974), p. 23.

its core; (2) provide financial resources to enable members to correct temporary balance of payments deficits while adhering to the code; (3) serve as a forum for members to discuss and collaborate on international monetary matters.³ The expansion and steady growth of world trade were overarching objectives.

The IMF, based in Washington, D.C., commenced operations in March 1947. The Fund itself determines who is entitled to be a member, and as of November 1984, membership totaled 148 countries. The USSR, which participated at Bretton Woods, did not join. Each member has a quota, expressed in Special Drawing Rights (SDR), a new asset created in 1969, initially valued at US\$1 and based on gold, but since January 1, 1981 based on a weighted basket of five currencies (U.S. dollar, Deutsch mark, yen, French franc, and pound sterling). Its value against the dollar appreciated to a high of US\$1 = SDR 0.741074 (or, SDR 1 = US\$1.34929) on October 30, 1978, but returned to virtual parity in the fall of 1984 as the dollar's value soared.⁴

The quota equals the member's subscription to the Fund. It determines the member's share in allocations of SDRs, voting power, and maximum access to the Fund's financial resources. No less frequently than every five years, the board of governors must undertake a General Review of Quotas and propose adjustments. The most recent review, the Eighth, was adopted in March, 1983, effective December, 1983. After U.S. wavering, the board raised IMF quotas from approximately SDR 61 billion to SDR 90 billion, an increase of 47 percent.⁵ Quotas are based on gross domestic product (GDP) and average external reserves. The United States had 33 percent of the voting power in 1946; this declined to 19.3 percent after the Eighth General Review.

Most of the IMF's resources come from members' subscriptions. Since the Eighth Review, members pay 25 percent of their share in SDRs, other members' currencies prescribed by the Fund, or in a combination. The remainder is paid in the member's own currency. The Fund can also borrow as needed from any source. The Eighth Review modified and enlarged the General Agreements to Borrow and completed an arrangement to borrow from Saudi Arabia totaling SDR 18.5 billion.

What is in effect "borrowing" from the IMF is called a "purchase" or "drawing," as the member buys currencies or SDRs from the Fund in exchange for its own currency and does not thereby reduce the total amount of Fund resources. After a limited period, the member "repurchases" its own currency with SDRs or other currencies.

A member can draw from different funds.⁶ It can draw from its "reserve tranche," the excess of its quota over the Fund's holding of its currency in the General Resources Account, with the obligation to explain its balance of payments need,

³ Paraphrased from International Monetary Fund, *The International Monetary Fund: Its Evolution, Organization and Activities* (Washington, D.C., 1984), which is a summary of six objectives of the IMF as contained in the first article of its charter (hereafter *IMF*).

⁴ *IMF Survey*, October 29, 1984, pp. 321, 333.

⁵ *International Monetary Fund Annual Report*, 1984, pp. 74-75.

⁶ Based on *IMF* and Manuel Guitián, *Fund Conditionality: Evolution of Principles and Practices* (Washington, D.C., 1981).

although the IMF cannot challenge this statement. This is called “low conditionality.” There are no charges or repurchase requirements for the reserve tranche.

Stricter conditionality applies to the subsequent four “credit tranches,” each equaling 25 percent of a member’s quota. Various charges are levied on the purchase of these credit tranches. A member can make a “standby arrangement” for a line of credit that it will be able to draw on up to a specified amount for a year or longer without a further review of its performance and policies. Eight quarterly repayments begin after three years and three months.

The extended fund facility, with repurchases beginning in four and a half years and lasting a further six, was established in 1974 during the first oil crisis to help members adjust to structural factors such as production and trading patterns. Drawings are phased over the period of the program and may reach 140 percent of quota. A member must present a broad program indicating how it will correct structural weaknesses to develop its foreign trade sector. It then prepares subsequent progress reports and annual programs.

The compensatory financing facility was set up in 1963 to finance temporary balance of payments difficulties resulting from temporary export shortfalls for reasons beyond the member’s control. It was intended mainly for primary commodity exporters facing problems caused by large fluctuations in demand and prices. Repurchases are made three to five years after the drawing. The maximum purchase is the amount of calculated shortfall up to 83 percent of quota.

As numerous countries experienced serious payments imbalances from the late 1970s, the Interim Committee, set up in 1974 to advise on adjustment and management of the international monetary system, established a “supplementary financing facility” for 1979–82. It involves “enlarged access” (95–115% of quota annual limits, 280–345% over three years, 408–450% cumulative) to facilitate longer-term access to more resources available under the regular facility in order to carry out comprehensive structural adjustment programs. They are subject to the same conditionality as the upper credit tranches. Repayment is to be made within four to ten years.

Finally, to assist developing countries, there are separate funds administered by, but legally separate from, the IMF. These include the oil facility (established in 1974) and the Trust Fund (1976). They offer resources on extremely concessional terms. The latter is for members already in standby or extended arrangements subject to “high conditionality.” They carry a 0.5 percent annual interest rate and are to be repaid in five to ten years.

A great deal of controversy has arisen over “conditionality,” defined as “a pragmatic and flexible body of policies and procedures . . . to govern the use of its resources in a manner that will fulfill the prescriptions of the Articles of Agreement.”⁷ These policies and procedures must be compatible with the member’s own interests as well as those of the entire Fund membership, as determined by the IMF in line with the changing global environment. In its early days, there was a debate over “automaticity” versus “management” of access to Fund resources, resolved in favor of the latter.

The overriding rationale is that “external payments imbalances have to be

⁷ Guitián, *Fund Conditionality*, p. 1.

corrected whenever they are not transitory or reversible.”⁸ A “viable balance of payments” for developing countries

typically means a current account deficit that can be financed, on a sustainable basis, by net capital inflows on terms that are compatible with the development and growth prospects of the country and, therefore, its debt-carrying capacity. The provision of resources by the Fund extends the period of adjustment and thereby makes the process less severe than it would otherwise be.⁹

IMF high conditionality usually emphasizes controlling the level and composition of demand. Control of inflation and attaining price stability are prime goals. These involve measures to: implement a nominal currency devaluation; set a ceiling on total domestic credit expansion and credit for the public sector; liberalize trade by limiting import restrictions and encouraging exports; raise public utility rates to market levels; improve the efficiency of public enterprises.¹⁰ Creating a good investment climate that facilitates private foreign capital inflows is implicit in this policy.

Obviously, devising and overseeing an adjustment program interjects the Fund into the domestic policymaking of a given country’s economy. The nature of the conditions has repercussions extending to the society and polity as well.

From 1947 to 1958, as the richest and strongest country, the United States managed the international monetary system. It deliberately encouraged an outflow of dollars to boost international liquidity. Bilateral aid programs, war, and aggressive American imports facilitated this process and also furthered America’s geopolitical containment strategy. By 1958, Europe and Japan had recovered; in 1960, the United States ran a deficit. From 1959 to 1971, the Bretton Woods system actually operated as intended. Subsequent internationalization of banking and production facilitated monetary interdependence.¹¹ The system grew more rapidly than the ability to manage it, however, and after several crises in the late 1960s, compounded by U.S. withdrawal from leadership and cooperation symbolized by its surprise unilateral decision of August 15, 1971 that the dollar was no longer convertible into gold, the IMF led in the attempt to construct a new monetary regime. The 1973–74 oil crisis and subsequent dislocations resulted in the creation of the several facilities described above. The Second Amendment of the Articles of Agreement, agreed to in 1976, effective in 1978, incorporated the reforms that dealt with problems of both liquidity and adjustment, enhancing the role of the SDR and floating exchange rates.

The World Bank Group¹²

The Bretton Woods conference of 1944 also produced the International Bank for

⁸ *Ibid.*, p. 2.

⁹ *Ibid.*, p. 3.

¹⁰ John Williamson, “The Lending Policies of the International Monetary Fund,” in John Williamson, ed., *IMF Conditionality* (Washington, D.C.: Institute for International Economics, 1983), pp. 605–660, 623–629. Guidelines for attachment of conditions are given in *IMF*, pp. 37–42. See Payer, *Debt Trap*, note 2, for a criticism, especially pp. 32–40.

¹¹ On the forces of change at that time, see Joan Edelman Spero, *The Politics of International Economic Relations*, 2d ed. (New York: St. Martin’s Press, 1981), pp. 45ff.

¹² My main sources on the World Bank are: *World Bank Annual Report, 1984*; Robert L. Ayres, *Banking on*

Reconstruction and Development (IBRD). Also headquartered in Washington, it commenced formal operations in 1946 and had 148 members at the end of 1984. Bank membership is contingent on joining the IMF.

Members subscribe capital to the IBRD—10 percent “paid in” (1% in gold, 9% in its own currency) and 90 percent “callable”—but it finances its operations primarily through its own borrowings in international capital markets. The amount of capital subscription determines a member’s voting power. As of the end of the fiscal year 1984 (June 30), the United States subscribed 20.45 percent of total shares (11 billion SDR) and enjoyed 19.2 percent of total votes.¹³ The IBRD’s total authorized capital stock was SDR 71,650 million at that time.

The IBRD’s borrowers are more advanced less developed countries (LDC)—governments or government-guaranteed institutions—and repayment potential is an important criterion in approval. The interest rate on loans varies;¹⁴ repayment begins after five years and extends for twenty.

The Bank’s first priority after opening was the reconstruction of war-devastated Europe and Japan. Development in the Third World moved to the forefront only after this first task was achieved. In the IBRD’s view, development equaled aggregate economic growth. Its initial development loans were overwhelmingly to discrete infrastructural projects—transportation, communication, utilities—that could create the externalities necessary to stimulate what was, in its view, the real engine of growth—domestic and foreign private capital.

All loans were based on hard terms, with a borrower’s creditworthiness determined primarily by its debt service ratio (debt payments as a percentage of exports). Aid, concessional loans, and social overhead lending were avoided until the heating up of the Cold War and independence of numerous colonies put them high on the West’s agenda.

In 1960, the World Bank established a “soft window,” the International Development Association (IDA), in line with developing nations’ demands through the United Nations and elsewhere for concessional loans and to support America’s aggressive approach to development and poverty alleviation as an element in its anticommunist strategy.¹⁵ Despite some overlap with the IBRD, the IDA directs its loans primarily to the poorest nations as determined by per capita income (below US\$806 in 1982 dollars). More than fifty nations were eligible in fiscal year 1984. IDA loans, officially called “credits,” carry a service charge (0.75 percent a year) but no interest, and the maturity is fifty years. Only governments can receive IDA credits. By fiscal year 1984, 131 IBRD members had joined the IDA. Its funds come from subscriptions, general replenishments from the more developed members (reaching

the Poor: The World Bank and World Poverty (Cambridge: MIT Press, 1983); and Spero, *Politics of International Economic Relations*, note 11.

¹³ *World Bank Annual Report, 1984*, p. 178.

¹⁴ In January 1985, it was lowered from 9.89 percent to 9.29 percent. See Robert Manning, “Embarrassing Riches,” *Far Eastern Economic Review* (hereafter *FEER*), March 14, 1985, p. 58.

¹⁵ See James H. Weaver, *The International Development Association* (New York: Praeger, 1965).

agreement on the seventh replenishment for US\$9 billion to cover 1985–87 in 1984 was a cliffhanger), and transfers from IBRD net earnings.

To stretch its funds, the World Bank has entered cofinancing agreements with official, export credit, and private lenders. Official lenders have been most numerous, while export credit agencies have shied away, concerned with risks in the uncertain global economy.

The third member of the World Bank Group, which unlike the IDA has its own staff and is legally and financially separate, is the International Finance Corporation (IFC). Established in 1956, it targets the private sector of LDCs, lending funds to companies and taking equity positions as well. In 1984, its 125 members voted to double its capital to US\$1.3 billion.¹⁶ It both borrows from the IBRD and syndicates its own loans.

As a borrower itself with limited resources, the Bank has always made conditionality an integral part of its operating procedures.

A major change of focus took place during the tenure of former U.S. Secretary of Defense Robert McNamara as president, 1968–81. Bank funding increased dramatically, the institution's staff more than tripled and, especially after McNamara's address to the board of governors in Nairobi in 1973, the focus of lending shifted to alleviation of poverty, tying development with satisfaction of basic human needs. Absolute and proportional lending for agriculture, especially rural development, increased, as did loans for low-cost urban dwellings, small-scale industry, education, and health. The Bank became quite visible and controversial, assuming a reformist mantle in its approach to global problems. McNamara, castigated by the Left for his role in the Vietnam War, appeared to the Right as a "champion of the Third World" who ignored its shortcomings, foisted all blame for its failures on the West, neglected the private sector (and IFC), and built up the state sector.¹⁷ While still needing to maintain its own creditworthiness as a bank in need of funds, the World Bank saw itself more as a development agency, working out a strategy for growth with equity in its members. Its authoritative *World Development Report*, published annually since 1978, defines the main development issues at any time: adjustment, poverty alleviation, growth through trade, population control, agriculture, international capital flows, and so on.

From their inception, there was a clear division of labor between the IMF and the WB.¹⁸ The former maintained the stable functioning of the international monetary system via short-term deficit-correcting loans while the latter lent for long terms in support of development-oriented discrete projects. The IMF's global coordination responsibilities made it see the macropicture, while the Bank dealt with micro undertakings. The Bank's loans, by injecting capital into an economy, complemented the IMF's strategy.

Following the first oil crisis of 1974, but especially since the second one of

¹⁶ Melvyn Westlake, "A Lifeboat for the Private Sector," *South* (December 1984), pp. 65–66.

¹⁷ This list is from Robert M. Bleiberg, "More Debits than Credits," *Barron's*, March 25, 1985, p. 11.

¹⁸ See Williamson, "Lending Policies," note 10, pp. 617–621 and Guitián, note 6, p. 27.

1979–80 and attendant deep and prolonged global recession, the two agencies have stepped up their collaboration, and the distinction between their missions has blurred. The IMF has extended the term of loans, tightened its conditionality, and intruded into questions of domestic investment strategies as the Bank has broadened the scope of its target from projects to macrostructural adjustment, stressing export orientation to redress balance of payments deficits. These issues will be addressed later after a brief introduction to the Asian Development Bank.

The Asian Development Bank

In addition to global multilateral agencies, there are a number of regional development banks such as the Asian Development Bank, the Inter-American Development Bank, and the African Development Bank.¹⁹ The initial impetus for a regional bank to stimulate Asian economic growth came from Japan as early as the 1950s.²⁰ There were numerous false starts. Neutralist nations in the region were skeptical of an institution tied to particular blocs, as well as being fearful of falling under Japan's hegemony after long and bloody resistance. The United States was lukewarm. Not until the fall of 1964, with an expert group composed of Asians and organized by the United Nation's Economic Commission for Asia and the Far East, was a foundation laid. The final push came from President Lyndon Johnson in a speech at Johns Hopkins University in April 1965, offering a billion dollars if peace could come to increasingly unsettled Vietnam. Former World Bank President Eugene Black was chosen to push the program, which tied in with the embryonic ADB. After more conferences, twenty-one countries signed the formal agreement in 1965 and the ADB, with thirty-one members, opened for business at its headquarters in Manila in December 1966.

The Inter-American Bank (established in 1960) was part of America's Alliance for Progress, and the African Bank (1964) guarded its regional influence at the cost of scarce resources. The Asian Bank, with more nonregional developed members than either of its predecessors, perhaps characteristically for Asians, adopted a middle path in allocating voting power. Every member has a basic vote. These add up to 20 percent of total votes. The remaining 80 percent is divided by relative share of financial contribution. Of these, 40 percent go to nonregional members, 60 percent to regional members—which include major powers like Japan and Australia. As of December 31, 1983, the ADB boasted forty-five members: thirty-one regional, controlling 63.8 percent of votes including entitlements, and fourteen nonregional members, with 36.2 percent.²¹ This arrangement grants the twenty-eight developing member countries (DMC) more votes than they would have based on capital subscriptions alone.

¹⁹ For a comparison of these three, see Stephen D. Krasner, "Power Structures and Regional Development Banks," *International Organization* (hereafter *IO*), 35:2 (Spring 1981), pp. 303–328.

²⁰ My main sources on the Asian Development Bank are: *Asian Development Bank Annual Report, 1983*; Po-wen Huang, Jr., *The Asian Development Bank* (New York: Vantage Press, 1975); Michael Haas, "Asian Development Bank," *IO*, 28:2 (Spring 1974), pp. 281–296; and "Asian Development Bank," *Euromoney* (April 1984), pp. S1–12.

²¹ *ADB Annual Report, 1983*, pp. 114–115.

As in the World Bank, members' subscribed capital includes paid-in and callable components. Subscriptions plus the Bank's borrowings on the open market make up "ordinary capital resources." The board of governors authorized a third General Capital Increase of 105 percent in April 1983 to cover the period 1983–87. Including these additional shares, authorized capital stock as of December 31, 1983 totaled US\$15,461 million.²²

The ADB functions as "an intermediary between the capital markets and developing countries in its region, using the credit backing of the industrialized world,"²³ offering better rates than its DMCs could obtain commercially. Loans are made to governments or have government guarantees. The ADB refuses to consider debt rescheduling, although it has recently made some Special Assistance Loans and has supported certain programs, mainly to finance imports of production inputs.²⁴

Loan applications must meet criteria of return on investment and contribution to economic growth. The interest rate for loans, which is fixed, was reduced to 10.25 percent per annum in July 1984. Maturity is ten to thirty years, with a two- to seven-year grace period. Indonesia, South Korea, the Philippines, Thailand, and Malaysia have accounted for more than 86 percent of the ADB's ordinary loans.²⁵

Like the World Bank, the ADB arranges cofinancing with official, commercial, and export credit sources. In 1983, it initiated equity investments, focusing on development finance institutions as a means of assisting small and medium-sized private enterprises. Korea and Pakistan received the first two investments.²⁶ Over the years, agriculture and agroindustry have taken the most loans—nearly one-third cumulatively. Energy projects account for 25 percent. Development banks and transport loans took an additional 12 percent each, and social infrastructure about 15 percent. The ADB is a profit-oriented institution. In 1983, it earned \$179.6 million, 2.7 percent more than 1982, a 9.5 percent return on assets.²⁷ For every \$1 it lends, borrowers and cofinanciers match \$1.50.²⁸

In 1973, the ADB set up the Asian Development Fund (ADF) to provide concessional loans to the neediest DMCs, based on per capita GNP and debt repayment capacity. The Third ADF replenishment, ADF IV, authorized in 1982 for US\$3,214 million, is intended to cover the period 1983–86. ADF loans carry a 1 percent annual service charge and a forty-year repayment period after ten years' grace. They are interest free.

Bangladesh, Pakistan, Burma, Nepal, and Sri Lanka have taken the lion's share of ADF loans. Through a special fund, the ADB provides loans for technical assistance to DMCs, and it also conducts "regional activities" such as sectoral studies, symposia, and surveys.

²² *Ibid.*, p. 73.

²³ *Euromoney*, note 20, p. S7–8.

²⁴ *ADB Annual Report, 1983*, p. 58.

²⁵ *Euromoney*, p. S2.

²⁶ Paul Ensor, "The ADB's Adventure," *FEER* (February 16, 1984), pp. 64–65.

²⁷ *Euromoney*, pp. S3–4.

²⁸ *ADB Annual Report, 1983*, p. 9.

Although not the largest shareholder, Japan wields the greatest influence in the ADB. Its presidents, who serve five-year terms, have all been Japanese, and the lending policies reflect Japan's trading interests.²⁹ Procurement also favors Japan's industrial exports.³⁰

THE MLAS AND THE GLOBAL DEBT CRISIS

For the past five years, but especially since 1982, the MLAs have been constantly in the news as central players in the attempt to direct the world out of a morass of debt, recession, and political uncertainty.

We can trace the debt crisis to the economic boom in many LDCs during the expansionary 1960s and early 1970s.³¹ Governments took on more responsibilities for spearheading economic development as well as funding social welfare programs and subsidizing a range of services. Social groups with an interest in such subsidies grew, and politicians based in such groups emerged. The stigma formerly associated with deficit spending was removed. Many countries adopted import substitution industrialization (ISI) strategies and, as they developed, stepped up their import of foreign capital equipment and parts, relying on foreign loans and investment for funding. In a departure from prior practice, governments took on foreign commercial—as opposed to official—debt to fund resulting current account deficits. State enterprises and private interests, often with government guarantees, borrowed abroad as well. When the first oil crisis hit in 1974, the states were the natural bodies to borrow abroad to fund adjustment to new prices.

The oil price hikes brought tremendous amounts of money to oil-exporting countries, who invested some of their capital abroad and deposited some of it in the Euromarkets. Developed countries' demand for capital stagnated, but the booming LDCs—the dozen or so newly industrializing countries—needed capital to continue funding their rapidly expanding economies and social programs.

Over the same period, a revolution had occurred in banking as commercial banks went offshore to avoid tight regulations in the United States and elsewhere. They created new lending instruments such as syndications and floating rates to recycle "petrodollars" and fuel LDC growth.

Sovereign states became indebted to private banks. As inflation and inflationary

²⁹ Krasner, "Power Structures," note 19, p. 319. And see Robert Wihtol, "The Asian Development Bank: Development Financing or Capitalist Export Promotion," *Journal of Contemporary Asia* 9:3 (1979), pp. 288–309 and Dennis Yasutomo, *Japan and the Asian Development Bank* (New York: Praeger, 1983).

³⁰ Wihtol, pp. 296–298.

³¹ This discussion of the global debt crisis draws on: J. de Larosière, *The Growth of Public Debt and the Need for Fiscal Discipline* (IMF, 1984); Charles Lipson, "The International Organization of Third World Debt," *IO* 35:4 (Autumn 1981), pp. 603–631; Margaret Garritsen de Vries, "Historian Traces Origins and Development of Fund Involvement in World Debt Problem," *IMF Survey*, January 7, 1985, pp. 2–5, and January 21, 1985, pp. 18–20; Robert E. Wood, "The Debt Crisis and North-South Relations," *Third World Quarterly* 6:3 (July 1984), pp. 703–716; Pedro-Pablo Kuczynski, "Latin American Debt," *Foreign Affairs*, Winter 1982/83, pp. 344–364; Jeff Frieden, "Third World Indebted Industrialization: International Finance and State Capitalism in Mexico, Brazil, Algeria, and South Korea," *IO*, 35:3 (Summer 1981), pp. 407–431.

expectations soared, real interest rates declined or were even negative, falling below World Bank rates. Borrowers accumulated massive short-term debt as interest rates continued to rise, ignoring the long-term consequences of this fast track. The debts became harder to service and vital imports slowed along with economic growth.

Such deficits were neither cyclical nor caused by excess demand or overvaluation, as in the past. They were structural, and thus any solution had to be macro as well.³²

The amount of Third World debt skyrocketed, reaching US\$900 billion in 1984.³³ Debt service payments for nonoil-developing countries, which stood at US\$35.8 million in 1977, more than doubled by 1980 (US\$77.4 billion) and were projected to reach US\$107.2 billion by 1984.³⁴ For the same group, the debt-service ratio increased from 16.1 percent in 1977 to a high of 25 percent in 1982 before tapering off to a projected 21.7 percent in 1984.³⁵ Five countries—Mexico, Brazil, Venezuela, South Korea, and Algeria—accounted for over half of LDC Eurobank loans between 1976 and 1979.³⁶ Thirty-five countries were in arrears or default on debt payments by the end of 1982.³⁷ This debt pattern cuts across region, economic system, and form of political domination.

Global recession, a downturn in trade, debts coming due all at once, and newly wary commercial banks unwilling to lend and unable to regulate themselves all raised a spectre of widespread disaster that brought the MLAs, particularly the IMF, center stage. Only they had the resources, prestige, operating scale, and authority to impose conditions on debtors that would address fundamental problems in order to gain foreign exchange to pay off their debts and to convince private lenders to funnel additional monies to them.

The IMF's strategy has been a country-by-country approach in collaboration with all interested parties, usually via consultations at the Paris Club. It emphasizes adjustment, with a lesser stress on financing:

The objective of Fund-supported adjustment programs has been to achieve a viable balance of payments in the medium term and a more efficient use of scarce resources by introducing a number of incentives and measures to generate more domestic savings, more investment, and more exports.³⁸

Financing has involved the IMF's regular and special facilities described earlier, as well as the IMF coordinating financing packages put together by interested parties, including the World Bank. Responding to criticism that the IMF is bailing out commercial banks, Deputy Managing Director William B. Dale countered that it was

³² Williamson, "Lending Policies," note 10, pp. 612–613.

³³ *San Francisco Chronicle*, March 14, 1985, p. 36.

³⁴ De Vries, "World Debt Problem," note 31, p. 3.

³⁵ *Ibid.*, p. 3.

³⁶ Frieden, "Third World Indebted Industrialization," note 31, p. 411.

³⁷ Wood, "Debt Crisis," note 31, p. 703.

³⁸ De Vries, "World Debt Problems," note 31, p. 4. Also see Lipson, note 31, pp. 615–622 and, for a very clear explanation, *Finance and Development* (hereafter *F&D*), "Debt Rescheduling: What Does It Mean?" September 1983, pp. 26–30.

“bailing banks in” by encouraging them to make a deeper commitment to countries that agreed to IMF-supported programs.³⁹ The Fund thus plays both “certification” and “catalytic” roles.⁴⁰ This has induced new commercial lending and rescheduling of official and commercial debt. Other Fund activities to ameliorate the current crisis and prevent future ones include: strengthening its surveillance over members’ external debt; new technical assistance programs to help members monitor external borrowing; expanded compilation and publication of statistics on debt; and more detailed consultations.⁴¹

Beginning in 1980, the World Bank began a program of Structural Adjustment Loans (SAL) that overlap and complement the IMF’s financing activities but not its coordinating function. The Bank focuses more on “the efficiency of resource use in the productive sectors,” while the Fund concentrates more on the country’s overall financial situation.⁴² But, in the words of World Bank President A. W. Clausen, “our role is in helping countries put into place more careful economic policies,”⁴³ so the lines are not sharply drawn.

Bank SALs are nonproject loans aimed at:

promoting investment in non-traditional exports, for adjusting domestic production to higher energy prices, for reappraising price and fiscal incentives so as to ensure the more efficient mobilization of domestic resources, and for making institutional changes to improve production and marketing systems.⁴⁴

The Bank’s orthodoxy can be summed up as “get the prices right,” both domestically and between domestic and international goods, to accumulate capital, to earn foreign exchange, to eliminate debt, and to stimulate growth. The Bank emphasizes export-oriented projects and reduced protection.⁴⁵

Although it does not make balance of payments or structural adjustment loans, the ADB has extended additional loans to members facing severe constraints, relaxed some of its lending policies, increased program lending, and speeded up disbursal. It consults with the IMF and the WB, and conditions its program loans on compatibility with an IMF program.⁴⁶ The ADB performs a similar certification and catalytic role for private lenders. Change is in the offing. As a result of recommendations from its 1982 *Study of Operational Priorities and Plans of the Bank for the 1980s*, the ADB will move closer to a broader approach to development by “expansion of local-cost financing, program lending, supplementary financing of cost overruns, expansion of

³⁹ “‘The IMF’s Role in a Changing World,’ A Conversation with William B. Dale, Deputy Managing Director of the Fund,” *F&D*, March 1984, pp. 2–4.

⁴⁰ De Vries, “World Debt Problem,” p. 5.

⁴¹ *Ibid.*, p. 5.

⁴² Ernest Stern, “World Bank Financing of Structural Adjustment,” in Williamson, *IMF Conditionality*, pp. 87–107, 100.

⁴³ “Are You Pessimistic? No!”, *FEER*, September 27, 1984, pp. 68–69.

⁴⁴ Ayres, *Banking on the Poor*, note 12, p. 42.

⁴⁵ See “‘The Challenge of Development Today,’ An Interview with Ernest Stern, Senior Vice President, Operations, World Bank,” *F&D*, September 1983, pp. 2–5.

⁴⁶ *ADB Annual Report, 1983*, p. 58.

technical assistance operations, streamlining of loan administration,” and the like.⁴⁷ It intends to expand its lending significantly to this end.⁴⁸

Just as the agencies under consideration expanded their role, they faced new constraints from key funders, especially the United States. In 1981, President Ronald Reagan had touted the “magic of the marketplace” at the IMF’s annual meeting⁴⁹ and had tried to stem the growth in international liquidity by opposing increased IMF quotas.⁵⁰ Republicans branded pro-IMF Democrats as being procommunist.⁵¹ But the security (and immigration) implications of the Mexican crisis of 1982 induced a Reagan about-face, and he began belatedly to lobby Congress for increased IMF resources.

The WB and the ADB fared less well. The Reagan administration’s pro-private sector ideology increased support for the IFC⁵² and put pressure on the WB and ADB to enter cofinancing and equity investment arrangements⁵³ to stretch their resources. It encouraged more graduations from IDA and ADF. Replenishments for these bodies repeatedly faced American stalling and were eventually scaled down. The IDA 7, proposed at US\$16 billion, settled for US\$9 billion,⁵⁴ and ADF-IV targeted at US\$4.1 billion compromised at US\$3.2 billion, and even then U.S. contributions were in arrears.⁵⁵ If Japan, however, succeeds in its ambitious goal to step up its own aid program worldwide, it can compensate for some of the slack.⁵⁶ Contributions to ADF from the DMCs Indonesia, Korea, Taiwan, and Hong Kong is another encouraging sign.

Other criticisms have come from governments and citizens of LDCs who equate conditionality with austerity and claim that the IMF and others are enforcing deprivation on already poor nations to keep greedy banks afloat and preserve the world capitalist system. Part of the New International Economic Order’s platform called for reform of the international monetary system and renegotiation or cancelation of the LDC debts.⁵⁷

Nonetheless, by the time of the IMF and WB annual meetings in the fall of

⁴⁷ *Ibid.*, p. 7.

⁴⁸ Lending increased 18 percent in 1984 over 1983, from US\$1.89 billion to US\$2.2 billion. See “Asian Development Bank Lends \$2.2 Billion, An 18.8 Percent Increase Over Previous Year,” *IMF Survey*, May 27, 1985, p. 167.

⁴⁹ “Change of Heart Toward the IMF,” *BusinessWeek* (hereafter *BW*), December 20, 1982, p. 70.

⁵⁰ “The Burden Shifts to the IMF,” *BW*, September 13, 1983, p. 30.

⁵¹ “It’s High Noon for IMF Funding,” *BW*, October 3, 1983, p. 40.

⁵² Melvyn Westlake, “A Lifeboat for the Private Sector,” *South*, December 1984, pp. 65–66; “It’s Not Just Another Third World Aid Agency,” *FEER*, September 27, 1984, pp. 78–79.

⁵³ Robert Manning, “Private Predilections,” *FEER*, December 13, 1984, pp. 82–85.

⁵⁴ Kenneth S. Friedman and Balwant S. Garcha, “Sustaining Recovery, Reviving Development: The Principal Themes of the 1984 Annual Meetings of the Boards of Governors of the Fund and the Bank,” *F&D*, December 1984, pp. 31–33.

⁵⁵ Anthony Rowley, “Ideology Before Need,” *FEER*, February 14, 1985, pp. 72–73.

⁵⁶ Dick Wilson, “The Good Neighbor Image,” *South*, September 1984, pp. 18–19.

⁵⁷ “The IMF’s Dilemma on World Debt Gets Worse,” *BW*, July 25, 1983, p. 58; J. de Larosiere, “Does the Fund Impose Austerity?”, IMF Pamphlet, June 1984; also see William Loehr and John P. Powelson, *Threat to Development: Pitfalls of the NIEO* (Boulder, Colo.: Westview Press, 1983), esp. chapters 5 and 6.

1984, the country-by-country adjustment strategy was believed to have brought heartening results.⁵⁸

THE MLAS AND THE DEBT CRISIS IN EAST ASIA

Having talked about MLAs and their more assertive role in addressing the global crisis, let's examine the situation in East Asia. Table 1 shows East Asian members of the IMF, WB and ADB, their contributions and voting power.

A few remarks: Japan's subscription to the IDA is second after the United States' (33.04%), although its voting power is slightly less than West Germany's. This leapfrogging to second place occurred in 1984. After the realignment following the IBRD's selective capital increase of US\$8.4 billion, raising the total authorized capital to US\$95 billion, Japan will hold 4.99 percent of all votes, second after the United States (20.01%) in this area as well.⁵⁹ Japan is positioned to have a significant impact on the disbursement of concessional loans, and hence the shape of development projects in the LDCs. Its dominant position in the ADB among regional members (the United States has the same percentage of votes) and overwhelming lead among ADF contributors (the United States is second cumulatively with \$1,295 million but has sharply curtailed current and future contributions) reinforces this influence in the region of its greatest concern.

Taiwan still sits in the ADB. Beijing assumed the IMF and WB China seats in April and May 1980, respectively. Taiwan never used IMF facilities⁶⁰ and ceased WB borrowing after it left the United Nations in 1971.⁶¹ Since 1983, Beijing has expressed an interest in joining the ADB, but there is more resistance to expelling Taipei (which refuses to change its name to meet China's condition for continued membership) in Asia than in the world at large. A two-thirds vote representing three-fourths of the voting power is required to admit a new member.⁶² When the ADB was established, the Kuomintang's "Republic of China" government was already located on Taiwan, and, as Hong Kong is also an ADB member, the definition of "country" is different. Thus, Taiwan is much harder to dislodge.

Table 2 presents figures on IBRD, IDA, ADB, and ADF lending in the region. In the developing East Asian cases under consideration, only Malaysia and Singapore have fully "graduated" from the IDA (Taiwan had made a similar progression); the others qualify for blended loans with the exception of Laos and Vietnam. The latter has encountered U.S.-led obstacles to loan approvals from the MLAs.⁶³ While Indonesia, Korea, and the Philippines have borrowed extensively from both World

⁵⁸ See annual reports of the IMF and WB and reports of meetings of the Interim and Development Committees in April 1985 in *IMF Survey*, April 29, 1985, pp. 129-133.

⁵⁹ Hikaru Kerns, "From Loan Recipient to Major Aid Supplier," *FEER*, September 27, 1984, p. 93.

⁶⁰ "The Go-It-Alone Philosophy," *FEER*, April 25, 1980, p. 86.

⁶¹ "Taiwan—Out But Not Down," *FEER*, May 23, 1980, p. 64.

⁶² *Euromoney*, p. S11. The PRC joined in March 1986. Taiwan refused to accept a name change but did not withdraw. It adopted an ostrich position. Carl Goldstein, "An alias to save a seat," *FEER*, January 23, 1986, p. 36.

⁶³ See, for example, Paul Quinn-Judge, "A Test of Patience," *FEER*, May 24, 1984, p. 81.

Table 1
East Asian MLA Members

Country or Region	IMF ^a				IBRD ^b				
	Quota		Voting power		Subscriptions (1,000s)			Voting power	
	Amount (in SDR million)	%	Number	%	Shares	%	In SDR	Number	%
China	2,390.9	2.68	24,159	2.60	23,482	4.32	2,348,200	23,732	4.09
Indonesia	1,009.7	1.13	10,347	1.11	7,777	1.43	777,700	8,027	1.38
Japan	4,223.3	4.73	42,483	4.57	34,206	6.30	3,420,600	34,456	5.94
Kampuchea	25.0	0.03	500	0.05	214	.04	21,400	464	.08
South Korea	462.8	0.52	4,878	0.52	2,947	.54	294,700	3,197	.55
Laos	29.3	0.03	543	0.06	100	.02	10,000	350	.06
Malaysia	550.6	0.62	5,756	0.62	4,250	.78	425,000	4,500	.78
Philippines	440.4	0.49	4,654	0.50	3,598	.66	359,800	3,848	.66
Singapore	92.4	0.10	1,174	0.13	320	.06	32,000	570	.10
Thailand	386.6	0.43	4,116	0.44	3,111	.57	311,100	3,361	.58
Vietnam	176.8	0.20	2,018	0.22	543	.10	54,300	793	.14
Taiwan	—	—	—	—	—	—	—	—	—
Hong Kong	—	—	—	—	—	—	—	—	—

^a As of November 1, 1984. IMF, *The International Monetary Fund: Its Evolution, Organization and Activities* (Washington, D.C., 1984), pp. 67-70.

^b As of June 30, 1984. The World Bank, *The World Bank Annual Report 1984* (Washington, D.C., 1984), pp. 176-179.

Table 1 (Continued)
East Asian MLA Members

Country or Region	IDA ^c				ADB ^d	
	Total subscriptions and supplementary resources (in current US\$1,000)		Voting power		Ordinary capital resources subscribed capital	
		%	Total Number	%	Number shares	Total (in US\$1,000)
China	33,981	.12	91,311	1.90	—	—
Indonesia	12,472	.04	50,392	1.05	47,000	492,067
Japan	4,065,230	13.93	338,756	7.06	117,500	1,230,166
Kampuchea	1,117	.01	7,826	.16	875	9,161
South Korea	4,519	.02	14,959	.31	89,123	933,073
Laos	550	—	11,723	.24	246	2,576
Malaysia	2,929	.01	19,079	.40	23,500	246,034
Philippines	5,664	.02	16,583	.35	42,152	441,311
Singapore	—	—	—	—	2,937	30,749
Thailand	3,496	.01	20,940	.44	11,750	123,016
Vietnam	1,651	.01	8,889	.19	6,038	63,215
Taiwan	—	—	—	—	9,400	98,413
Hong Kong	—	—	—	—	4,700	49,207

^c As of June 30, 1984. *Ibid.*, pp. 193–194.

^d As of December 31, 1983. Asian Development Bank, *Asian Development Bank Annual Report 1983*, pp. 115–116.

Table 1 (Continued)
East Asian MLA Members

Country or Region	Voting power including entitlements ^e		ADF Statement of Resources ^f (in US\$1,000)	
	Number	%	Amounts committed, 1983	Cumulative
China	—	—	—	—
Indonesia	104,504	5.696	3,000	3,000
Japan	249,029	13.573	1,220,719	2,742,693
Kampuchea	9,947	0.542	—	—
South Korea	97,277	5.302	3,500	3,500
Laos	8,658	0.472	—	—
Malaysia	56,329	3.070	—	—
Philippines	50,306	2.742	—	—
Singapore	14,174	0.773	—	—
Thailand	32,241	1.757	—	—
Vietnam	20,531	1.119	—	—
Taiwan	27,424	1.494	2,000	2,000
Hong Kong	17,789	0.969	1,000	1,000

^e Voting power including entitlements indicates the voting position when all members have subscribed to their entitlements under the third general capital increase.

^f As of December 31, 1983. Ibid., p. 128.

Table 2
MLA Lending in East Asia

Country or region	IBRD Loans ^a		IBRD Cumulative Loans ^b		IDA Credits ^c		IDA Cumulative Credits ^d		
	Total Loans		Number	Amount		Total		Amount	
	(in US\$1,000)	% Total		(in US\$million)	(in US\$1,000)	% Total	Number	(in US\$million)	
China	1,123,557	1.47	11	1,179.1	633,679	2.01	7	733.9	
Indonesia	6,408,076	8.39	90	7,018.4	924,580	2.93	46	931.8	
Japan	136,509	.18	31	862.9	—	—	—	—	
South Korea	4,271,651	5.59	71	5,249.0	109,469	.35	6	110.8	
Laos	—	—	—	—	51,489	.16	5	53.2	
Malaysia	1,248,705	1.63	58	1,680.0	—	—	—	—	
Philippines	3,431,594	4.49	91	4,061.7	121,825	.39	3	122.2	
Singapore	85,010	.11	14	181.3	—	—	—	—	
Thailand	2,846,261	3.73	81	3,466.1	121,747	.39	6	125.1	
Vietnam	—	—	—	—	60,000	.19	1	60.0	
Taiwan	—	—	14	309.8	—	—	4	15.8	

^a As of June 30, 1984. *World Bank Annual Report*, pp. 170–171.

^b As of June 30, 1984. *Ibid.*, pp. 210–211. Taiwan data are from Taiwan, Ministry of Finance, “Projects Status Report,” as of September 30, 1977.

^c As of June 30, 1984. *World Bank Annual Report*, p. 189.

^d As of June 30, 1984. *Ibid.*, pp. 210–211; Taiwan: Ministry of Finance, “Projects Status Report,” as of September 30, 1977.

Table 2 (Continued)
MLA Lending in East Asia

Country or region	ADB Loans ^e		ADF Loans ^f	
	(in US\$1,000)		(in US\$1,000)	
	Principal Amount	Outstanding Balance	Principal Amount	Outstanding Balance
Indonesia	2,204,000	470,016	162,280	98,262
South Korea	1,771,830	758,395	3,700	2,112
Laos	—	—	51,025	20,555
Malaysia	881,828	367,964	3,300	2,306
Philippines	1,755,840	686,657	79,300	29,771
Singapore	178,080	77,250	3,000	2,502
Thailand	1,288,180	506,252	72,100	18,332
Vietnam	3,930	1,361	40,670	17,841
Taiwan	100,390	35,743	—	—
Hong Kong	101,500	54,738	—	—
Cambodia	—	—	1,670	643

^e As of December 31, 1983. *ADB Annual Report, 1983*, pp. 110–111.

^f As of December 31, 1983. *Ibid.*, pp. 126–127.

Table 2 (Continued)
MLA Lending in East Asia

Country or region	Total	
	(IBRD cumulative loans and IDA cumulative credits)	
	Number	Amount
China	18	1,913.0
Indonesia	136	7,950.2
Japan	31	862.9
South Korea	77	5,359.8
Laos	5	53.2
Malaysia	58	1,680.0
Philippines	94	4,183.9
Singapore	14	181.3
Thailand	87	3,591.2
Vietnam	1	60.0
Taiwan	18	325.5

Bank windows, they were not the biggest borrowers. In fiscal year 1983, Brazil's US\$7,931 million in loans was 10.39 percent of total loans; for Mexico, the figures were US\$5,065 million and 7.34 percent. India borrowed US\$5,319 million, equal to 6.96 percent. At the IDA window, the East Asians in 1984 paled besides some other heavy borrowers: India took a whopping 37.96 percent (US\$11,978 million), Bangladesh 8.80 percent (US\$2,775 million) and Pakistan 6.07 percent (US\$1,916 million). No other countries, even in Africa, approached these South Asians. Though it has had an application pending for more than three years, India has never borrowed from the ADB or ADF. Bangladesh's and Pakistan's loans from the ADF, however, far exceed those of the East Asians.

IBRD and IDA loans in East Asia cover a range of developmental purposes: in particular, the rural sector, energy, and transport.⁶⁴ ADB and ADF loans, often in comparable magnitudes, run the same gamut.⁶⁵

The question of China's borrowing from the World Bank is of special interest. At the time of that nation's entry, there was fear that, in qualifying for IDA credits, it would (along with India) squeeze other needy countries out. As China's entry coincided with the second oil crisis, sub-Saharan African disasters, and Reagan administration antipathy to concessional loans, the possible drain on shrinking funds needed to shore up additional extremely precarious nations cast a dark shadow.

⁶⁴ For details, see *FEER's Asia Yearbook*, under Development Banks, where they cull Asian cases from the WB's annual report.

⁶⁵ See *ADB Annual Report, 1983* for details.

So far, however, the People's Republic of China is proving to be an exemplary World Bank citizen. Its development strategy closely resembles that prescribed by the new orthodoxy. This includes: fiscal responsibility and rapid and determined moves to redress deficits; increased exports to earn foreign exchange; improved efficiency of state enterprises; more scope for the private sector; increase in utility rates; reduction of subsidies to producers; cutback in social welfare expenditures; adjustment between domestic and international prices; currency devaluation; population control. China's enthusiasm for World Bank studies and technical assistance reinforces these moves. That any LDC would have the capability or will to follow such a regimen is rare, but the fact that a socialist LDC, one still living down a reputation for instability and unpredictability, would accept advice from a Western-dominated institution which, with the IMF, is a pillar of the world capitalist system, is astounding.

The World Bank study for China undertaken in 1980 identified five priority sectors: human resources, agriculture, transportation, energy, and industry. Subsequent loans have reflected these choices. The nation's largest borrowings to date (more than US\$500 million) have been in the energy sector, mostly for oil field modernization. The Lubuge hydroelectric project in Yunnan, a US\$811.7 million project, has a US\$145.4 million IBRD loan and cofinancing from Norway, Australia, and Canada.

In addition to IBRD loans and IDA credits for training and research in agriculture, a \$200 million loan and credit is going to a four-year University Development Project to strengthen undergraduate and graduate teaching in physics, chemistry, computer science, engineering, and biology at twenty-eight Chinese universities. It also creates forty-seven key laboratories on the campuses. An International Advisory Panel works with the Ministry of Education and Chinese Review Commission on this project.⁶⁶

Both the WB and the IMF added seats on their executive boards and greatly increased China's quota when Beijing took over from Taipei. China's entry coincided with a domestic budgetary crisis that sent it to the IMF for assistance. In November 1980, China purchased SDR 218.1 million from its reserve tranche then worth SDR 1.2 billion total. In March 1981, China reached agreement to purchase SDR 450 million on its first credit tranche over twelve months and presented an economic plan under the terms of conditionality. China also drew SDR 309 million from the IMF's trust fund.⁶⁷ In fiscal year 1984, China had made an early repurchase for SDR 450 million to its credit tranche.

When China joined the IMF and WB, the proponents of its reform program and open door policy had not consolidated their power. Normally, Chinese entry into an international organization is accompanied by a domestic media blitz introducing the

⁶⁶ From *FEER's Asia Yearbook, 1985* and private communication.

⁶⁷ Karen Berney and Dori Jones, "China's Activities in the IMF and World Bank," *China Business Review*, March-April 1981, pp. 47-48; Paul D. Reynolds, *China's International Banking and Financial System* (New York: Praeger, 1982), p. 145. The two sources differ somewhat on amounts drawn. China was expected to receive approval for approximately US\$1.1 billion during fiscal year 1985 for fourteen projects in sectors similar to those earlier from the WB. See *China Market Intelligence*, August 1984.

particular body, but there was only minimal coverage of the IMF and WB at the time China joined. This relative silence indicated internal political opposition to a move which signified further rejection of Maoist extreme self-reliance and even worse, participation in the two bodies most closely identified—and condemned in the Third World—as creating and maintaining the unequal global system. Not until 1982, when the reformers became more secure, did publicity about the MLAs and China's activities in these agencies increase, although it is still generally limited to reports of Chinese leaders receiving MLA delegations and Chinese statements at annual meetings pressing for industrialized countries to assist LDCs.

China's probity and conservatism in financial matters (like Taiwan's, derived from the experience of horrendous inflation) make it an excellent MLA client. It wants a stable international environment to pursue its modernization program, so it benefits from MLA efforts to stabilize and regularize the environment. China will behave as a capitalist in the capitalist world system even though domestically it maintains an economy where socialist relations of production dominate. MLAs also serve China's domestic interests, because linking China's modernization program with the MLAs and, through their approval, with commercial banks helps to consolidate and institutionalize the reforms and ensure that they will endure.

China is in a class by itself. More relevant to the earlier discussion of the global debt crisis is the effect of this crisis in capitalist East Asia and the activities of the IMF, the WB, and the ADB in supporting the adjustment efforts of countries in the region.

Table 3 provides relevant debt data on the East Asian cases and, for comparison, on the important Latin American ones. Quite apparent is the East Asian NICs' comparatively better position, even though several carry a heavy burden of debt. The key difference is in the final column: while foreign debt as a percentage of GNP in East Asia approached or topped Latin American levels, debt service as a percentage of exports stayed substantially lower. In other words, despite the recession in export markets, these countries continued to export enough to earn foreign exchange to service debt and not be consumed by it.

This fact goes to the heart of the different development strategies in the two regions. Both groups began with import substitution industrialization of easily manufactured consumer goods with attendant protectionist measures. Exhausting the potential of this strategy, the Latin Americans chose to deepen or vertically integrate their industrial structures, relying on foreign loans and investment to accomplish this goal. They manufactured mainly for domestic markets. Only after accumulating large debts and being shunned by commercial bankers and pressured by the IMF and the World Bank did they pursue an export-oriented industrialization (EOI) strategy. The East Asians, by contrast, followed easy ISI with a drive to export those same goods and to improve industrial capacity by global competition. Although some nations, such as Korea and Indonesia, borrowed heavily, by maintaining export expansion (and Indonesia has oil) they gained more breathing space for adjustment than the Latin debtors were able to. Soft demand for loans during the debt crisis made it easier for these Asians to enjoy favorable rates on new loans. The banks saw the big Asian borrowers as good risks. Rising real interest rates, however, exacted a toll as time went on.

Table 3
External Debt in East Asian and Selected Latin American Countries

Country or Region	Population, 1982 ^a (millions)	GNP Per Capita, 1982 ^b (in US\$)	GDP Average Annual Growth Rate, 1970-82 ^c %	Current Account Balance 1982 ^d (in US\$million)	Gross International Reserves, 1982 ^e		External Public Debt Outstanding & Disbursed, 1982 ^f		Debt Service as % of Exports of Goods and Services	
					US\$Million	Months of Import Coverage	US\$Million	% GNP	GNP, 1982 ^g	
China	1,008.2	310	5.6	5,608	17,142	9.4	—	—	—	—
Indonesia	152.6	580	7.7	-737	6,248 ^h	3.0 ^h	18,421	21.1	2.6	8.3 ^h
Japan	118.4	10,080	4.6	6,977	34,404	2.4	—	—	—	—
South Korea	39.3	1,910	8.6	-2,679	2,946	1.1	20,061	28.3	5.2	13.1
Malaysia	14.5	1,860	7.7	-3,445	4,833	3.3	7,671	30.5	2.9	5.1
Philippines	50.7	820	6.0	-3,356	2,573	2.7	8,836	22.5 ^k	2.6	12.8 ^l
Singapore	2.5	5,910	8.5	-1,278	8,480	3.3	1,423	10.0	1.7	0.8
Thailand	48.5	790	7.1	-1,144	2,674	3.0	6,206	17.4	2.2	8.4
Taiwan	18.4	2,562	8.9	2,347	8,677	5.5	6,035 ⁱ	—	—	4.9
Hong Kong	5.2	5,340	9.9	—	—	—	267	1.0	0.2	(.)
Argentina	28.4	2,520	1.5	-2,505	4,504	4.5	15,780	29.5	4.4	24.5
Brazil	126.8	2,240	7.6 ^m	-16,332	3,997	1.2	47,589	16.9	3.5	42.1
Mexico	73.1	2,270	6.4	-2,778	1,777	0.6	50,412	31.1	5.5	29.5
Peru	17.4	1,310	3.0	-1,644	1,987	4.0	6,900	33.5	7.4	36.7
Venezuela	16.7	912	4.1	-3,456	11,815	6.1	12,122	17.8	4.6	15.6

^a World Bank, *World Bank Development Report, 1984* (New York: Oxford University Press, 1984), p. 218-219. Data for Taiwan from Council for Economic Planning and Development, *Taiwan Statistical Data Book, 1984* (hereafter TSDB), p. 4.

^b *World Development Report*, pp. 218-219. Taiwan: TSDB, p. 25.

^c *Ibid.*, pp. 220-22, p. 21. ^d *Ibid.*, pp. 244-245, 190. ^e *Ibid.*, pp. 244-245; *Asian Development Bank Annual Report, 1983*, p. 98.

^f *Ibid.*, pp. 248-249, 101. ^g *Ibid.* ^h Data are for 1981, not 1982. ⁱ Outstanding only. ^j Data are for 1970-81.

^k According to a table in *IMF Survey*, May 27, 1985, p. 173, this should be 60.5% for 1982.

^l This is given as 38.1% in *ibid.*

^m Data are for 1970-81.

Relative East Asian success at muddling through the crisis years was taken by the WB and the IMF as a new development orthodoxy, with EOI and at least some flexibility in exchange rates as its pillars.⁶⁸ Experience at creatively redesigning goods for external consumers, the small scale of most enterprises, and entrepreneurial drive, along with varying degrees of guidance and intervention by developmentalist states, contributed to the flexibility and momentum that kept the East Asians buoyant.

This is not to downplay the serious nature of mountains of debt that accumulated in several of the East Asian nations. South Korea, often touted as a model for other LDCs, is the largest single borrower in Asia, ranking fourth worldwide behind Mexico, Brazil, and Argentina. Its debt at the end of 1984 exceeded US\$42,368 million, around 54 percent of GNP and double the 1982 figure cited in Table 3.⁶⁹ Nonetheless, the IMF remained sanguine about its adjustment progress, and foreign commercial banks continued to offer favorable rates on new loans.

In 1979, hit by the second oil crisis, 60 percent of external debt at variable rates that reached 14.5 percent, recession in its major markets, and turmoil surrounding the assassination of President Park Chung Hee, Korea faced a bleak period. In 1980, the authorities, with IMF standby arrangements, embarked on a major adjustment effort.⁷⁰ They devalued the won (30% for the year), slashed the budget to cut deficits, tightened credit, raised interest rates, reorganized state industries, reduced import barriers, liberalized the financial sector, and raised energy prices 170 percent. These measures had the desired effects: exports rose 11 percent, nonoil imports contracted 16 percent, and the increase in the current account deficit slowed dramatically. GNP dropped 6.2 percent as well and inflation hit new highs—the costs were severe.

Korean structural reforms continued over the next few years, facilitated by two IBRD SALs totaling US\$550 million. Export competitiveness improved, GNP rose, and inflation fell. Once the current account deficit declined to “sustainable” levels, adjustment efforts were moderated. The government’s determination to implement reforms at substantial cost and risk—as the Chun Doo Hwan administration was trying to legitimize itself in a hostile environment—impressed foreign lenders and MLAs and shored up their commitment to what looked like a very shaky prospect. In August 1984, the IFC took an equity position in the new US\$60 million Korea Fund, quoted on the New York Stock Exchange, aimed at allowing foreign investors to buy shares in Korean enterprises. This fund was heavily oversubscribed.⁷¹

Korea’s resurgent political opposition is turning the debt issue into an anti-Chun rallying point.⁷² Should students, with their antiimperialist bent, develop this line, it could have worrisome consequences for Chun and for Korea’s credit standing.

Optimism about Korea stands in sharp contrast with global perception of the

⁶⁸ See statements such as “The Policy Difference,” *The Economist*, September 24, 1983, p. Survey39; Parvez Hasan, “Adjustment to External Shocks,” *F&D*, December 1984, pp. 14–17.

⁶⁹ Paul Ensor, “Sovereign Debt Debate,” *FEER*, January 24, 1985, pp. 62–63.

⁷⁰ This discussion is based on G. Russell Kincaid, “Korea’s Major Adjustment Effort,” *F&D*, December 1983, pp. 20–23, and *FEER’s Asia Yearbook*, 1983, 1984, 1985.

⁷¹ William Pike, “Putting Debts to Work,” *South*, December 1984, p. 67.

⁷² Ensor, “Sovereign Debt Debate,” note 69.

Philippines.⁷³ Despite years of structural adjustment efforts backed by IMF and WB funds, domestic resistance and turmoil have only exacerbated problems and made the nation the functional equivalent of a Latin American nation in East Asia. The Catholic nation's continued ISI policies, piled up short-term debt, rapid population growth, capital-intensive industries despite the region's fastest growing labor force, severe urban/rural gap, and endemic corruption are some of the unfortunate similarities. President Ferdinand Marcos, who once enjoyed IMF and WB backing, is now seen as part of the problem.

Even before the second oil crisis, concern over a sustained balance of payments crisis brought the agencies to Manila to work out a rescue package and strengthen the position of amenable technocrats in the government, spearheaded by current Prime Minister and Finance Minister Cesar Virata. The nation received Asia's first SAL—US\$200 million approved in 1980, disbursed at the end of 1981—which was aimed at trade liberalization and tariff rationalization.⁷⁴ Tariffs protecting certain industries were prime targets. The Bank made sectoral loans to specific industries, such as textiles, to improve international competitiveness. For 1980–81, the IMF agreed to an SDR 410 million standby arrangement, tied to the usual conditions, especially on energy, efficiency, and exports. Continued negotiations with the IMF through 1983 caused foreign banks to curtail new loans until IMF confidence in the nation's soundness could be gauged. But only a one-year standby arrangement could be agreed on. A ninety-day moratorium on debt repayments began on October 17, 1983, and was then extended. In December, Virata met with eleven of the country's largest creditors to negotiate rescheduling 40 percent of the Philippines' US\$23.9 billion foreign debt.⁷⁵ In August of that year, the airport assassination of opposition leader Benigno Aquino had sent the political situation into turmoil, exacerbating the economic difficulties and symbolically linking Marcos' oppression to IMF and WB conditionality in the minds of the people. Businessmen joined anti-Marcos activities and diverted capital out of the country, further debilitating business confidence. The IMF demanded strict terms for an additional standby, but delayed approval despite Virata's signing a letter of intent in November. The ADB, which does not finance balance of payments deficits, advanced disbursement of a loan to help out and, according to ADB President Masao Fujioka, "approved certain loans to show that the Philippines was economically viable."⁷⁶

The discovery of a US\$600 million overstatement of foreign exchange reserves further damaged confidence in official statistics and determination.⁷⁷ Inflation, unem-

⁷³ This is based on Norman Peagam, "The Spectre that Haunts Marcos," *Euromoney*, April 1984, pp. 46–63; Jeff Holman, "Underdevelopment Aid: A Critique of the International Monetary Fund and the World Bank," *Berkeley Journal of Sociology* 29 (1984), pp. 119–152; "Philippines and Commercial Bank Creditors Sign Agreement Rescheduling Part of Debt," *IMF Survey*, May 27, 1985, pp. 172–175; and articles in *FEER* named in notes 74, 75, and 79.

⁷⁴ This paragraph draws on Philip Bowring, "Adapt to Survive," *FEER*, June 18, 1982, pp. 76–77.

⁷⁵ Guy Sacerdoti, "From Crisis to Catharsis?" *FEER*, December 15, 1983, pp. 67–70.

⁷⁶ "Fujioka's Cautious Strategy," *Euromoney*, April 1984, pp. S10–12.

⁷⁷ *Wall Street Journal*, December 19, 1983, p. 22.

ployment, and shortages fueled political unrest. With sixteen standbys approved between 1953 and 1984 (behind only Haiti and Liberia, and tied with Panama) but little to show for them, the Philippines had a miserable track record. As negotiations dragged on, despite the Philippines' important strategic significance for the United States, even the *Wall Street Journal* insisted that the IMF apply strictest conditions to Marcos, forcing him to release "his government's stranglehold on free-market incentives."⁷⁸ The American government tightened the terms for continued backing for Marcos, making adherence to the IMF program a cornerstone while sending out feelers to opposition leaders.⁷⁹

In December 1984, accord was reached on an SDR 615 million seven-tranche standby agreement. The twelve-bank Advisory Committee for the Philippines, led by Manufacturers Hanover and representing 483 commercial creditors, agreed to a ten-year restructuring of about US\$6 billion in public and private sector debt, a US\$925 million new money facility and US\$3.3 billion in revolving trade credits, more or less contingent on a favorable grade from the IMF's required mid-term review of the economy's recovery. But IMF displeasure over peso appreciation and increase in money supply, as well as internecine bank squabbling, delayed the signing of the financing package until May 20, 1985.

The IMF program helped narrow the current account deficit, compress imports, and reduce inflation drastically, while severely slowing economic activity. The *Wall Street Journal* may hope that the bailout will benefit the private sector, but most of the new loans will actually go to redress balance of payments deficits. Private investors will see little of it. Meanwhile, internal dissent, especially armed activity against the Marcos regime, continued to rise.

The contrast between the South Korean and Philippines cases is striking. Despite formal agreement to implement similar adjustment packages and Korea's continued high foreign debt and political uncertainty, the MLAs were pleased with the state's commitment and capability to implement reforms. The commercial banks acted on this official vote of confidence with loans of their own. The Philippines, despite a deep sentimental reservoir of goodwill in the United States, had great difficulty persuading official or private interests of its sincerity or ability to implement a reform. An authoritarian state and capable technocrats alone are no guarantee of successful economic guidance, especially when the political leaders are corrupt and more concerned with maintaining their power and that of their cronies and balk at fundamental social, political, or economic reforms.

CONCLUSION

The debt crisis brought instability to the economic interdependence and international division of labor that had evolved over the years. It affected security and politics as well. Through the crisis, the MLAs achieved a new visibility and authority

⁷⁸ *Wall Street Journal*. August 24, 1984, p. 18.

⁷⁹ Nayan Chanda, "Power to the Palace," *FEER*, March 21, 1985, pp. 16–17.

to coordinate a wide range of activities in order to maintain the international system. They saw part of their mandate as helping endangered LDCs adjust to the new environment. Through a package of financing and assistance tied to conditions, they pushed LDCs to conform to a model derived from the experience of a few East Asian NICs prior to the global crisis that had helped those NICs ride out the storm. Key elements of the model are: "political continuity and generally strong government commitment to development; second. . . their strong emphasis on education; third, their export orientation; fourth, their concern with agriculture; and fifth, their mobilization of large volumes of domestic and foreign savings."⁸⁰ The MLAs seem to assume that any government, given enough money and threats of disobedience, can impose their present package of reforms, with mass consensus, to implement this model.

But, as the comparison between Korea and the Philippines shows, there are serious errors in these assumptions. Most important is their picture of East Asian states. Here "continuity" is closely tied to authoritarianism and political exclusion, a fact the MLAs ignore. The East Asian NICs succeeded because despite authoritarianism, they were committed to development and achieved a dynamic balance between state guidance and relatively uninhibited private competition. But, as Marcos demonstrates, there is not necessarily a tie between the two. Nor can we assume mass consensus that integration into the international division of labor, foreign investment, and foreign borrowing, as prescribed by the MLAs, is desirable. Allowing more scope for free enterprise will not necessarily stimulate entrepreneurial activities; in many cases, it serves as an outlet for capital flight. The agencies also seem to ignore the NIC states' direct and indirect command over their economies. These states are still very protectionist and maintain complex pricing schemes. The advice to export risks the "fallacy of composition,"⁸¹ namely, who is going to buy all those shoes? It also begs the question of whether EOI, which worked superbly in the expansionist 1960s and 1970s, will still be viable in the protectionist 1980s.

Several debt-burdened countries have recently achieved a measure of success in increasing exports, controlling inflation, and reducing deficits. But it is hard to attribute this success directly to IMF or WB conditionality: the strong U.S. dollar and American deficits have helped substantially. As the U.S. economy slows down, the dollar declines, European recovery stays weak, and Japan and Germany resist taking on locomotive responsibilities, there is a great risk that these improvements will prove short term and not structural.

While President Reagan controls the purse strings of the MLAs, he is bent on getting them out of the aid business and into promoting private enterprise. The agencies are to stimulate free enterprise and drag LDCs into the international division of labor, one way or the other. Ironically, though, MLA activities will strengthen the state rather than weakening it. With the backing of the MLAs, themselves backed by

⁸⁰ Hasan, "Adjustment to External Shocks," note 68, p. 14.

⁸¹ William R. Cline, "Can the East Asian Model of Development be Generalized?" *World Development* 10:2 (February 1982), pp. 81-90.

the world's richest powers, LDC states are to be helped to create a good investment climate and to shape their economies, to select lead sectors, to open markets and guide them into a suitable niche in the global structure. This is what the East Asian NICs did, where powerful states built and nurtured enterprises prior to privatization and still play a prominent role. Overemphasizing the role of the free market and private sector is a serious error. At the earliest stages of industrialization, where the NICs were in the 1950s and most LDCs are today, the state must play a leading role, guiding, stimulating, and investing. Trying in one fell swoop to force a dominant private enterprise economy could be disastrous. In a country like the Philippines, the private elite is an extension of the political elite, and "privatization" strengthens crony capitalism, not the sort of intense competition characteristic of the NICs.

Finally, the MLAs' policy of pushing EOI reinforces the very mercantilist economic nationalism they were created to prevent. With all LDCs in their debt encouraged to export and integrate themselves into the world system, plus MLAs channeling funds through the states, the agencies are laying the groundwork for Hobbesian chaos. Throughout 1985, the U.S. Congress has passed measures to close the American market to Japanese and other East Asian manufactured goods. LDCs that, whether the MLAs intended them to or not, try to copy Japan's state-led EOI strategy—as South Korea has—will run up against the same obstacles from the major force undergirding the agencies themselves.

Because governments join and borrow from the MLAs, there is a natural bias to incumbents. MLAs grant a certain international legitimacy to their members, even if the citizens of those countries have other ideas. In a country like the Philippines, the MLAs have poured in money and technical advice to build up the creditworthiness and strength of the Marcos regime. One wonders whether a new regime, such as the one that overthrew Sudan's Numieri in a coup not unrelated to IMF-imposed austerity, will honor Marcos' debts.

5. Soviet Strategy and Prospects in Asia and the Pacific

Dong Bainan
Lu Wenrong

The world today is riddled with contradictions between East and West, South and North. New problems emerge while old ones remain unsolved. The two superpowers, the United States and the Soviet Union, engaged in a prolonged military confrontation in Europe with few prospects for achieving a breakthrough in the near future, have contended for military supremacy in the Asian-Pacific region by strengthening their forces in recent years. The situation in the region has attracted worldwide attention.

SOVIET STRATEGIC INTENTIONS IN THE ASIAN-PACIFIC REGION

While putting its primary focus on Europe in its global strategy, the Soviet Union regards the Asian-Pacific region as an important flank. This is because geographically, three-quarters of Soviet territory lies in Asia, accounting for one-third of Asia's land area; economically, the resources in its European sector are becoming exhausted and it must rely on the not-yet-fully-exploited eastern region to further develop its economy; militarily, Asia and the Pacific is the region where it could cross the narrow Bering Strait to make a direct attack upon U.S. territory, pose a threat to China and Japan, and control the sea routes of Southeast Asia, cutting off the trade and energy transportation lines vital to the West. In the event of a war, the Soviet Union could, moreover, make use of its bases in Vietnam to penetrate the Indian Ocean, then proceed through the Suez Canal to act in concert with its forces in the European theater. This region has become all the more important to Soviet economy and strategy as the United States, tempted by the vigorous growth of economy in the Asian-Pacific region, attempts to "return to Asia" by flaunting the banner of "Pacific Community."

In the post-World War II period, the Asian-Pacific region was primarily a U.S. sphere of influence. Since the beginning of the 1970s, however, great changes have

occurred in the Soviet-U.S. military balance. The USSR has not only broken down U.S. nuclear supremacy, it has also increased its superiority over the United States in conventional ground forces. At the same time, the Soviet navy has developed from an offshore defensive force to an ocean offensive force. And the general Soviet strategic position in this region has improved considerably. In the mid-1970s, taking advantage of the U.S. debacle in Vietnam and the subsequent U.S. strategic retreat, the Soviet Union drastically increased its military activities. While strengthening its forces in the Far East, it took Cam Ranh Bay and Da Nang as its advance bases. As a result, Soviet naval and air forces armed with nuclear weapons can be seen everywhere nowadays, from Okhotsk in the north to Cam Ranh Bay in the south, presenting an offensive posture.

Like its global strategy, Soviet strategy in the Asian-Pacific region regards the United States as its major adversary and attempts to weaken and edge out the latter's influence there. In the Soviet perception, the United States is trying to form an anti-Soviet "Eastern Front"¹ in the region by the following means: linking the five defense treaties (i.e., the military treaties between the United States and Japan, the Philippines, Thailand, Australia and New Zealand, and South Korea, respectively) with the joint defense treaty among the five countries (Britain, Malaysia, Singapore, Australia, and New Zealand), forming a blockade line on the sea to contain Soviet activities within the limits of the Asian mainland. The USSR holds that except for some "openings" in Southeast Asia, the U.S. ring of encirclement in the region has almost been completed. In addition, according to the USSR analysis, the United States intends to "integrate member countries of NATO and ANZUS with its bilateral military treaties with Tokyo and Seoul into one chain," and is also trying to establish "a powerful community to the east of the USSR like the Atlantic Alliance in the West."²

In light of the Soviet analysis of U.S. strategic goals, the requirements for implementing its own global strategy, and the measures it has actually adopted, Soviet strategic schemes in the Asian-Pacific region may be described as follows: (1) to upset U.S. military deployment in the Asian-Pacific region, halt military strategic cooperation among the United States, Japan, and South Korea, and diminish U.S. influence there; (2) to contain China, in an attempt to exercise influence on her independent foreign policy; (3) with Vietnam as a stronghold, and by exploiting the divergences among ASEAN countries, to extend its own influence in Southeast Asia in pursuit of a stronger strategic position in this region; (4) to establish a controlled area from Okhotsk through the Sea of Japan to the China Sea in the south, and to press westward to the Indian Ocean so that, if necessary, it could control or cut off the Strait of Malacca and get into the Indian Ocean and the Middle East, thus to encircle Europe from the flank; (5) to break up ANZUS by taking advantage of the Oceanian countries' desire for peace. As for the small Pacific island nations, the USSR employs a policy of control through conciliation, using economic aid and cultural exchanges to

¹ Ovchinnikov, "World Review," *Pravda*, July 15, 1984.

² Ovchinnikov, "World Review," *Pravda*, July 15, 1984.

wear these countries away from the influence of the United States and Australia and gain a foothold for itself.

MAJOR SOVIET MEASURES IN IMPLEMENTING ITS ASIAN-PACIFIC STRATEGY

The USSR resorts mainly to military means in implementing its strategy in the Asian-Pacific region. In the immediate postwar period, the USSR exercised significant political influence in many countries and enjoyed the respect of many Asian-Pacific countries in their struggle for national independence. Nevertheless, more and more countries in the region have grown suspicious of the Soviet Union's intentions since it has pursued a hegemonist policy. Although its economic growth rate has been higher than that of most Western countries, the USSR does not have the advanced technology and equipment of the United States and Japan, and is running short of capital. Its market is far less appealing to Asian-Pacific countries than that of Western countries. Moreover, its economic relations with Asian-Pacific countries often carry a strong political coloring and hence are not welcomed. Therefore, the USSR has to resort primarily to military means in pursuing its goals.

In the early 1960s, having been humiliated during the Cuban crisis, the USSR sped up its buildup of naval and other forces and reinforced its military deployment step by step in the Asian-Pacific region. Since 1978, Soviet military strength in the Pacific region has expanded at an even more rapid rate. The USSR has established its Far Eastern theater headquarters at Chita, in command of the military districts of the Far East, Transbaikal, Siberia, and Soviet troops stationed in Mongolia, as well as the naval and air forces in the region, forming a military entity with the ability to conduct war operations independently. It has reportedly stationed one-third of its ground, naval, and air forces in the Far East region. The Soviet ground force in the Far East has now increased from 20 divisions in the mid-1960s to over 40 now. The Pacific Fleet is equipped with 825 warships and supply vessels, with a total tonnage of 1.7 million. The air force in this theater possesses 2,220 aircraft of various types, including some latest MiG-31s and more than 80 TU-22m bombers (known as the "Backfire" in the West) capable of carrying nuclear weapons. Since 1978, the USSR has been deploying SS-20 missiles in its Far East region, and they now make up one-third of all its SS-20s. Furthermore, it has reinforced its troops on the four Japanese islands, built a second Siberian railroad (BAM), and constructed an oil pipeline from the Tyumen oilfield to the Far East, thus assuring logistic support to the troops there and to its Pacific Fleet.

In its specific military deployment, the USSR seems to follow a pattern of "based on three points, and linking up into one line," namely, to base on Petropavlovsk, its strategic nuclear center, Vladivostok, the base of the Pacific Fleet, and Cam-Ranh Bay, the Pacific Fleet's southernmost advance base, so as to link up the Northwest Pacific with Southeast Asia in one line, forming a ring of encirclement and enhancing its competitive position with the United States for control of the Pacific and the passage between the Pacific and the Indian Ocean. For this purpose, the USSR has

made great efforts to increase its armed forces in the Kamchatka peninsula, Sakhalin, and the four Northern Japanese islands; to strengthen its bases in Vladivostok and Nakhodka; and to increase its naval and air forces in Cam-Ranh Bay.

While relying mainly on military strength, the USSR has not given up its political and economic leverage. In 1969, it came up with the plan of establishing the so-called "Asian Collective Security System." Now it proposes to sign the "Treaty of Confidence-Building Measures and Nonuse of Force in the Far East Region," declaring that any country can join the "Treaty of Nonuse of Force and Maintenance of Peace" it had proposed to NATO; and called for limiting naval activities and extending the suggested confidence-building measures to seas and oceans, especially to areas containing important sea routes. Through Mongolia, it has proposed to sign the "Pact on Nonaggression and Nonuse of Force among the Asian-Pacific countries," and through Vietnam, Laos, and the Heng Samrin regime, it has proposed to turn Indochina into a peaceful and stable region. All these policies are aimed at improving its political image and extricating itself from isolation.

In its economic strategies, the USSR puts priority in propping up Vietnam. Vietnam has now become slavishly dependent on the Soviet Union, with debts to that country totaling around US\$6 billion. As for the U.S. allies, the USSR uses different approaches in dealing with them. In the case of Japan, for example, it uses the abundant Siberian energy resources and other rare materials as bait to lure Japan into joining in the development of its eastern territory; in the case of Australia, it purchases that country's agricultural products and livestock.

JAPAN: AN IMPORTANT FOCUS OF SOVIET ASIAN-PACIFIC STRATEGY

Japan occupies an important strategic position in the Asian-Pacific region, and it is the United States' major partner in implementing that country's "alliance strategy." To achieve superiority over the United States in Northeast Asia and even in the whole Asian-Pacific region, the USSR has to break up the strategic cooperation among the United States, Japan, and South Korea, and to ensure its Pacific Fleet an unrestricted passage through the Sea of Okhotsk into the Pacific. To attain these goals, Japan is the key point in its strategy. In order to increase its economic efficiency and solve the problem of labor and capital shortage, the USSR must quickly modernize its industry with high technology and obtain funds. And Japan represents an important means to this end.

What is more, Japan's own weak points and its frictions with the United States open up opportunities for the USSR to take advantage of. Despite its highly developed economy, Japan is poor in natural resources and some people in Japanese business circles want to develop bilateral economic cooperation with the USSR. Japan has only limited military strength and territory, and antiwar feelings are strong among the Japanese people, who suffered deeply from the scourge of atom bombs during World War II. In the face of Soviet expansion, the Japanese and American governments, while being aware of the great need to strengthen their strategic cooperation, are torn

by the disputes and frictions that constantly arise regarding defense and economic issues, and this dissension stimulates the USSR's desire to "take advantage of an opening in the opponent's defense."³

For all the reasons just listed, the USSR has adopted a policy of alternately "striking" and "stroking" Japan, trying to induce the latter to keep some distance from the United States. To achieve this goal, the USSR has put military pressure on Japan by outflanking it. The headquarters of its Pacific Fleet is located in Vladivostok, just facing the northern tip of the Sea of Japan, where the Soviet submarine base in Sovetskaya Gavan and the medium-range missile base in Nakhodka are also located. Two of the three Soviet aircraft carriers are deployed in the Pacific Fleet, patrolling the Sea of Japan. The USSR continually reinforces its forces on the four northern islands of Japan. According to the 1984 Defense White Paper published by the Japanese Defense Agency as well as some other sources, Soviet troops on these islands have reached the divisional level, equipped with tanks and armored cars as well as the 130-mm long-range artillery and MiG-24 helicopters that normal divisions do not have. On Kunashiri and Etorufu islands, the USSR has built three airfields and another six on southern Sakhalin. Forty MiG-23s are stationed at the Tenne airfield on Etorufu alone. In recent years, Soviet warships passing through the Tsushima, Tsugaru, and Soya straits average as many as 430 ships annually. Its naval and air forces made frequent "patrols" or "scouting missions" in the areas surrounding Japan and often hold military maneuvers with Japan as its imaginary enemy. There is also a detachment from the Soviet Pacific Fleet in the Indian Ocean. The Soviet seizure of naval bases in Vietnam and Kampuchea; its expansion in Africa, the Middle East and the Persian Gulf; and its invasion of Afghanistan also pose a serious threat to the raw material shipping lanes that are vital to Japan.

Economically and politically, the USSR has applied a stick and carrot diplomacy toward Japan in an attempt to win over that country and set Japan against the United States. While declining to negotiate on the four northern islands with Japan, it has declared repeatedly: "During the entire postwar history of bilateral relations, the USSR has not taken any step which could be viewed as one damaging or preventing the development of relations with Japan, or restricting contacts between the two countries."⁴ In recent years the USSR has expressed its willingness to expand economic relations and conduct a political dialogue with Japan and has tried hard to bring the latter over by dangling the bait of Siberian energy and the "Soviet-Japanese Treaty of Good Neighborhood and Cooperation." In 1981, for instance, it proposed to hold talks on formulating "Confidence-Building Measures in the Far East Region." In 1982, it repeated this proposal and went one step further by saying that it could start with bilateral talks if conditions for multilateral talks were not ripe. In October 1984, Kunaev, who led a Supreme Soviet delegation to Japan, reiterated these proposals, indicated the Soviet interest in concluding a nonuse of nuclear weapon treaty and expanding economic exchanges with Japan, and invited the Japanese Federation of

³ "Soviet Strategy Aimed at Japanese High Technology" *Choice* (Japan), no. 4 (1985).

⁴ Akseniev, "Two Criteria of Tokyo," *International Life* (Moscow) no. 11 (1984).

Economic Organizations to cooperate in the development of Siberia. Soviet Vice-Minister of Foreign Trade Grishin made a further proposal at the meeting of the Joint Economic Committee in Tokyo in December 1984: that the USSR was ready to strengthen bilateral economic relations in various forms—that is, the USSR would welcome not only Japanese cooperation in developing Siberia, but also in running joint ventures, and even in establishing free trade zones in the Soviet Union.

In March 1985, the Soviet government proposed to Japan a deal of complete sets of heavy equipment with the total value of 1 trillion yen, and invited the Japanese side to be in charge of everything from designing and installation of the equipment to construction. This was a mode the Soviet Union had never before adopted. According to the Japanese press, since the beginning of this year “the Soviet Union has suddenly increased trade talks with Japan through its representative trade organs and businessmen on importing technology”; “the trade talks on the most advanced technology has increased with each passing day, with robots, high technology, computers, semiconductors, new materials, and electric technology as the main items.”

Japan believes these “are Soviet measures fabricated in order to approach Japan.”⁵ But when these proposals were treated coldly or rejected, the USSR blamed the Japanese government for “willingly and gladly chiming in with Washington’s anti-Soviet strategy,” and “playing a role as Washington’s most loyal partner.”⁶ It even warned that if Japan joined the United States in “nationalizing the Far East,” the USSR would not “keep silent.” Of course, the Soviet attempt to win Japan over is one thing. Whether it can succeed is another.

PROSPECTS OF IMPLEMENTATION OF SOVIET STRATEGY

Since the beginning of the 1980s, notable changes have taken place in the world situation, and the USSR is facing markedly increasing difficulties both at home and abroad. In many ways the USSR is now impeded in implementing its Asian-Pacific strategy. Since Reagan took office, the United States has adjusted its Asian policy to meet Soviet expansion. It has strengthened economic ties and sought for strategic cooperation in the Asian-Pacific region while enhancing its military presence there and modernizing its armed forces. In the past few years, the growth rate of United States investment in the region has surpassed that in Western Europe, and today Asia takes first place in American foreign trade with different parts of the world. Its diplomatic contacts with the Asian-Pacific region have reached an unprecedented scale, taking Japan as the key point in its “alliance diplomacy.” The United States and Japan have reached a series of agreements according to which the two sides would jointly blockade the straits, if necessary; increase joint military exercises; allow U.S. nuclear submarines to anchor at Japanese ports and Japanese warships to escort U.S. naval ships; and so on. In his 1985 defense budget report made to Congress in 1984, U.S. Defense Secretary Caspar Weinberger stated that the cornerstone of U.S.

⁵ “Soviet Strategy Aimed at Japanese High Technology” *Choice* (Japan), no. 4 (1985).

⁶ Glachev, “Japan in the World of 1980s,” *International Life* (Moscow), no. 3 (1985).

defense policy in East Asia was its partnership with Japan based on the cooperation and security treaty. These measures taken by the U.S. government constitute a direct challenge to the Soviet strategy in the region.

Japan's policy towards the USSR is primarily one of confrontation, but it is not intended to provoke the Soviet Union unnecessarily. Japan is prepared to commit itself to the 1,000 nautical miles of sea lane defense stretching from its territory to Guam and Bashi Channel. It has also reached an agreement with the United States to transfer its latest military technology and enable the United States to implement its antimissile defense plan. Since 1980, Japanese naval and air forces have formally taken part in the "Pacific Rim" military maneuvers jointly performed by the United States, Canada, Australia, and New Zealand, and has sent observers to the massive "Team Spirit" maneuvers held every year in the sea area near Korea, China, and the USSR. Despite more frequent Japan-Soviet political dialogue in recent years and Japan's expressed hope to develop bilateral economic cooperation, the Japanese government has consistently linked economic cooperation with resuming sovereignty over its northern islands occupied by the USSR. In October 1984, during his visit to Japan, Kunaev talked at length about the proposals for good neighbor relationships and mutual confidence, but Prime Minister Nakasone made it clear that Japanese-Soviet relations could hardly improve unless the issue of the four islands was resolved.

To ensure its passage to the Pacific, the Soviet Union will not easily give up the four Japanese islands or lessen its military presence on them. At the March 1985 bilateral relations meeting in Moscow between Nakasone and the new Soviet Communist Party leader Mikhail Gorbachev, the USSR remained resolute in refusing to negotiate with Japan on the territorial issue, and Gorbachev reiterated that "our stance on the territorial issue is consistent." There is thus little hope for Japanese-Soviet relations to experience any significant improvement.

Proceeding from the fundamental interests of both the Chinese people and the people of the world at any time, China will adhere to the principle of opposing hegemonism and safeguarding world peace in international affairs. Through more than two years' consultation, Sino-Soviet relations have somewhat improved, but the three main obstacles lying in the way of normalization of relations between the two countries still remain. The improvement of Sino-U.S. and Sino-Japanese relations, China's support for the Korean people's efforts to reunify their country, for the Kampuchean people in their fight against Vietnamese aggression, and for the ASEAN countries in their struggle for safeguarding national independence and sovereignty—all these goals are not conducive to the Soviet strategy in the Asian-Pacific region.

From the Soviet perspective, Southeast Asia is a breach along the U.S. blockade line. In fact, Southeast Asian countries need to counterbalance the Soviet influence by dint of U.S. strength, and they place high hopes on U.S. capital and technology in developing their own economies. Except for Vietnam, Laos, and the Heng Samrin regime, the countries in this area have few contacts with the USSR, whether political or economic. Since the USSR entered into alliance with Vietnam and Vietnam invaded Kampuchea with Soviet support in 1978, Thailand has regarded

the USSR as its main threat. Thailand has been particularly upset at such Soviet moves as deploying MiG-21s, building satellite ground stations and IV networks in Laos to cover Northeast Thailand, sending hundreds of military advisors to the Heng Samrin regime, and the like. Since its establishment in 1967, ASEAN has made several important declarations and decisions, repeatedly stating that it would not get involved in the conflicts between big powers and would oppose any interference from outside. This organization has striven to make Southeast Asia a “Zone of Peace, Freedom, and Neutrality” (ZOPFAN).

In the Southern Pacific region, the USSR has asserted more than once that if Australia and New Zealand remain in alliance with the United States and allow the United States to keep its military installations, then the USSR would attack them with nuclear weapons should a world war break out. Nevertheless, the two countries have a long-standing relationship with the United States and there is little possibility they would break it.

In implementing its strategy in the Asian-Pacific region, in short, the USSR is bound to meet many difficulties and much resistance. Its prospects are by no means brilliant.

6. Changing Soviet Perspectives and Policies on Northeast Asia

Gail Warshofsky Lapidus

INTRODUCTION

For the Soviet Union as for the United States, economic, political, and military developments in the Northeast Asian region are assuming ever greater importance in domestic and foreign policy alike. Longstanding Soviet preoccupation with the development and security of the USSR's vast and vulnerable Asian regions has been given added impetus by economic and demographic trends that continue to shift the center of gravity of the Soviet system eastward. These insecurities have been exacerbated in recent years by political and military developments along the Soviet periphery that adversely affect Soviet interests. From Afghanistan to Japan, regional rivalries and conflicts that directly impinge on the security of the Soviet Union's Asian borders have become entwined with the Soviet-American global competition.

The upsurge of Islamic fundamentalism in Iran, followed by Soviet military involvement in Afghanistan, has fueled anxieties about the possible impact of external events on the large Muslim population of Soviet Central Asia. At the same time, the collapse of *détente* and the military buildup pursued by the Reagan administration, coinciding with a newly assertive Japanese foreign policy under Nakasone, have complicated Soviet strategic planning in the Pacific region. Moreover, while the recent relaxation of Sino-Soviet tensions generates considerable relief in Moscow, fundamental distrust of China's long-term objectives has by no means been extinguished. While current Soviet writings about Chinese domestic and foreign policy are less strident than they were just a few years ago, they remain far from complacent in assessing the thrust of recent changes and their implications for Sino-Soviet relations.

In Northeast Asia as elsewhere, however, Soviet responses to perceived threats have typically exacerbated rather than mitigated Soviet problems. While the com-

* I should like to express my appreciation to David Wolff for his invaluable research assistance in the preparation of this paper.

bined impact of domestic economic priorities and external dangers might argue for a more accommodating Soviet posture in the region, Soviet policy toward both China and Japan has relied heavily on a combination of military pressure and political intimidation. The counterproductive consequences of this stance have been especially pronounced in the case of Japan in recent years, where it has promoted heightened security consciousness, closer political and military ties with the United States, and diminished interest in economic cooperation with the USSR, all of which adversely affect both Soviet security and economic development.

Gorbachev's succession presents the Soviet leadership with considerable opportunities for new initiatives in foreign as well as domestic policy. Undoubtedly, the consolidation of his political position and the management of pressing domestic economic problems constitute Gorbachev's first priorities. But because critical resource allocation decisions are inextricably entwined with assessments of the international situation, and because both impinge on the consolidation of Gorbachev's own authority within the Soviet political elite, the linkage between domestic and foreign policy options at this juncture is exceptionally close. In the effort to shape an international environment less threatening to Soviet interests, and to erode adversary coalitions by either accommodating or dividing potential antagonists, Gorbachev's attention inevitably will be drawn to the management of relations with China and Japan, as well as with their Asian neighbors. The new Soviet leadership is likely to address these relationships with considerably greater energy and sophistication than has been the norm in recent years, and to make far more effective use of political and economic instruments in conjunction with military power. It is less clear how far this leadership will be prepared to go in making the more fundamental concessions that would be required to significantly transform those relationships.

THE GORBACHEV SUCCESSION: DOMESTIC PRIORITIES AND CONSTRAINTS

The growing importance of Asia in Soviet policy concerns coincides with a broader reassessment underway of Soviet domestic and foreign policy priorities. Just two decades ago, at the time of Brezhnev's accession to the Soviet leadership, Soviet officials and scholars could confidently assert that the "world correlation of forces" was shifting to the advantage of the Soviet Union. By the mid-1980s, a far less optimistic assessment was in order. An aging, and frequently ailing, Soviet leadership had proven unable to come to grips effectively with a broad range of domestic and external challenges.

First and foremost among these was the need for serious reform of the Soviet economy in order to assure a steady growth of investment, of military procurements, and of the standard of living of the Soviet population. The slowdown in the rate of Soviet economic growth, from 6–7 percent during the 1950s, to 5 percent in the 1960s, to 4–3 percent in the 1970s, to almost 2 percent in the early 1980s, adversely affected a wide range of policy priorities. The regime's inability to deliver the steady improvement of living standards promised by Khrushchev and his successors not only

disappointed the expectations of the Soviet population but contributed to apathy, corruption, and social malaise.¹ These trends were increasingly perceived as a serious problem by the Soviet political elite itself. In his last years, Brezhnev depicted his Food Program as not merely an economic but a political priority, and Konstantin Chernenko, writing in the Party theoretical journal *Kommunist* in the wake of unrest in Poland, openly warned of the danger of serious sociopolitical crisis in the USSR.² Efforts to lower the expectations of the Soviet population, and to tie improved living standards to increased productivity, reflected the recognition that poor economic performance could even jeopardize political stability.

Investment policy was particularly vulnerable to readjustments under the impact of slowing economic growth and growing scarcity of capital and labor. Grandiose visions of massive Siberian development were increasingly relegated to a very distant future and limited resources shifted from new large-scale projects to favor the completion of existing ones. The claims of the Russian heartland increasingly received higher priority than those of the peripheries, now admonished to make more effective use of their internal resources, and the East European allies of the USSR were pressed for larger contributions to Soviet economic growth.

Economic constraints also forced hard choices about the level and direction of defense spending. The slowdown in the growth in Soviet defense procurements since the late 1970s³ was accompanied by visible tension in Party-military relations, including Brezhnev's remarkable public meeting with the Soviet military leadership in October 1982, and the demotion of Marshal Ogarkov in circumstances suggesting a challenge to Party prerogatives. The growing pressure to economize on scarce resources served to further intensify ongoing conflicts over the scope, purpose, and costs of current commitments both at home and abroad.

Technological backwardness compounded the problems of economic slowdown. The widening gap between Soviet economic and technological achievements and those of the advanced industrial societies was underlined as Japan overtook the USSR in key indicators of national output to occupy second place after the United States, and contributed to the growing mood of frustration and impatience evident among important segments of the Soviet elite.

Equally alarming to Moscow was the erosion of the relatively benign international environment of the 1970s and the rising tension in Soviet-American relations. A major and costly expansion of Soviet military capabilities did not automatically provide a commensurate increase in Soviet security or enhanced political leverage, and the Soviet leadership of the 1980s now confronted a major American military buildup and the prospect of an accelerating arms race with an

¹ See Gail Warshofsky Lapidus, "Social Trends," in Robert F. Byrnes, ed., *After Brezhnev: Sources of Soviet Conduct in the 1980s* (Bloomington, IN: Indiana University Press, 1983).

² Konstantin U. Chernenko, "The Leninist Strategy of Leadership," *Kommunist*, no. 13 (September 1981), pp. 10–11.

³ For a detailed treatment of the evidence surrounding the recent downward revision of CIA estimates of Soviet defense spending, see Richard Kaufmann et al. in *Soviet Economy* 1:1 (1984).

emphasis on complex weapons systems where the United States enjoyed a substantial technological edge. Increased Soviet support during the 1970s for Third World radical movements also yielded limited payoffs, with little assurance that national liberation movements could be readily transformed into pro-Soviet or socialist states. By the 1980s, the costs, complexities, and disappointments associated with such involvements had induced greater realism, if not actual retrenchment, in Soviet Third World policy. Moreover, unsettling developments closer to home further fueled Moscow's anxieties. The rise of Solidarity in Poland constituted both a workers' revolt against a socialist state and a nationalist challenge to the Soviet empire in Eastern Europe, a crisis that prompted genuine concern that social unrest might spill over into the USSR itself. Thus, by the time of Gorbachev's succession, mounting internal and external problems invited a serious reassessment of Soviet priorities.

While the new Soviet leadership under Gorbachev faces a daunting array of domestic and foreign policy problems, it also enjoys unusual opportunities. First and foremost, Gorbachev is the beneficiary of a climate of considerable receptivity to strong and assertive leadership. The long period of perceived drift during the late Brezhnev years, and the psychological trauma, in a political culture accustomed to great stability, of three successions in a relatively short period of time, created a widespread and visible yearning for vigorous leadership within the political elite as well as the broader population. The accession of a new and skillful younger leader in such circumstances creates unusual opportunities to use this mood to political advantage.

Also working in Gorbachev's favor is the fact that the exceptionally low turnover of leading cadres during the Brezhnev period—responsible both for the advanced age of the Soviet political elite at the time of Brezhnev's death and for the mounting frustration of a younger political generation—is now creating an extremely high rate of vacancies, offering Gorbachev exceptional opportunities to reshape the composition of leading political bodies. Not only within the Party but in other key institutions—the military, the economic bureaucracy, the foreign policy establishment, and the policy-relevant research institutes of the Academy of Sciences—major personnel changes will create opportunities for policy shifts. To the extent that Soviet policy making toward Japan and China has reflected the dominance of a number of conservative and ideologically rigid officials in key positions in the Foreign Ministry, the International Department of the Central Committee, and the research institutes concerned with Far Eastern affairs, personnel changes may permit a more flexible and pragmatic approach.⁴

Finally, growing strains in both Sino-American and U.S.-Japanese relations present the new Soviet leadership with opportunities that could be effectively exploited by skillful diplomatic initiatives. Improved relations with China and Japan could not only be useful in their own right, in promoting Soviet economic and

⁴ The recent replacement of Andrei Gromyko by Eduard Shevardnadze as foreign minister, and of M. I. Sladkovskii by M. L. Titorenko as director of the Institute of the Far East, are two cases in point.

strategic objectives in Northeast Asia, but could serve to bring additional pressure to bear on American policy as well.

In short, as the new Soviet leadership attempts to negotiate a more appropriate balance of Soviet aspirations, commitments, and resources at home and abroad, it does so in the context of an exceptionally fluid as well as complex domestic and international setting that offers considerable scope for strong and imaginative leadership. Gorbachev is thus in a good position to leave a distinctive imprint of his own on domestic and foreign policy alike.

SINO-SOVIET RELATIONS: EVOLVING PERSPECTIVES AND POLICIES

The key development in Northeast Asia in recent years—the stabilization and gradual normalization of Sino-Soviet relations after a protracted period of ideological, political, and even military conflict—is the product of a significant shift in both Soviet and Chinese perspectives. On the Chinese side, the rapprochement reflected the assessment, by the early 1980s (and in the wake of growing tensions with the Reagan administration), that both internal and foreign policy priorities would be more effectively served by greater independence of the United States and a less confrontational stance toward the Soviet Union. On the Soviet side, the shift is a product of two key developments of the 1970s: the death of Mao Zedong and succession to power of a more pragmatic Chinese leadership, which made a reduction of Sino-Soviet tensions possible, and the demise of Soviet-American *détente*, which made it urgent. A major obstacle to this shift was removed in early 1982 by the death of Mikhail Suslov, who as ideological secretary had played a central role in the escalation of the Sino-Soviet conflict during the Khrushchev era, and who remained strongly identified with an uncompromisingly harsh and highly ideological stance toward China.

The shift in Soviet policy toward China during Brezhnev's last years took place in the context of a visible and continuing debate among Soviet China specialists and policy advisors over how to assess internal changes in China and their implications for Sino-Soviet relations. More extensive research is needed before this debate can be analyzed with the necessary precision or completeness, or connected adequately to the policy shift that began in 1982. Nonetheless, a close reading of major Soviet publications dealing with China during these years makes it clear that Soviet policy makers had available to them a spectrum of distinct and often conflicting images of post-Mao China, each with potentially differing implications for Soviet policy.⁵

These debates can be best understood against the broader backdrop of the evolution of Sino-Soviet relations, because each new phase in that evolution required a fundamental revision of previous Soviet expectations and assumptions. While the

⁵ Alexander Dallin, "Soviet Perspectives on the Strategic Triangle: Sino-Soviet Relations and the United States" (Second International Congress of Soviet and East European Studies, Garmisch, 1980).

history of that relationship has been explored at length in a number of able studies that need not be recapitulated here,⁶ less attention has been devoted to the evolution of Soviet perspectives and their implications for Soviet policy toward China.⁷

Indeed, for Soviet analysts and policy makers alike, how to analyze the complex and unanticipated evolution of Chinese politics and foreign policy, and how to assess their possible implications for the USSR, has posed an exceedingly difficult challenge. Its difficulty goes beyond the obstacles to understanding any complex and alien society; it inheres in the delicate relationship of China's evolution to the legitimation of the Soviet system itself. As a socialist system in crisis, and indeed—from a Soviet perspective—in danger of a reversal of revolutionary achievements, the explanation of how China could “go astray” touched directly on critical issues of Soviet development as well. Moreover, no conceptual categories were readily available to characterize a system that, according to Soviet criteria, was neither identifiably capitalist nor truly socialist.

Furthermore, discussions of China's evolution served for some participants as a surrogate for debates about the internal Soviet scene, with clear analogies drawn—however convoluted the vocabulary—between Stalinism and Maoism, and clear lessons drawn from the Chinese experience. Finally and not surprisingly, Soviet assessments of China's internal development were as much influenced by the perceived orientation of Chinese foreign policy as they were by a Marxist analysis of economic and social relations. Interpretations of Chinese development therefore posed, for Soviet analysts, complex and novel problems involving the linkage between domestic and foreign policy in socialist systems.

The Sino-Soviet relationship since 1949 has undergone a series of dramatic, indeed traumatic, realignments, each of which has required fundamental reassessments of important assumptions and priorities and has been associated on each side with significant internal controversy. The first phase of that relationship, the period of Sino-Soviet alliance, was the only one that posed relatively few problems for Soviet analysts. With a bipolar and zero-sum view of the environment, and the United States viewed by both as the main enemy, it was a period in which reality confirmed the

⁶ The most comprehensive English-language treatment of the Sino-Soviet conflict in the 1970s is Kenneth Lieberthal, “Sino-Soviet Conflict in the 1970s: Its Evolution and Implications for the Strategic Triangle” (Santa Monica, CA: Rand Corp., 1978). Recent studies include Herbert Ellison, ed., *The Sino-Soviet Conflict* (Seattle, WA: University of Washington Press, 1982); Donald S. Zagoria, ed., *Soviet Policy in East Asia* (New Haven, CT: Yale University Press, 1982); and Douglas T. Stuart and William T. Tow, eds., *China, the Soviet Union, and the West* (Boulder, CO: Westview Press, 1982). See also Zagoria, “The Moscow-Beijing Détente,” *Foreign Affairs*, Spring 1983, pp. 853–873; and William E. Griffith, “Sino-Soviet Rapprochement?” *Problems of Communism*, March-April 1983.

⁷ The major treatment of Soviet academic studies of China that focuses on such differences is Gilbert Rozman, *Mirror for Socialism: Soviet Criticism of China* (Princeton, NJ: Princeton University Press, 1985) and his “Moscow's China-Watchers in the Post-Mao Era: The Response to a Changing China,” *The China Quarterly* 94 (June 1983). See also Chi Su, “U.S.-China Relations: Soviet Views and Policies,” *Asian Survey* 23:5 (May 1983). A parallel argument concerning two contending perspectives in Moscow is made by Harry Gelman in testimony before the U.S. Congress Subcommittee on Asian and Pacific Affairs on August 2, 1983 (“Prospects for Soviet Policy Toward China,” Santa Monica, CA: Rand Corp., 1983).

belief that shared ideological commitments and economic-political systems were bound to lead to common interests and orientations in international affairs. This expectation was so deeply rooted in Soviet thinking (and indeed in Marxist-Leninist theory itself) that it is not surprising that the emergence of the Sino-Soviet conflict in the late 1950s posed a fundamental challenge to Soviet perceptions and policies in international affairs.

Close cooperation between the USSR and China during this period also prompted an optimistic Soviet assessment of the prospects for socialist development in China. Notwithstanding China's relative backwardness, Soviet writings took the view that the objective conditions for socialist transformation in China were indeed present in the 1950s, and that by borrowing from Soviet experience as well as drawing on Soviet assistance, China was in a position to make a successful transition to socialism. Soviet writings during these years presented a comparatively rosy portrait of China's successes while largely ignoring the problems. Even as late as 1958, the predominant Soviet image of the People's Republic reflected official enthusiasm for the policies of the Great Leap Forward.

By the late 1950s, the Sino-Soviet alliance was eroding in the face of growing rivalry that would fundamentally transform the political and strategic landscape in Northeast Asia. This second, conflictual phase of Sino-Soviet relations, which involved both irreconcilable political differences and ideological schism, and which erupted in the late 1960s in military clashes amid conflicting territorial claims, was experienced by the Soviet leadership as a profoundly threatening development. It posed not only the political challenge of divergent state interests, and a security threat heightened by the turmoil of the cultural revolution, but a profound ideological challenge as well: to the very legitimacy of the Soviet system; to the domestic and foreign policies of the Soviet state; to the cohesion of the socialist commonwealth; and to Soviet leadership of the international communist movement.⁸

The Sino-Soviet conflict, moreover, increasingly took on a geopolitical and strategic dimension. A Soviet military buildup along the frontier with China intended both to deter and to exert pressure prompted the Chinese to reduce their own exposure through improved relations with the United States. The resulting Sino-American rapprochement of the 1970s introduced a third stage in the development of Sino-Soviet relations. As the relationship with the United States moved from political normalization to a discussion of possible security ties, Soviet anxieties were heightened by the fear that a strategic threat would be superimposed on the political and ideological challenge.

The emergence of the Sino-Soviet conflict provoked a serious upheaval in Soviet studies of China as well. The history of the Chinese revolution required revision in order to explain the later deviation of China from a socialist course. Just as Khrushchev had sought to explain Stalinism in terms of the deviations of an individual leader, so did the early Soviet writings attribute China's difficulties to the errors of

⁸ Mao's denial, in 1966, of the very existence of a "socialist camp" amid Sino-Soviet tensions over aid to Vietnam constituted just such a challenge.

Mao and his supporters, and their voluntarist and nationalist proclivities. Over time, however, a more elaborate analysis was articulated that gave greater weight to the problem of backwardness as a fundamental obstacle to socialist transformation in China.

The death of Mao, and the subsequent removal of the Gang of Four, failed to produce the outcome anticipated and eagerly awaited in Moscow: the emergence in Beijing of a pro-Soviet leadership prepared to restore the status quo ante. Rather, a new and unanticipated pattern of changes began to unfold that was initially treated in Soviet writings as a form of "Maoism without Mao" but that posed genuine dilemmas for Moscow. On one hand, the diminution of revolutionary zeal that accompanied the Four Modernizations campaign under Deng Xiaoping brought an end to China's ideological and political challenge to Soviet policies. Chinese attacks on the Soviet leadership for its betrayal of revolutionary goals were halted with the acknowledgment that revisionism had been "incorrectly defined" during the Cultural Revolution. Chinese relations with other socialist states and parties were selectively reestablished. Equally significant, the stabilization of internal Chinese politics under a more pragmatic new leadership also served to allay Soviet security concerns. The fear that a highly volatile and irrational Maoist leadership might provoke either domestic instability or external adventures that would require Soviet military action gradually diminished, while the clear priority given by the Chinese leadership to internal economic development even at the sacrifice of a military buildup could not but reassure the Soviet political and military elite.

At the same time, these developments raised the prospect that a modernized China, economically and politically linked to the West and Japan, and sharing their distrust of Soviet global ambitions, would over the long term constitute an even more powerful potential adversary. Moreover, as Soviet analysts repeatedly pointed out, Chinese criticism of Soviet policy did not come to a halt but rather shifted from an ideological to a strategic focus: "hegemonism" replaced "revisionism" as the main target. While the diminution of the ideological component of the Sino-Soviet conflict thus removed a major obstacle to improved relations, it did not alter the presence of fundamentally conflicting national geopolitical and security interests.

While these ambiguous features of post-Maoist development in China reinforced the caution and indeed skepticism of the Soviet establishment, by late 1978 a series of alarming developments (the erosion of Soviet-American détente, the imminent prospect of Sino-American security ties directed against the USSR, high tension in Sino-Vietnamese relations, and a Sino-Japanese rapprochement that contributed to concerns about encirclement) prompted a mutual interest in reducing tensions. These preliminary contacts, which involved the relaxation of previous Chinese preconditions, were interrupted by the Soviet invasion of Afghanistan; it was not until 1982 that both sides were prepared to explore seriously a real alteration of their relationship. During the intervening years, however, a major controversy over the interpretation of Chinese policies and objectives helped to set the stage for a more receptive Soviet attitude toward China.

The turning point in Sino-Soviet relations came in 1982. Shortly after Suslov's

death, the Soviet leadership signaled a serious interest in improving relations, an interest that now coincided with the seeming Chinese desire to create a more equidistant relationship with both superpowers. In a speech in Tashkent on March 24, 1982, for example, Brezhnev explicitly stated that "we have never considered the state of hostility and alienation between our countries to be a normal phenomenon," a position he reaffirmed in a speech in Baku two months later.⁹ In its customary year-end roundup, the Party ideological journal *Kommunist* offered a clear indication that the improvement of relations with China had involved significant policy controversy: it portrayed Brezhnev's initiatives as necessitating an effort to overcome the forces of "inertia" and "prejudice."¹⁰

Since 1982, Sino-Soviet relations have moved forward in a steady progression of steps, beginning with cultural and scientific exchanges and moving on to significant agreements on trade and technological cooperation, including Soviet commitments to provide advisors and equipment to help refurbish plants originally built with Soviet assistance during the 1950s.¹¹

Political contacts between the USSR and China are similarly expanding, from lower-level meetings on border and related issues to discussions at the deputy foreign minister level, to the recently announced plans for an exchange of visits by the two foreign ministers. Party relations remain suspended, although several recent and reciprocal gestures, including the use of the terms "socialist" and "comrade" as forms of mutual address, may signal impending changes here as well.¹²

The expansion of cultural and economic cooperation required comparatively modest adjustments of perceptions and policy; a larger political rapprochement faces serious military and political obstacles. The growth of Soviet military and strategic deployments in the Far East during the 1970s and 1980s, including the continuing buildup of Backfire bombers and SS-20 missiles, was intended as a form of political pressure as well as a military deterrent, clearly directed at China as well as Japan and the United States despite Soviet insistence to the contrary.¹³ In addition, in the late

⁹ *Pravda*, March 25, 1982, p. 2. Brezhnev's statement was echoed in a *Pravda* article by the pseudonymous but authoritative spokesman on China policy, "I. Aleksandrov" on May 20, 1982, stating, "We are deeply convinced that . . . there is a real possibility for improving Sino-Soviet relations." Andropov used the occasion of Brezhnev's funeral in November 1982 to refer to China as "our great neighbor." It is worth noting that Chernenko made no mention of China in his inaugural speech, while Gorbachev on a comparable occasion called for "a genuine improvement in relations with the People's Republic." (TASS, March 11, 1985).

¹⁰ *Kommunist*, no. 18 (1982), p. 12.

¹¹ Total trade turnover in 1983 nearly doubled, to almost US\$800 million, increased to US\$1.2 billion in 1984, and was scheduled to rise to US\$1.8 billion as a result of agreements concluded during Arkhipov's visit (*Far Eastern Economic Review*, March 21, 1985, p. 94).

¹² Following Gorbachev's conciliatory remarks in his inaugural speech the Chinese press began to refer to him as "Comrade"; and during a meeting with Gorbachev after Chernenko's funeral, Vice Premier Li Peng described the Soviet Union as a socialist country for the first time since the Sino-Soviet estrangement.

¹³ Soviet military forces in the Far East, according to recent Pentagon estimates, have been increased to 52 infantry divisions, 1820 tactical aircraft, and 135 SS-20 missile launchers (*New York Times*, March 31, 1985), and the Soviet Union has gained the use of Cam-Ranh Bay from the Vietnamese to support expanding naval operations in the region.

1970s a shift to Soviet military strategy that assigned increased priority to perimeter defense was accompanied by a major strengthening of the forces under the newly created Far Eastern command. Moreover, Soviet initiatives at the height of the Sino-Soviet conflict involved the construction of an alliance system aimed at the political and military encirclement of China, as well as efforts to promote internal disaffection and destabilization. Those political and military arrangements, which involve a network of Soviet relations with regional clients and allies from Vietnam and Mongolia to Afghanistan, are a serious obstacle to fundamental policy shifts.

The Soviet leadership has thus far shown no willingness to make significant concessions on any of the three issues that the Chinese leadership has identified as basic obstacles to real normalization: the removal of the threat to China's northeastern border, the withdrawal of Soviet troops from Afghanistan, and a solution to the Kampuchean problem responsive to China's interests. Indeed, while Soviet publications have muted their criticism of Chinese domestic reforms, they continue their sharp attacks on China's foreign policy. Soviet articles regularly denounce the PCR for its support for the Afghan rebels and alleged intransigence toward a solution of the Kampuchean problem; insist the USSR will never compromise the interests of its allies in pursuing improved relations with China; and assign China exclusive blame for the absence of progress toward full normalization of relations with the USSR.¹⁴

It is conceivable that the new Soviet leadership could agree to token troop reductions along the Sino-Soviet border, particularly since a severe manpower shortage is already straining the system of military conscription. Resistance to such a step may indeed have been weakened by the recent unilateral Chinese decision to reduce by one-fourth the size of its own standing forces. But major Soviet concessions with respect to the remaining Chinese concerns seem less likely, despite the evident anxieties of the Vietnamese and other Soviet allies; the recent improvement in relations is far more the product of changes in Chinese than in Soviet policy. To the extent that recent Chinese economic and military initiatives designed to address pressing domestic problems have the additional effect of alleviating key Soviet concerns, they may reduce to some degree Chinese bargaining power in these negotiations and limit the prospect of significant Soviet accommodation to Chinese concerns in the military-political sphere. Thus, while it is clear that both sides have a serious stake in managing their relationship at lower levels of tension, it remains uncertain how far this recent stabilization will move in the direction of normalization, and on what terms.

SOVIET POLICY DEBATES

The future evolution of Soviet policy toward China, and the prospect of significant Soviet accommodation of Chinese concerns, will be shaped in consider-

¹⁴ For example, an article in *Izvestiia* on January 24, 1985, accused Beijing of becoming "the second major center after Washington for waging the undeclared war against Afghanistan," and a Moscow television newscast on February 20, 1985, described Chinese aid to the mujahiddin as "merely one shameful, dirty page in the policy of the Chinese hegemonists, who verbally proclaim nonintervention in the internal affairs of other countries."

able measure by Soviet assessments of China's probable development. Different perceptions of the direction and implications of current Chinese policy, as well as of broader trends in the world correlation of forces, will impinge on judgments of the costs and benefits of possible Soviet responses. A better understanding of recent Soviet debates about China may therefore yield useful insights into official thinking, as well as the scope and limits of possible shifts in Soviet policy.¹⁵

In a provocative recent article, Franklyn Griffiths has argued that Soviet images of the United States in the postwar era can be grouped into four broad patterns, each of which is associated with a distinct set of predispositions in foreign policy.¹⁶ The first image posits a highly totalitarian order, in which politics virtually disappears from view; the second seeks to accommodate visible evidence of internal conflict within the elite and of a process of adaptation in domestic as well as foreign policy; the third posits a higher degree of pluralism and the dominance of political over economic factors in shaping behavior; and the fourth (and least developed) portrays a relatively autonomous state capable of responsiveness as well as repression in maintaining the existing social order.

Each of these images, Griffiths goes on to argue, is associated with a distinct set of predispositions in foreign policy. The first, he suggests, orients the Soviet viewer toward a policy of confrontation; the second toward policies that seek to exploit divisions within the dominant elite, and between the key adversary and its allies; the third toward efforts not merely to manage rivalry but to achieve long-term stabilization of political and military relations; and the fourth to achieve a more fundamental transformation of the structure of international relations that might permit internal reform and democratization of the Soviet system itself. While this framework is derived from an analysis of Soviet writings about the United States, whose economic and political structure raise fundamentally different issues from the analysis of China, the analytical categories and policy dispositions outlined here have striking applicability to Soviet discussions of China.

While a full discussion of this entire spectrum of Soviet images of China is clearly beyond the scope of this paper, a focus on the two central competing perspectives may prove useful in illuminating Soviet policy options. Indeed, from what we know of the dynamics of the Soviet policy-making process, it is likely that, however broad the spectrum of views among China specialists, policy debates within the political elite were telescoped into two major competing perspectives, one involving a highly negative assessment of Chinese domestic and foreign policy trends and opposing any significant Soviet concessions for the sake of improved relations, and the other adopting a more nuanced assessment of changes in post-Mao China and supporting a more flexible Soviet approach.

As we have seen, official Soviet views evolving in the 1960s and 1970s sought to explain the Sino-Soviet conflict by arguing that nationalism was the basic source of

¹⁵ The impact of recent policy shifts by the Chinese is examined in Gerald Segal, *Sino-Soviet Relations after Mao* (London: Adelphi Papers, No. 202, 1985).

¹⁶ Franklyn Griffiths, "The Sources of American Conduct: Soviet Perspectives and Their Policy Implications," *International Security* 9:2 (Fall 1984).

the Chinese deviation from the path of Marxism-Leninism. Throughout this period and well into the early 1980s, Soviet Party and scholarly publications conveyed an extremely negative image of China, albeit an image not without significant ambiguities and inconsistencies. Chinese modernization was treated as an effort to create a powerful economic, scientific, technological, and ultimately military foundation for pursuing “traditional” expansionist aims.

In foreign policy, and despite claims of equidistance from the hegemonistic ambitions of both superpowers, the Chinese, according to Soviet accounts, have become increasingly enmeshed in the world capitalist system, defend the orientations and positions of Washington in international affairs, demonstrate hostility to the world socialist system, and fail to support the policies of neighboring socialist states, from Vietnam to Afghanistan. If the ideological struggle came to figure less prominently in Soviet foreign policy pronouncements, Chinese behavior, in Moscow’s view, nonetheless reflected a growing alignment with the capitalist camp.

In its domestic policies, according to most Soviet experts, China moved away from the irrationality and radicalism of Maoism without returning to a genuinely socialist path of development. Indeed, while Soviet publications recognize that a “socialist structure” still predominates in China, they express indirect concern that new economic initiatives based on capitalist practices carry with them “the threat of bourgeois degeneration and the absorption of the People’s Republic of China into the capitalist system.”¹⁷ Nonetheless, a shift of tone is apparent in more recent Soviet publications, which tend to report more matter-of-factly about current economic reforms, attribute all reservations about them to unidentified Chinese or foreign observers, and withhold any final judgment about their impact.

Current Soviet treatment of China’s development is perhaps best exemplified by an authoritative article in *Problemy Dal’nego Vostoka* in late 1984 that used the occasion of the thirty-fifth anniversary of the Chinese revolution to offer a comprehensive assessment of China’s revolutionary experience.¹⁸ China’s backwardness, it argues, was responsible for making its transition to socialism more difficult; these difficulties were compounded by the errors of a leadership “dizzy from success”; the economic restoration favored by Zhou Enlai was interrupted by the tragic, lost years of the Cultural Revolution; Mao’s death was succeeded by a struggle between two lines within the Party “given the absence of ready models of socialism” for China to imitate. Questions about the impact of market-oriented reforms and an “open door” in foreign economic policy on central planning are attributed to “some” observers in China who question the wisdom of these measures, but the article concludes that “only time will show” whether the achievements are worth the price. The harshest lines in the article are reserved for Chinese foreign policy. The five principles of peaceful coexistence that, in the Chinese view, are universal norms for relations

¹⁷ *Problemy Dal’nego Vostoka*, no. 3 (1979), p. 23.

¹⁸ S. G. Iurkov, “35-letie Kitaiskoi narodnoi revoliutsii,” *Problemy Dal’nego Vostoka*, no. 3 (1984), pp. 26–36.

between all states are criticized as a repudiation of class analysis in favor of a purely geopolitical and nonclass approach.

While this summary of Soviet views is intended to capture broad trends and shifts in authoritative Soviet publications concerning China, a close reading of these materials suggests the presence of two conflicting orientations, involving different assessments of current developments in China and associated with different foreign policy orientations. While important changes occurred during the 1970s and the early 1980s in certain details of this assessment, the core features of each of the tendencies have remained relatively stable.

The first of these images is associated with the views of a hard-line Party and foreign policy establishment (embracing key figures in the Central Committee, Ministry of Foreign Affairs, and Institute of Far Eastern Affairs, and typified by O. B. Rakhmanin) and reflects the deep suspicion and almost visceral hostility toward China widespread among Soviet elites as well as the broader population.¹⁹ While it pays lip service to the long-term prospects for socialism in China, and for a renewal of Sino-Soviet cooperation, in practice it emphasizes the enormous historical, socioeconomic, and political impediments that stand in the way. From Confucianism to the great Han dynastic ambitions, to the influence of the Kuomintang right, to the deviations of Mao himself, the entire history of China reinforces this negative view, in which the only bright spot is the brief period of Sino-Soviet cooperation. Indeed, the very backwardness of China, and the strength of nationalism and of other reactionary tendencies, make the success of socialist revolution especially dependent on the closest association with and assistance from the Soviet Union, and the close imitation in China of the Soviet model. By implicit analogy with the official Soviet treatment of the development of Soviet Central Asia, or the socialist transformation of Mongolia, China is portrayed as a relatively inhospitable setting for socialism, and one in which the prospects are therefore closely linked with the role of the Soviet Union. The Chinese leadership, by turning from the promising course set out during the period of Sino-Soviet cooperation in the 1950s, jeopardized this possibility, and no serious or promising changes have taken place since Mao's death that give cause for real optimism.

This is, in short, an "essentialist" analysis of the Chinese political system that is more preoccupied with an image of what the system is than of what it does. As the authoritative (if nonexistent) commentator I. Alexandrov put it, "The possibility of a

¹⁹ A surrogate survey conducted by USIA in 1983–84 to tap Soviet elite attitudes and perceptions of international affairs found deep suspicion of, if not outright hatred for, the Chinese among the overwhelming majority, with three-fourths estimated to believe that Soviet interests conflicted with those of China. (By contrast, only one-third described Soviet and American interests as similarly conflicting.) The study also indicated that the sense of threat had diminished considerably since 1980–81, but that Soviets considered American policy shortsighted in believing it could build a stable relationship with China based on trust and in helping promote China's modernization; Richard Dobson, *Soviet Elite Attitudes and Perceptions: Foreign Affairs* (Washington, D.C.: Office of Research, USIA, February 1985).

'peaceful respite' which Beijing is promising the people is interpreted by certain well-wishers of neo-Maoism, particularly in the West, as an indication of 'constructive shifts' and 'softening' policy. . . . The Chinese strategy, as the facts indicate, remains the same as under Mao Zedong."²⁰ In a similar vein, the 1980 yearbook of the Institute on the World Labor Movement cautioned against interpreting internal changes in China as de-Maoization, insisting that such views have "no serious foundation" and that recent developments in China do not constitute a "return to a socialist policy. . . but on the contrary, a further strengthening of the military-bureaucratic dictatorship created during the life of Mao Zedong."²¹

The pessimism and rigidity of such an analysis, with its highly skeptical attitude toward Chinese intentions, has clear implications for Soviet policy toward China. It would support only the most limited expectations of the prospects for rapprochement, a relatively unyielding Soviet negotiating position, and an emphasis on the continuing importance of Soviet military assets in deterring, inhibiting, and influencing Chinese behavior. In short, it reinforces the position of those in the Soviet political and military leadership who oppose any sacrifice of present Soviet geopolitical advantages in Asia for the sake of a possibly illusory payoff in Chinese goodwill.

This perspective stands in sharp contrast to the rather different image of Chinese evolution and prospects found in the writings of another group of scholars and specialists, concentrated at several research institutes but including such influential policy advisors as Aleksandr Bovin, Lev Deliusin, and Fiodor Burlatsky. Their writings present a far more complex, nuanced, and positive assessment of the Chinese political scene than the first approach, and one based on greater familiarity with both Chinese and Western sources.

The more positive assessment of current Chinese developments is based upon both a different interpretation of China's historical development and a somewhat different critique of Maoism from the one adopted by advocates of the first position. China's backwardness, in this view, has certain positive consequences: the weak development of social classes and of class antagonisms reduces rather than magnifies the danger of capitalist revival. The critique of Maoism offered here is one that focuses on the radicalism, coerciveness, and violence of its assault on Chinese society, implicitly welcoming a more pragmatic and gradualist approach to social transformation that relies less on state coercion and more on material incentives.

By treating the future development of China as open and indeterminate, and arguing that a desire for independence rather than hegemony is the wellspring of its foreign policy, analysts in this group would appear to be suggesting that China's future choices will be influenced to some degree by Soviet behavior. Moreover, by emphasizing the Chinese preoccupation with internal development and the correspondingly low military threat it poses to the USSR, this analysis would support advocacy of expanded Sino-Soviet contacts and possible limited concessions to

²⁰ *Pravda*, May 26, 1980.

²¹ Institut obshchestvennykh nauk, *Problemy kommunisticheskogo dvizheniia* (Moscow: Mysl', 1981), p. 248.

Chinese concerns. Indeed, at precisely the time when articles by Aleksandrov and others were warning of the dangers of Chinese hegemonism, Aleksandr Bovin was commenting in a very different tone. China's foreign policy, he was arguing, was impelled by two concerns:

First, China is trying to establish itself as a great power with global interests. This requires the widest possible contacts. Second, in order to overcome the chaos in the economy caused by the great helmsman's experiments, and to modernize the country, China needs foreign aid. This is understandable.²²

Bovin went on to point out that "China is a power of world importance" with legitimate interests and aspirations and hinted that "in other conditions, the Soviet Union would itself be ready to help China."

While the Sino-Soviet rapprochement of the past few years appears to be associated with a less dogmatic Soviet view of Chinese development, controversy has by no means come to an end. Conflicting assessments of the Chinese domestic scene and their implications for Soviet policy toward China are likely to be a continuing feature of the Soviet scene. Indeed, a number of fundamental questions remain open to this day. How extensive is the perceived area of overlapping interests between the USSR and China in the light of recent developments in Chinese domestic and foreign policy? How far should the Soviet Union be prepared to go in limiting its commitment to other allies for the sake of improving its relations with China, and perhaps forestalling closer Chinese economic and military cooperation with the United States and Japan? And to what extent are there natural limits placed on the Sino-American rapprochement in any case by the nature of the two political systems, by potentially competing economic interests, by the interests of other Asian allies of the United States, and by American commitments to Taiwan?

SOVIET PERSPECTIVES AND POLICIES TOWARD JAPAN

If Soviet policy toward China has evolved from an emphasis on confrontation and intimidation toward rapprochement in recent years, Soviet policy toward Japan has until recently been striking in its rigidity. Indeed, the evolution of Soviet perspectives and policies toward Japan in the late 1970s and early 1980s reflects an inflexibility and lack of sensitivity virtually unmatched in Soviet policy toward any other major world area. In this respect it not only differs from the Soviet management of relations with China, but offers a particularly striking contrast to the more flexible

²² Bovin, in Radio Moscow, June 24, 1980, cited in Dallin, "Soviet Perspectives." These discussions are not without their implications for Soviet internal as well as foreign policy. Among the analysts associated with this second perspective are some whose writings have explicitly called for fundamental economic and political reform in the USSR. Indeed, for some of them further de-Stalinization, internal democratization of the Soviet system in the framework of a more stable international environment, and a broader and more flexible definition of the socialist commonwealth have long been a central priority. Rather than desiring to see China imitate a flawed Soviet model, they may well hope that the exploration of new political and economic alternatives now underway in China will prove to be of wider significance in the elaboration of different varieties of socialism.

reliance on a combination of inducements and pressures that has marked Soviet policy toward the West European allies of the United States, including West Germany. Although Soviet depictions of the revival of revanchism in both West Germany and Japan have striking parallels (parallels that were given particular prominence during the preparations for the anniversary of the Soviet victory over both in World War II), the massive Soviet effort to cultivate European elites and publics—particularly at times of worsening relations with the United States—has only a pale counterpart in Soviet policy toward Japan.²³

Soviet policy toward the Northern Territories—the most fundamental obstacle to improved relations between the Soviet Union and Japan—is a case in point. Not only has the Soviet position on this issue been highly intransigent; if anything, it has become even more rigid in the past few years. Indeed, prior to Gorbachev's accession Soviet policy on the Northern Territories had progressively hardened over time, from an apparent willingness in the mid-1950s to negotiate over territorial issues in the context of concluding a peace treaty, to an effort in the 1960s to make such talks contingent on the removal of foreign troops, to an insistence in the 1970s that the territorial issue was no longer among the "yet unresolved problems remaining since World War II" but rather an issue "long settled," to the accusation, in late 1983 and 1984, that continuing Japanese desire to reclaim the islands was an expression of "revanchism."²⁴

Similarly, Soviet assessments of Japan's domestic and foreign policies have taken on an increasingly harsh and uncompromising tone in recent years. While the signing of the Sino-Japanese agreement of 1978 was occasion for alarm, the real catalyst was the emergence of a more assertive Japanese global policy under Nakasone. Until early 1983, Soviet criticism focused on the Reagan administration's efforts to enmesh Japan ever more tightly into a web of economic, political, and military relationships, and treated Japan's role as largely acquiescent and passive. Beginning in early 1983, however, Soviet discussions of the "Natoization" of Japan not only became increasingly alarmist in tone but also began to lay increasing blame on the Japanese leadership itself for its willingness to join in such efforts.²⁵ The economic as well as political orientation of Japanese policy came under attack, with Soviet authors criticizing Japanese efforts at "linkage" and implying that lucrative Soviet contracts were being diverted to Western Europe as a result.

A close reading of a wide range of Soviet publications would undoubtedly reveal not only fundamental inconsistencies and contradictions in Soviet treatment but significant variations in the assessments of different authors on such key issues as the degree of convergence of American and Japanese interests, the domestic sources

²³ Informative discussions of Soviet-Japanese relations include Hiroshi Kimura, "USSR-Japan Relations" (Washington, D.C.: Kennan Institute Occasional Paper no. 180, March 1984); and Tetsuya Kataoka, "Japan's Northern Threat," *Problems of Communism* (March/April 1984), pp. 1–16.

²⁴ For one example among many, see *Krasnaia zvezda*, September 23, 1983, p. 3.

²⁵ Compare, for example, *Krasnaia zvezda*, November 12, 1982, p. 3, with *Pravda*, February 1, 1983, and the extensive review of trends in Japan in *Izvestiia*, November 28, 1983.

of current Japanese foreign policy, and its likely evolution. Nonetheless, certain broad themes stand out in current Soviet publications.

The central preoccupation of recent Soviet writings on Japan has been what Soviet sources describe as a major transformation of Japanese foreign policy under Nakasone, a transformation that is treated in highly critical and indeed alarmist terms. This shift is portrayed in Soviet writings as an inappropriate and dangerous search by a regional power for a global role, a quest that is responsible for what is seen as the growing convergence of Japanese and American foreign policy.

Throughout the 1970s, Soviet analysts were relatively slow to appreciate the political significance of Japan's growing economic and technological prowess because of the traditional tendency among Soviet elites to think of power in largely military terms. Once that recognition came, they were correspondingly very quick to assume that economic power would be rapidly translated into military power. Despite the obvious fact that Japanese military spending is likely to remain sharply constrained for political and economic reasons for the foreseeable future, and that even under Nakasone Japan's military spending constitutes only 1 percent of GNP, Soviet writings create the impression that the militarization of Japan is already well underway.

The revival of Japanese militarism, and its dangers, has become a central theme in recent Soviet writings. Frequent references to the lessons of World War II, as well as the frequent parallels drawn between current trends in Japan and West Germany, are the basis of appeals and messages to a variety of different audiences. To Japanese public opinion more broadly, and especially to its pacifist wing, there is the reminder that it is the Japanese people that have been and are likely again to be the ultimate victims of Japanese militarism. Frequent allusions to the American use of the first atomic weapons at Hiroshima and Nagasaki are simultaneously an evocation of the horrors of nuclear conflict, a reminder of Japan's vulnerability, and an effort to fan latent hostility toward the United States.

At the same time, Soviet discussions of the "lessons of history" convey different and distinctly anti-Japanese messages to other audiences. References to Japanese militarism aimed at American audiences play on the memory of enmity during World War II; aimed at Korea and Southeast Asia, they seek to stir up anxieties about long-term Japanese intentions in the Pacific region.

While many Soviet specialists on Asia are highly critical of Soviet policy toward Japan, and some have suggested to Western colleagues that a major shift in Soviet policy toward the Northern Territories is by no means foreclosed,²⁶ there are a number of reasons why such a shift is highly unlikely. There is, first, no historical precedent for Soviet return of territories not merely occupied but formally incorporated into the USSR; in this respect, the Austrian Peace Treaty offers no real analogy. Second, Soviet fortification of the islands in the late 1970s was not merely an attempt at intimidation but part of a fundamental reorientation of military strategy,

²⁶ See, for example, Jerry F. Hough, "Gorbachev's Strategy," *Foreign Affairs*, Fall 1983, p. 46.

including the expansion of the Pacific Fleet, in which the Sea of Okhotsk now occupies a critical place. In view of the new strategic significance of the Southern Kuriles, and the very considerable stake the Soviet military now has in them, the obstacles to a renegotiation of their status are greater still. Finally, Soviet willingness to open negotiations on Japanese territorial claims would set a most unwelcome precedent, virtually inviting demands from other claimants, not the least of them the People's Republic of China.

In past years, signs of greater Soviet flexibility concerning the islands has tended to be associated with the effort either to forestall closer Japanese-American security ties, or to woo Japanese business circles in the interest of expanded economic cooperation. Recent Soviet overtures may well be an effort to capitalize on growing strains in Japanese-American relations. Events of the past few years, however, have generated more realistic assessments of the potential Soviet market in Japan and have promoted greater politicization of Japanese foreign economic relations. They have also reinforced the importance of the American security umbrella. Undoubtedly, there is considerable scope for a more sensitive and accommodating Soviet approach to Japan, and Shevardnadze's recent visit represents a clear first step in this direction. But it is difficult to imagine what uniquely potent combination of pressures or inducements might produce the basic shift in the Soviet position that would make it possible to resolve the conflict over the Northern Territories in the years ahead.

In short, it would appear that while many Soviet scholars and commentators consider Soviet policy toward Japan excessively rigid and shortsighted, it appears to reflect the perception that not only is the overall direction of Japan's evolution highly unfavorable to Soviet interests in the region, but there is relatively little prospect of altering it without major Soviet concessions. Given the importance to Japan of close relationships with both the United States and China, Japan's dependence on American military superiority in the Pacific to counter Soviet pressures, and its dependence as well on an American market that would be even further jeopardized by efforts to forge a substantial economic relationship with the USSR unilaterally, there is only limited scope for a serious improvement in Soviet-Japanese relations in the near future without a fundamental shift in Soviet policy.

7. Japan's Role in Asia and the Pacific: Its Relations with the United States, China, and the USSR

Chalmers Johnson

In 1982, for the first time in modern history, trans-Pacific trade became more valuable than trans-Atlantic trade. In 1960, the international commerce of the world's largest economy, the United States, with the Asia-Pacific region was only 48.1 percent of U.S. trade with Europe. Twenty years later, the ratio had virtually equalized at 97.8 percent, and in 1982, it stood at 109.5 percent. This enormous and rapid growth in economic activity across the Pacific has given rise to the concept of a "Pacific Basin," which may be defined in several different ways. For purposes of the present analysis, I define Pacific Basin as an economic entity comprising interaction among six different centers: Japan, the newly industrialized countries, or NICs (South Korea plus the three big overseas Chinese communities of Taiwan, Hong Kong, and Singapore), ASEAN (excluding Singapore), mainland China, Australia and New Zealand, and the west coast of the United States and Canada plus Alaska and Hawaii. Within the Pacific Basin so defined, Japan is an economic superpower, accounting for more than 50 percent of the total production of all six groups during 1981.¹

Because of its tremendous economic influence, the foreign policy of Japan is critically important to all the nations of the Pacific Basin, including those omitted from a purely economic definition (the USSR, Vietnam, North Korea, the Pacific islands, and the west coast of Latin America). But Japan is not just an economic superpower; it is also, in the words of former Japanese foreign minister (and during early 1985 the most likely candidate as the next prime minister) Miyazawa Kiichi, a "political dwarf."² That is, there is a tremendous discrepancy between the economic

¹ Calculated from data presented in Japan Institute for Social and Economic Affairs, *Japan 1982: An International Comparison* (Tokyo: Keizai Kōhō Center, 1982), p. 6 (New Zealand); and *ibid.*, 1983 edition, pp. 1, 8–9.

² Miyazawa Kiichi, "To Meet the Challenge," *Asian Survey* 20:7 (July 1980), p. 680.

power Japan commands—more or less equal to that of the USSR (around 10% of global gross output apiece)—and its relatively slight political influence. Accordingly, many foreign and domestic commentators have concluded that Japan either has no foreign policy at all in any conventional sense or has a uniquely successful (and Machiavellian) foreign policy aimed at enriching Japan regardless of the consequences for other countries.

The economic superpower/political dwarf configuration must be raised at the outset because, in a fundamental sense, any appreciation of Japan's foreign policy depends upon the analyst's evaluation of Japan itself. And that is a highly controversial subject. Everyone is agreed that Japan is an "international eccentric" (*kokusai-teki henjin*), a "peculiar" or "abnormal country" (*ijō na kuni*), one that cannot be fitted into any of the ordinary categories of comparative politics and international relations.³ In particular, Japanese scholars themselves often seem at a loss to find the right analytic terms to describe Japanese politics. For example, Professor Satō Seizaburō, one of Japan's most sophisticated political scientists, begins a recent analysis of developments within Japan's ruling political party by first surveying the latest neologisms invented to characterize Japan's unusual political system. Satō notes Murakami Yasusuke's concept of "compartmentalized competition" (*shikirareta kyōsō*) and Inoguchi Takashi's "bureaucracy-led mass-inclusionary pluralism" (*kanryō-shudō taishū-hōkatsu-kata tagen-shugi*) but settles instead for his own "pluralism guided by an integrated party-bureaucratic apparatus" (*Jinmin-kanchō kongōtai ni hōkō-zukerareta tagen-shugi*).⁴ Such paradoxical expressions as these have a long history in the study of Japanese politics and foreign policy, going back at least to Scalapino and Masumi's ideas of Japan's "one-and-a-half party system" and its "open society made up of closed groups."⁵

The subject of Japan's foreign policy thus poses fundamental questions about Japan itself. Why is Japan so powerful economically and so weak in every other dimension? What are the "lessons" of Japan for developing nations who take it as a model? Is Japan's "diplomacy of cowardice" (*okubyō gaikō*), in the words of a domestic commentator, a reflection of Japanese insularity and political dependency on the United States?⁶ Or is it rather an unusually creative adaptation to conditions of geography, history, and political structure that Japan faces as a country? One's answers to these questions vary in accordance with one's views of Japan itself. I therefore propose to begin this discussion by attempting to identify three of the most commonly held views, or paradigms, of Japan as a nation. These three are what I shall

³ These epithets are all quoted from Japanese sources by Kenneth B. Pyle, "The Future of Japanese Nationality: An Essay in Comparative History," *Journal of Japanese Studies* 8:2 (Summer 1982), pp. 223–263.

⁴ See Satō Seizaburō and Matsuzaki Tetsuhisa, "Jimintō etchōki seiken no kaibō" [Autopsy on the Super Long-Term Regime of the Liberal Democratic Party], *Chūō kōron*, November 1984, pp. 66–100, particularly pp. 70, 73–74.

⁵ See Robert A. Scalapino and Junnosuke Masumi, *Parties and Politics in Contemporary Japan* (Berkeley: University of California Press, 1962).

⁶ Quoted by Pyle, "Future of Japanese Nationality," p. 225.

call the MacArthurian, the Venetian, and the *Nihonjinron* (or the theory of Japanese cultural uniqueness). I shall then use these three conceptions as tools to examine the economic, political, and security dimensions of Japan's current relations with China, the Soviet Union, and the United States.

THREE VIEWS OF JAPAN

On May 5, 1951, in Senate hearings concerning his recent dismissal as Supreme Commander for the Allied Powers in Japan, General Douglas MacArthur mused aloud concerning the people he had ruled (and attempted to reform) during the previous five years:

If the Anglo-Saxon was say forty-five years of age in development, in the sciences, the arts, divinity, culture, the Germans were quite as mature. The Japanese, however, in spite of their antiquity measured by time were in a very tuitionary condition. Measured by the standards of modern civilization, they would be like a boy of twelve as compared with our development of forty-five years. The German was quite as mature as we were. Whatever the German did in dereliction of the standards of modern morality, the international standards, he did deliberately. . . . But the Japanese were entirely different. There is no similarity.⁷

This view of the Japanese as irresponsible if nonetheless precocious children lives on today. In its contemporary version, the MacArthurian paradigm holds that Japan is exceptional only because for forty years it has been sheltered from the real world by an American protectorate. The Japanese are not exceptionally clever, only exceptionally lucky in that the Americans are still paying for their defense and buying more of their products than anyone else. With such a rich uncle taking care of them, the Japanese have never had to grow up.

Equally to the point, in such favorable circumstances (no army, no foreign obligations, rule by the same political party for thirty years, permanent access to the world's largest market, technology transfers at concessionary prices, and so forth), it was not a special achievement to have put together Japan's high-growth economic system. Almost any nation similarly situated should have been able to do at least as well or better. That is precisely what Taiwan and Korea did during the 1960s and 1970s, even though both of them had heavy defense expenditures and did not enjoy Japan's large and protected domestic market within which to experiment with new products before attempting to export them. As Professor Donald Hellmann, perhaps the leading exponent today of this paradigm, puts it: "A single-minded concern with the social and economic well-being of its citizens is a luxury that no other major advanced industrial country was able to afford."⁸

⁷ U.S. Senate, 82nd Congress, 1st Session, Committees on Armed Services and Foreign Relations, *Military Situation in the Far East* (Washington, D.C.: Government Printing Office, 1951), pp. 310–313.

⁸ Donald C. Hellmann, "Politics and Foreign Policy-Making in Contemporary Japan: The Dynamics of Change in an Elitist Democracy," paper prepared for the Conference on Japan's Political Economy in the International System, East-West Center, Honolulu, August 1984, p. 11.

Hellmann is unimpressed by the argument that even though Japan enjoyed unusually favorable circumstances after the war, these same circumstances were available to any American ally. What was needed was skill and insight to take advantage of them, which in turn depended on institutional innovation and creativity. "The extraordinary isolation of Japan from international turmoil," he writes, "contributed heavily to the internal political stability of the country during these decades. Most obviously, Japan was spared the divisiveness and disharmony that beset not only the United States but all other major nations actively involved in international affairs. Those few times when Japan did make modest but significant foreign policy choices (e.g., the Soviet-Japanese Peace Agreement, the revision of the American security treaty) invariably touched off a political crisis and led to the political demise of the prime minister."⁹

For Hellmann, Japan is "more trading company than nation-state," one that has lived and thrived in an "international greenhouse" like an exotic plant, even though "the durability of the greenhouse is now in serious doubt." Amaya Naohiro, the outspoken former deputy vice minister of MITI (Japan's Ministry of International Trade and Industry) partially agrees with Hellmann: "The nation for some time has conducted itself like an international trading firm." For Amaya, however, this has been a matter of strategy, not circumstances, which puts Amaya in the "Venetian" category discussed below. Japan chose to be a "merchant nation" (*chōnin koku*), in Amaya's view; and like merchants in the Japanese version of Confucian class analysis, the Japanese should not presume to interfere in the political and military affairs of the formally dominant "samurai nations."¹⁰

One further difference between the MacArthurians and the Venetians is that the MacArthurians believe that Japan will not be able to adapt successfully to a more hostile environment after their temporarily favorable circumstances change. For example, a prominent MacArthurian (although he would not call himself that), Karel Van Wolferen, holds:

The international viability of the Japanese system has not been adequately tested because of the extraordinary relationship with the United States. Long-term international conflict appears to have become a distant possibility, as the Japanese system, exclusive and isolated as it must be, is incapable of formulating long-range policies to operate effectively in an international context. Tokyo evades the foreign questions which are asked concerning Japan's international political and economic intentions as there is no one with the authority to answer them. To smooth ruffled feathers in international

⁹ Ibid. Also see Donald C. Hellmann, "Japanese Security and Postwar Japanese Foreign Policy," in Robert A. Scalapino, ed., *The Foreign Policy of Modern Japan* (Berkeley: University of California Press, 1977), pp. 321-340.

¹⁰ Amaya Naohiro, "'Chōnin-koku Nihon' tetai no kurigoto," *Bungei shunjū*, March 1980; quoted by Pyle, "Future of Japanese Nationality," p. 228. Four years later, Amaya had changed his mind. During late 1984, he wrote: "By spending less than 1 percent of GNP on defense and therefore avoiding the responsibility of defending themselves securely against the Soviet menace, the Japanese are agreeing to passively submit to the invaders like some Oriental harlot." "Jorō no kempō ron" [Concerning the Harlot Constitution], *Voice*, December 1984; translated in *Articles from the Japanese Press* (Translation Service Center, Asia Foundation), TSC 518, December 12, 1984.

diplomacy and concerning the ever-changing but seemingly inescapable trade conflicts, Japan tends to create expectations on the part of foreign governments which are not fulfilled. Judging from comment in newspapers and elsewhere, Japan has been "on the crossroads" now for a dozen or more years, all this time filled with "new awareness" of the larger, more responsible international role it must play.¹¹

As we shall see, the most important analytic problem in understanding the current Nakasone government is whether it constitutes merely another example of Japan's raising expectations among its putative allies or the beginning of genuine change in Japan.

The MacArthurian paradigm contrasts markedly with the extravagant praise of Japan that began to appear in English-language writing during the late 1970s. As its name implied, this view belongs to an older era among Westerners, although not necessarily among Asians. A characteristic MacArthurian outlook is reflected in the remark of a senior Korean official at the time of President Chun Doo Hwan's visit to Tokyo (September 1984): "What is needed is for the Koreans to forget the past and the Japanese to remember it."¹² Although the MacArthurian view is unflattering to the Japanese and is not in vogue today in the West, it should be remembered that it has many adherents among people who have lived the longest and most intimately with the Japanese, including many who have great respect for Japan's economic achievements.

By contrast, the "Venetian" view stresses Japan's institutional innovations: its unusually flexible government-business relationships, its tranquil labor relations, its extraordinarily high savings rate, its advanced levels of education, its mechanisms for change of industrial structure, and its relatively equitable distribution of the wealth created by high-speed economic growth. This view of modern Japan rests on the theory of the "capitalist developmental state" as a form of political economy that differs from both the capitalist regulatory states (particularly of the Anglo-American variety) and the Soviet-type command economies. This theory applies not only to Japan but also, with some very significant variations, to the NICs—South Korea, Taiwan, Hong Kong, Singapore, Brazil, Mexico, Spain, Portugal, Greece, and Yugoslavia—and to the semi-NICs—Argentina, Colombia, the Philippines, Malaysia, and Turkey.¹³ For all of these countries, Japan and its acknowledged East Asian emulators, Taiwan and South Korea, constitute more or less formal models, as well as serving as exemplars of successful plan/rational development and conscious change of industrial structure.¹⁴

¹¹ Karel Van Wolferen, "Reflections on the Japanese System," *Survey* (London) 26:1 (Winter 1982), p. 148.

¹² "Chun Visit: New Trust Between Old Foes," *Los Angeles Times*, September 9, 1984.

¹³ These categories and the nations included in them are the ones used by the Ministry of International Trade and Industry, *White Paper on International Trade 1983* (Tokyo: MITI, 1983), p. 11.

¹⁴ For the theory of the capitalist developmental state, see Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford, Calif.: Stanford University Press, 1982); Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan," in Robert A. Scalapino, Seizaburo Sato, and Jusuf Wanandi, eds., *Asian Economic Development—Present and Future* (Berkeley: Institute of East Asian Studies, University of California, 1985); and

I have discussed in another context why this model might be called "Venetian."¹⁵ I do not mean to imply that medieval Venice and modern Japan are identical or even very similar countries. The value of the comparison lies in highlighting the rationality of the "trading nation" as a distinct type of political economy, in identifying the relative weakness of conventional economic theory (either of the capitalist or socialist varieties) in explaining such societies, and in drawing attention to the relative stability of such countries. The last point is important. Whereas the MacArthurian view of Japan stresses contingent circumstances in Japan's development that Japan cannot control, the Venetian view stresses Japan's mechanisms for adaptation to changing circumstances. For those who think that Japan must change to resemble the other advanced industrial democracies, it is worth remembering that Venice kept up its pattern of international relations for at least five centuries, trading between what was then (and from a Western point of view) the East and the West within the Mediterranean world.

The Japanese-type capitalist developmental state has four fundamental structural features: (1) stable rule by a political-bureaucratic elite that does not accede to political demands that would undermine economic growth or security; (2) cooperation between public and private sectors under the overall guidance of a pilot planning agency; (3) heavy and continuing investment in education for everyone, combined with policies to ensure the equitable distribution of national income; and (4) a government that understands the need to use and respect methods of intervention based on the price mechanism. Each of these elements exists in the Japanese, South Korean, and Taiwanese systems although with differing weights, patterns of historical evolution, and tradeoffs arising from stressing one element more than the others. The capitalist developmental states have put together the political economy of capitalism in ways unprecedented in the Anglo-American west and with quite different tradeoffs (greater economic performance, for example, but less political participation).

Within this general conception, which has been greatly simplified here and mentioned only as a matter of general reference, "foreign policy" becomes a part of and subordinate to "industrial policy."¹⁶ Foreign policy formulation is still subject to influence from pressure and interest groups and is part of the general political process, but the interest groups differ from those that prevail in "samurai nations" and considerations of national economic vulnerabilities are the primary conceptual influences on foreign policy. Thus, for example, capitalist developmental states may stress protection of the domestic economy from foreign competition in some eras and free trade in other times, but the logic behind these positions will invariably be

Johnson, "The Institutional Foundations of Japanese Industrial Policy" (Washington, D.C.: American Enterprise Institute, forthcoming). Important related works include T. J. Pempel, *Policy and Politics in Japan: Creative Conservatism* (Philadelphia: Temple University Press, 1982); and James C. Abegglen, *The Strategy of Japanese Business* (Cambridge, Mass.: Ballinger, 1984).

¹⁵ Chalmers Johnson, "La Serenissima of the East," *Asian and African Studies* (Journal of the Israel Oriental Society) 18:1 (March 1984), pp. 57-73.

¹⁶ On the concept of "industrial policy," see Chalmers Johnson, ed., *The Industrial Policy Debate* (San Francisco: Institute for Contemporary Studies, 1984).

nationalistic and political, never merely economic. This so-called Venetian view of Japan is the one held by the mainstream of American Japanologists, including the present writer, although most of them call it something else ("Theory Z," "Number One," and so forth).

A third view of Japan is the one most popular within Japan itself, although it does have some foreign adherents.¹⁷ This paradigm stresses Japan's cultural uniqueness, asserting that the Japanese people possess exceptional, culturally derived capabilities for cooperating with each other, for service to the group, for intergroup competition, for entrepreneurship based on a work-centered rather than a blood-lineage-centered concept of the family (the *ie*), and for social solidarity and sacrifice in order to achieve common goals. This view is reflected above all in the continuing series of Japanese bestsellers devoted to what makes Japan different from other societies. This genre of books is known as *Nihonjinron* (the science of the Japanese). I have chosen that term for use here as a label for the view that Japan is incomparable in certain key social characteristics and that this alleged cultural uniqueness is the most important element in understanding Japan's economic achievements and place in the world.¹⁸

There is no doubt that Japanese culture has some unique features; all cultures do. There is also no doubt that much greater personality variability exists within Japanese culture than most *Nihonjinron* theorists are willing to acknowledge. The theory is very popular with the public because it is populist: all Japanese who in the 1980s are elderly or middle aged have lived through one of the most rapid processes of social change ever recorded and are interested in explanations of how and why it occurred. He or she also worked very hard over the past forty years to bring about this improvement in their lives. Alternative theories to *Nihonjinron*, such as the Venetian, stress elitist and bureaucratic leadership of Japan's postwar renaissance or favorable circumstances and therefore tend to leave the common man as merely an "input" or "factor" of production. *Nihonjinron*, on the other hand, makes the Japanese "miracle" the achievement of all Japanese and is therefore more flattering to more Japanese than any other theory. The thoughts that *Nihonjinron* smacks of 1930s-style nationalistic anthropology, even of racism, and that if even half of it were translated into foreign languages Japan's problems of *bōeki masatsu* ("trade friction," the preferred Japanese euphemism) would seriously worsen, are lost in the general jingoist celebration of Japan's wealth.

Is *Nihonjinron* an accurate theory? Partly, yes. It is sound anthropology to argue that any set of institutions that contradicted or outraged Japanese cultural mores

¹⁷ See, e.g., Herman Kahn, *The Emerging Japanese Superstate* (Englewood Cliffs, N.J.: Prentice-Hall, 1970).

¹⁸ On *Nihonjinron*, see Pyle, "Future of Japanese Nationality"; Hiroshi Mannari and Harumi Befu, eds., *The Challenge of Japan's Internationalization* (Tokyo: Kōdansha International, 1983); Winston Davis, "Japan as 'Paradigm': Imitation vs. Insight," *Christianity and Crisis* 42:14 (September 20, 1982), pp. 254–260; Winston Davis, "The Role of Religion, Magic, and Morals in the Development of the Far East" (paper presented to the MIT-Harvard Joint Faculty Seminar on Political Development, June 1984); and Ian Buruma, *A Japanese Mirror* (London: Jonathan Cape, 1983). The classic in this genre by a foreigner is Kurt Singer, *Mirror, Sword, and Jewel: The Geometry of Japanese Life* (c. 1946) (Tokyo: Kōdansha International, 1981).

would have been rejected, just as the institutional innovations of the Allied Occupation were subsequently adapted to Japanese culture or rejected. But to say that the culture was responsible for institutional innovation in postwar Japan is both thought-terminating and impossible to prove. Strong families, a sense of obligation to the group, and an ethical system that both rewards hard work and respects education are all important in that Japan, like the rest of the Confucian cultural area, enjoyed a cultural receptivity to economic development. This was particularly true after the institutions of political Confucianism were discredited and broken. Japan's culture was at least not an obstacle to development. But neither was it an obstacle to militarism, elitism, emperor worship, colonialism, or many other things that the Japanese understandably prefer to forget.

There are at least three things wrong with the *Nihonjinron* theory. First, it removes Japan from the repertoire of general comparative social science and thereby ignores those cases, such as South Korea and Taiwan, in which the Japanese achievement has been matched or improved upon. Second, it appeals to those foreigners who are challenged by Japanese competition but who do not want to take seriously the implications of Japan's innovations for their own lagging institutions of modern capitalism (e.g., American manufacturers or labor union leaders). Third, from a Japanese perspective it is just about the most dangerous theory that anyone could advance, since if *Nihonjinron* is taken to be literally true—that is, Japanese and non-Japanese people have nothing in common—then this is an excellent argument for foreigners to slam the door on Japan. As a high official of the French government (who must remain nameless for obvious reasons) replied to me when I suggested that French economic policy toward Japan was protectionist, “My dear professor, we French are not protectionist. We are merely anti-Japanese.”

JAPAN AS AN ECONOMIC SUPERPOWER

Japan's greatest influence on the world (and on the three nations of primary concern in this analysis, the PRC, the USSR, and the United States) is of course economic. It is the economic dimension of Japan's external policies that has the greatest impact on other nations, and this is where Japan's government lavishes its greatest attention. Even Japan's well-known idea of “comprehensive security” as a substitute for a concept expressed primarily in military terms is fundamentally based on economic power. By “comprehensive security” the Japanese mean that the idea of security should include diplomacy, economic assistance, and defense forces. However, since Japan's diplomacy is mostly passive (it is not even a permanent member of the U.N. Security Council and is included in the seven-nation annual summit meetings only because of its industrial might), and its military forces are under greater political constraints than any other forces on earth, comprehensive security really means using economic power as a proxy for the diplomatic or military kind. Given this central role of economic power in Japan's foreign policy, it is therefore surprising to note that Japan's foreign economic policy is, in fact, reactive, heavily bureaucratized, and short term in perspective—or at least this is the way it is perceived by most nations that have dealings with Japan.

For a nation with an economy as advanced as Japan's, foreign economic policy has many dimensions, three of which are major concerns here: trade policy, financial policy, and economic assistance policy. Let us begin with Japan's policies on trade. Table 1 provides some basic information on the major markets from which Japan buys and to which it sells. Several significant features of Japanese trade are revealed by these data.¹⁹

First, at the present time, Japan's only bilateral complementary relationship is with China. Japan's exports to and imports from the PRC are more or less in balance. Moreover, with the progressive unfolding of Deng Xiaoping's reforms of the Chinese economy, Japan has gotten over its "Baoshan shock" of 1981—that is, its very negative reaction to China's cancellation of half of the proposed Baoshan steel works at Shanghai—and today, in the words of the *Japan Times*, "'Chinese Fever' Rages in Japanese Industry." This Japanese enthusiasm for China as the market of the future is particularly pronounced among general trading companies and among medium and smaller enterprises.²⁰

The apparent equilibrium in Sino-Japanese trade is deceptive, however. China's main exports to Japan are raw materials and mineral fuels (petroleum and coal), which constitute almost 70 percent of China's exports to Japan, rather than cloth or finished textiles, which are China's most valuable exports overall.²¹ China and the United States argue publicly and acrimoniously about the amount of Chinese textiles to be admitted into the American market, but Japan, with a domestic market between a third and a half as big as that of the United States, takes almost none of China's main manufactures.

Japan tends to treat China like a semi-NIC, and that attitude portends trouble for the future, since Japan's economic relationships with the East Asian NICs are all strained. As Table 1 reveals, Japan's trade relationships with South Korea, Taiwan, Hong Kong, and Singapore are all seriously unbalanced in its favor. The problem is that Japan protects its domestic market most rigidly in precisely those sectors where the developing Asian nations, including the PRC, must expand: agriculture, fisheries, textiles, clothing, shoes, steel, and petrochemicals. During 1983, Japan's trade surplus with Southeast Asia trebled to US\$6.6 billion, and its surplus with the Republic of Korea reached US\$2.6 billion. This imbalance led to unilateral curbs against Japanese goods in South Korea and to strong denunciations of Japan in Thailand and Malaysia. Prime Minister Mahathir of Malaysia accused Japan of "economic colonialism" and declared that the honeymoon was over in his "look East"—i.e., emulate Japan—campaign.²²

¹⁹ Sources for Table 1 are: PHP Kenkyūjo, *Za dēta fairu 1984* [The data file, 1984] (Tokyo: PHP Kenkyūjo, 1984), pp. 118–119; Japan Institute for Social and Economic Affairs, *Japan 1983: An International Comparison* (Tokyo: Keizai Kōhō Center, 1983), pp. 32–33.

²⁰ *Japan Times Weekly*, December 15, 1984, p. 5.

²¹ PHP Kenkyūjo, *Za dēta fairu*, p. 130; and Japan, Prime Minister's Office, Statistics Bureau, *Statistical Handbook of Japan, 1984* (Tokyo: Japan Statistical Association, 1984), p. 85.

²² *The Economist* (London), September 22, 1984, p. 80; *ibid.*, October 20, 1984, p. 40; and "Japan's Trading Partners in Asia Have a Love-Hate Relationship With It," *Los Angeles Times*, December 2, 1984.

Table 1
The Patterns of Japan's Trade: Its Sixteen Leading Trading Partners
(in millions US\$)

Japan as Net Exporter ^a	1982		1981		1980	
	Japanese Exports	Japanese Imports	Japanese Exports	Japanese Imports	Japanese Exports	Japanese Imports
United States	36,330	24,179	38,609	25,297	31,367	24,408
West Germany	5,018	2,355	5,968	2,429	5,756	2,501
South Korea	4,881	3,254	5,658	3,389	5,368	2,996
Britain	4,813	1,874	4,789	2,694	3,782	1,954
Hong Kong	4,718	622	5,311	669	4,761	569
Singapore	4,373	1,826	4,468	1,944	3,911	1,507
Taiwan	4,255	2,443	5,405	2,523	5,146	2,293
USSR	3,899	1,682	3,259	2,021	2,778	1,860
France	2,318	1,215	2,222	1,171	2,021	1,296
Japan as Net Importer ^b						
Saudi Arabia	6,621	20,528	5,876	21,483	4,856	19,538
Indonesia	4,261	12,005	4,123	13,305	3,458	13,167
United Arab Emirates	1,493	7,983	1,494	8,836	1,356	8,190
Australia	4,581	6,961	4,779	7,419	3,389	6,982
China	3,511	5,352	5,095	5,292	5,078	4,323
Canada	2,861	4,441	3,399	4,464	2,437	4,724
Malaysia	2,502	3,010	2,424	2,927	2,061	3,471

^a In descending order of total value of exports in 1982.

^b In descending order of total value of imports.

Bilateral and even regional imbalances in the international trading system could be tolerated if there were evidence that Japan was nonetheless contributing in different ways to the stability and growth of the system. Unfortunately, the evidence was not there during the first half of the 1980s. Despite global criticism of American fiscal and savings policies, only the United States economy found the will and the dynamism during 1983–85 to spend itself and the world out of recession and into a strong recovery. In doing so, the American economy absorbed not only large proportions of the exports of the East Asian NICs but also unprecedented amounts of Japanese goods. Far too much of Japanese economic activity was driven by exports and far too little by domestic demand. The result was the rise of strong protectionist moves around the world, particularly in the United States.

Japan's most critically important economic relationship is with the United States, which is also the most lucrative such relationship on earth today. In recent years the United States and Japan have been doing an annual trading business in excess of US\$60 billion. The ratio of trade is around 60:40, rising in 1984 and 1985 to around 65:35, in Japan's favor. This means that the United States runs an annual deficit with Japan in excess of US\$25 billion. Even though Japan is still America's single largest market for agricultural goods, there are three interconnected reasons for the Japanese-American bilateral trade deficit: (1) Japanese automobiles, (2) the price distorting effects of the "overvalued" dollar, and (3) restricted market access for American manufactured goods in Japan.

About half of the total American deficit with Japan is caused by American automobile imports. However, on this score the Americans have no real complaint. The Japanese have repeatedly demonstrated that they can produce a car for at least \$2,000 less than the Americans can, and only about a quarter of this difference is explained by wage differentials. The rest is the result of huge Japanese investments in the late 1960s and early 1970s in automotive manufacturing technology and of improved managerial practices (for example, excellent quality and inventory controls).

In addition to automobile imports, another quarter of the bilateral deficit is accounted for by the higher prices of dollar-denominated goods. This overvaluation of the dollar against all other currencies arises primarily because of American governmental deficits, high interest rates, and the safe-haven aspects of investing in the American economy. Dollar overvaluation is exacerbated in the case of Japan because the yen is also somewhat undervalued. This is caused by Japan's underdevelopment as a financial center, thereby lowering external demand for the yen. Also contributing to the distortions in bilateral Japanese-American trade are American restrictions on their own exports (e.g., Alaskan oil, which by law cannot be exported).

This leaves about a quarter of the almost US\$25 billion deficit to be explained by various kinds of tariff and nontariff barriers to the sale of American products in Japan. Such barriers include tariffs, quotas, a culture of economic nationalism dating from the Meiji era, governmental product certification procedures, targeted industries protected through administrative guidance, cartels of many varieties, and business practices that exclude outsiders (e.g., the distribution systems). Japan likes to claim

that it is the most open economy on earth today, that its tariff levels are the world's lowest, and that foreign salesmen are simply lazy if they cannot penetrate Japanese markets. And yet the Japanese government has declared new "market opening" measures on at least five different occasions during the early 1980s. After years of argument, both sides seem to be beginning to understand that the trading relationship will never be utterly complementary, that neither side is acting in bad faith, and that change is necessary in both economies in order to preserve the relationship.

Let us turn from Japan's trading relations with the United States to those with the USSR. The Soviet Union's share of Japan's total trade is about the same as Malaysia's. The last time that two-way trade between Japan and the USSR exceeded that between Japan and China was in 1976. At the time of the 1970s superpowers' détente Japan had an important and growing economic relationship with Russia, but since 1978 this has declined because of political and military developments that will be discussed later. Japan would like to restore some of its economic ties with the USSR, particularly as China is doing the same. The Japanese believe that their Soviet trade was damaged primarily because of Japan's pro-China foreign policy (the "antihegemony clause" in the Sino-Japanese Peace Treaty of 1978). To the extent that China rebuilds a strong economic relationship with Russia, Japan will be nonplussed. Nonetheless, I doubt that Japan will embark on an independent initiative toward the Soviet Union. The potentiality of extensive Soviet-Japanese trade is great, but neither party seems to have the political will to try it out.

In addition to the trading aspects, Japan's foreign economic policy has a very significant financial dimension. Given Japan's huge trade surpluses, it is only to be expected that these would be balanced to some extent by outflows of Japanese capital, and that is precisely the case. This outcome is of course desirable, but questions arise concerning the *quality* of the Japanese capital exports. Are they primarily speculative and short term? Are they going excessively to the United States to help it pay for its deficits and to purchase Japanese access to the American economy? Is the Japanese capital market open to all comers and structured primarily by market forces?

The answers to all these questions reveal problems, at least in the short term. Japan's direct overseas investment is overwhelmingly concentrated in the advanced industrial democracies and in OPEC-member less-developed countries, or LDCs (Brazil and Mexico are important exceptions), which suggests that Japanese capital exports are not doing much to ameliorate the North-South issues (see Table 2). Japan's capital market is not open, although during 1984 Japanese leaders promised and are slowly beginning to implement policies of financial liberalization. This change is significant, but it is utterly unrealistic to expect major developments rapidly. The domestic financial system is highly inflexible, particularly the long-established postal savings system, and powerful bureaucratic and political interests are involved. Even Professor Satō Seizaburō, himself an advocate of liberalization, acknowledges that internationalization threatens "to disintegrate the long-term stable networks between government agencies and interest groups."²³

²³ Satō, *Chūō kōron*, November 1984 (see n. 4), p. 92.

Table 2
Japan's Direct Overseas Investment by Country
(as of March 31, 1983)

Country	Amount (in millions US\$)
United States ^a	13,970
Indonesia ^b	7,268
Brazil	3,545
Australia ^a	2,882
Britain ^a	2,296
Panama (ships)	2,022
Hong Kong	1,825
Liberia (ships)	1,692
Singapore	1,383
South Korea	1,312
Canada ^a	1,255
Saudi Arabia/Kuwait ^b	1,113
Mexico	1,042
Iran ^b	1,002
West Germany ^a	808
Malaysia	764

SOURCE: Japan Institute for Social and Economic Affairs, *Japan 1983: An International Comparison* (Tokyo: Keizai Kōhō Center, 1983), p. 47.

^a Advanced industrial democracy.

^b Less developed country but member of the Organization of Petroleum Exporting Countries.

It will probably be the next century before Japan's financial liberalization is more or less complete. In the meantime the danger is that Japan's economic partners will get tired of waiting and may attempt to retaliate. Such a reaction would be self-defeating. The only real option is to encourage a faster pace of change in Japan and a shift of capital movements toward projects that contribute to global development and stability. Japan's capital exports, like those of Great Britain during the nineteenth century, are a reflection of the strength of the Japanese economy, even though many Japanese dislike having to admit this strength and want to cling to an identity as a special NIC. Thus, whether Japan's overseas investments go for useful, complementary projects or are resented as "economic imperialism" and the "export of pollution" depends critically on timing, perceptions, and exchanges of information. Japanese policy has not been particularly adept in these areas.

Japan could do much to alleviate criticism of its economic policies if it would expand its official developmental assistance (ODA). Again, the problem is primarily one of perceptions. In 1982, Japan's ODA as a percentage of GNP was actually higher

than that of the United States (0.29% compared with 0.27%).²⁴ In 1983, Japan's concessional government aid to the LDCs amounted to US\$3.76 billion, up 24 percent from the previous year and the third largest absolute amount after the United States and France. Nonetheless, Japan's proportion of GNP (0.33% in 1983) devoted to aid was still among the lowest of all the aid-giving nations, and the "grant element" within the aid, a key indicator of quality, remained below the 86 percent guideline agreed to by Japan and the other aid suppliers. Japan's grant aid is important, but when its size is compared to Japan's US\$25–30 billion current account surplus, its defense burden of less than 1 percent of GNP, and its stated intent to substitute "comprehensive security" for rearmament, Japan looks like the Shylock of Asia. This image was not helped when, during 1984, the South Korean president requested greater technology transfers from Japan and Japan replied that it could not because it feared a "boomerang effect," a stance all the more indefensible when one considers the quality and price of the technology transferred to Japan itself during the first two postwar decades.

The Japanese economy is the great engine of the whole Pacific Basin economic region, which is itself the most dynamic economic region on earth. The problems that exist arise almost entirely from weaknesses in Japanese leadership. The Nakasone government is different from previous administrations in that it is taking the lead to solve problems before they arise or start to fester. Its stance is, however, unprecedented in postwar Japanese politics and its concrete achievements are still few. As Haruhiro Fukui, one of the most seasoned observers of Japanese politics, puts it: Nakasone "has reduced import duties on cigarettes, cookies, and chocolates, relaxed safety standards, and simplified quality certification procedures for certain industrial imports. On import quotas for beef and oranges and the more subtle nontariff barriers he has not done anything significant, nor is he likely to in the immediate future."²⁵

On the economic dimension, then, although its achievements are primarily Venetian, Japan's policies still remain primarily MacArthurian. At the same time, economic policy is a constantly changing subject, and the direction of change is away from the MacArthurian position. To the extent that the direction of change veers toward *Nihonjinron*—that is, toward crude nationalism, and there is some evidence of movement in this direction as the popularity of *Nihonjinron* indicates—the whole world is in trouble. Perhaps the most promising sign of a tendency toward new, realistic institutions (the Venetian option) is the continuing resistance to protectionism on the part of both the American and Japanese governments—the American attempts to prevent it and the Japanese attempts to end it. This will help give Japan time to devise the leadership roles that its economic might destines it to play.

²⁴ Cited by Kenneth W. Dam, U.S. Deputy Secretary of State, "U.S.-Japan Relations in Perspective" (Washington, D.C.: Department of State, Current Policy no. 547, February 6, 1984), p. 2. For detailed figures and comparisons among nations, see Research Institute on Peace and Security, ed., *Asian Security 1984* (Tokyo: RIPS, 1984), pp. 188–191.

²⁵ Haruhiro Fukui, "Japan's Nakasone Government," *Current History* 82:487 (November 1983), p. 384.

JAPAN UNDER NAKASONE

On June 12, 1984, in testimony before the U.S. Congress, the Assistant Secretary of State for East Asian and Pacific Affairs, Paul Wolfowitz, said concerning Japan, "The days of 'economic giant, political pygmy' are over."²⁶ It is not at all clear that this statement is true or even that Mr. Wolfowitz believes that it is true—Americans are accustomed to a certain degree of hyperbole in the assertions of their bureaucrats—but if Japan is at last beginning to play an expanded political role in international affairs, the process of change began during the Carter administration. During the last years of President Carter's administration, analysts of Japan noted "a new assertiveness that arises not simply from an awareness of the country's economic power but from a new sense of confidence in the strength of the nation's economic, social, and political institutions and in the Japanese way of doing things." Not unconnected with the rising *Nihonjinron*, the last Carter years were also a time when "Japanese leadership groups share[d] a general lack of confidence in American leadership."²⁷

The Carter administration was the first post-Vietnam government in the United States, and the particular lessons it chose to learn from Vietnam were those associated with the neoisolationism of the domestic antiwar movement.²⁸ Most particularly, the Carter administration drew an analogy between Vietnam and Korea and then publicly declared its intention to withdraw all U.S. ground forces from Korea. Probably nothing else ever said or done by the United States in the postwar world so seriously alarmed mainstream Japanese opinion as this American decision unilaterally to give up maintaining the balance of power on the Korean peninsula. Japan protested directly and privately to the president, who reversed himself, but the episode was instructive to both sides. It confirmed in the minds of Americans that the Japanese would take initiatives (e.g., prepare to defend themselves) only when they were forced to do so by American decisions.

Other causes of Japan's new interest in political relationships during the late 1970s included the "stagflation" in the economies of all capitalist nations except its own, the Carter administration's bungling of the Iranian revolution and the U.S. embassy hostage situation, the failure of the SALT II treaty in the U.S. Senate, and the ending of superpower détente. Among the challenges to Japan was the Carter administration's policy toward China—the attempt by the Americans to enter into a strategic relationship with Beijing—which Japanese interpreted as a Sinocentric tilt in U.S. foreign policy toward Asia. Ever since Nixon and Kissinger began their discussions with Zhou Enlai in 1971 without first consulting Tokyo, the Japanese had

²⁶ Paul D. Wolfowitz, "Taking Stock of U.S.-Japan Relations" (Washington, D.C.: Department of State, Current Policy no. 593, June 12, 1984), p. 2.

²⁷ Gerald L. Curtis, "Japanese Security Policies and the United States," *Foreign Affairs* 59:4 (Spring 1981), pp. 853, 856.

²⁸ See Chalmers Johnson, "Carter in Asia: McGovernism Without McGovern," *Commentary* 65:1 (January 1978), pp. 36–39.

feared the development of a strong *political* tie between China and the United States. Thus, it began to cross the minds of some Japanese political leaders that perhaps their old policy of *seikei bunri* (the separation of politics and economics) was no longer viable.

Ronald Reagan's 1980 election as president only accelerated Japan's reappraisal of its situation. Like other American allies, the Japanese were poorly informed about Reagan and the mood of the Americans who voted for him. The Japanese tended to think of Reagan as a former movie actor rather than as a former two-term governor of California. When President Reagan then ostentatiously received as his first Asian visitor to the White House the president of the Republic of Korea, the Japanese knew that the Japanese-American relationship was under some strain.

Interestingly enough, however, the alleged "new assertiveness" of the Japanese never amounted to anything substantive until 1982, which was the turning point. The replacement of Alexander Haig with George Shultz as Secretary of State signified, among other things, the ending of any serious attempt by the Americans to build a strategic relationship with the Chinese. There would continue to be military exchanges and cultural ties, but it became apparent that the Chinese did not want closer ties and that the Americans could not find in China a substitute for their own efforts in Asia. It was in this context that in November 1982 Nakasone Yasuhiro became prime minister of Japan, and he more than any other recent Japanese leader began to give some substance to Japan's "new assertiveness."

Nakasone had long been identified with the domestic school of political opinion that advocated revision of the postwar constitution in order to allow Japan openly to build its own defense forces. Until the 1980s, however, the issue was more a matter of national self-respect than of national security, since Japan had no credible enemies. China and the Soviet Union did not threaten Japan directly, even though the situation in Korea did. But at the time the Korean War erupted, Japan was still an occupied country. America's presence in Korea was a great boon to Japan, but Japan had not caused the American intervention there, and nothing Japan could have done would have altered the situation. For at least twenty-five years America extended its defense umbrella over Japan, but Japan did not need it since the weather was fair.

By the time Nakasone became prime minister, the weather had changed. Beginning in the late 1970s, Japan's relations with the USSR seriously deteriorated and, for the first time in modern history, a Soviet military threat in the Pacific became a new element in the politics of the region. The causes of this deterioration included the Sino-Japanese treaty of 1978, which the USSR regarded as hostile; the Soviet invasion of Afghanistan and the subsequent U.S.-initiated anti-Soviet sanctions which the Japanese joined; the Soviets' support of Vietnamese imperialism throughout Indochina; the USSR's military buildup in East Asia, including the construction of military bases in the southern Kurile Islands claimed by Japan and the deployment of at least 135 SS-20 IRBMs at some thirteen Siberian bases; and the shooting down on September 1, 1983, of Korean Air Lines flight 007 over the Sea of Japan.²⁹ Only a

²⁹ For the count of 135 SS-20s in East Asia, see Japan Defense Agency's Tenth Annual White Paper, as reported in the *Los Angeles Times*, September 15, 1984. For the count of thirteen bases, see *Asian Security 1984*, p. 41.

minority in Japan doubted any longer that Japan had a security problem, but Japanese opinion was by no means united on the proper response to this development.

There were several schools of thought. One held that since the Soviet Union had no leverage or influence in East Asia other than military intimidation, it would be better to try to shift the contest to economic grounds rather than to compete on Russia's terms. Most Japanese were openly derisive of the performance of the Soviet economy and thought it would be unwise to overreact to Russia's military provocations. Moreover, since it was impossible for Japan to compete militarily with the USSR, a low-risk, low-profile foreign policy seemed the optimum choice.

Nakasone did not necessarily differ from this position in terms of fundamentals, but he was very different in atmospherics. He recognized that the Reagan administration was rebuilding American military capability, and he moved decisively to identify Japan with Reagan's policies and to re cement the Japanese-American alliance. In some five summit meetings with Reagan, Nakasone developed a special "Ron and Yasu" relationship (i.e., a personal friendship). He also supported Reagan's deployment of Euromissiles, took measures to defuse trade friction between Japan and the United States, and in many ways demonstrated a statesmanship that few Americans had thought possible from Japan. By the time Nakasone and Reagan were both reelected for second terms (something unprecedented in the U.S. since Nixon and in Japan since Satō), every American official had come to regard Nakasone as virtually the best Japanese prime minister the Americans had encountered in the postwar world.³⁰ Concomitant with the flowering of the Ron-Yasu relationship, it became *de rigueur* for American diplomats to declare on every appropriate occasion that Japan was the "cornerstone" of American policy in East Asia.

The problem remained that Nakasone was not nearly as popular in Japan as he was in the United States. In Japan he suffered from his "hawkish" reputation, from the fact that his tenure in office depended on continued support from "Tanaka, Inc." (the faction of the ruling party that actually ran the country), and from his allegedly unJapanese personality, meaning his ability to speak articulately with foreigners without lapsing into panic-stricken silences as his predecessor was wont to do. Nonetheless, through his bold initiatives with South Korea (Nakasone was the first Japanese prime minister ever to visit Seoul) and his sensitive diplomacy with China and Southeast Asia, Nakasone slowly rose in public opinion. The fact that the Americans were impressed with him also raised his value in Japan, if only on instrumental grounds. Nakasone could not easily deliver on all the things the foreigners expected of Japan, nor could he prevent external interest groups from using Japan as a scapegoat or diversion (as, for example, in the "textbook controversy" of 1982). But to the extent that Japan was no longer perceived as a political pygmy, this achievement was due almost entirely to Nakasone's leadership.

JAPAN'S DEFENSE POLICIES

In terms of future developments, Nakasone's most delicate issue remains defense policy. Japan's economic problems with foreign nations are seriously com-

³⁰ "Washington Does an About Face in Assessment of Nakasone," *Los Angeles Times*, December 6, 1984.

plicated by charges that Japan enjoys a free ride on defense while profiting handsomely from the global and regional security that foreigners, including Koreans, mainland Chinese, and Taiwanese, supply. There is no doubt that the figures on national defense burdens are hard for the Japanese to justify (see Table 3).

Table 3
Defense Expenditures, Selected Nations, 1982

Nation	Total (in billions US\$)	Per Capita	Percent of Government Expenditures	Percent of GNP
United States	215.9	\$938	29.2	7.2
USSR (1981)	191.0	713	11–13	8.4–15.0
West Germany	28.5	461	27.9	4.3
Britain	24.2	432	11.9	5.1
France	22.0	408	17.5	4.1
Japan	10.8	91	5.2	0.93
Israel	8.2	2,060	40.7	37.9
Canada	6.0	247	9.2	2.0
South Korea	5.2	132	35.0	7.6
Taiwan	3.3	183	39.4	7.3
Sweden	3.0	365	6.9	3.1
Switzerland	2.0	320	21.4	2.1

SOURCE: PHP Kenkyūjo, *Za dēta fairu 1984* (Tokyo: PHP Kenkyūjo, 1984), pp. 60–61, 286; Japan Institute for Social and Economic Affairs, *Japan 1983, An International Comparison* (Tokyo: Keizai Kōhō Center, 1983), p. 75.

Equally important, Japan makes promises to its allies about things it will do—defend the sea lanes a thousand miles east and south of Japan, develop the capacity to block the straits leading from the Sea of Japan, transfer militarily relevant technology that Japan has developed to the United States—but complications always develop when Japan is asked to make good on its promises. As former U.S. Deputy Assistant Secretary of Defense David Denoon puts it, “There is a clear inconsistency between the Japanese government’s official statement of its defense goals (as published in the National Defense Program Outline in 1976 [which remains official Japanese policy today]) and commitments made by its prime ministers. . . . Japan cannot even defend the air and sea directly surrounding its home islands without a major increase in antiaircraft and antisubmarine capability, and this makes the broader commitments by Suzuki and Nakasone essentially theoretical statements.”³¹

³¹ David B. H. Denoon, “Japan and the U.S.—The Security Agenda,” *Current History* 82:487 (November 1983), p. 355.

On the other hand, there are at least four considerations that argue against any but incremental changes in Japanese defense policy. First, since the Reagan administration has undertaken American rearmament on an unprecedented scale, Japan is relieved of any drastic need to change. Second, although the Americans say that they want Japanese high technology for defense applications and Nakasone has agreed to supply it, some Japanese companies fear losing their commercial advantages if they do so. Issues of industrial espionage are very close to the surface in Japan, as revealed during the summer of 1982 in the attempted theft of computer secrets from IBM by Hitachi and Mitsubishi. The possibility that defense technology will find its way into American civilian industries is one reason why a year after Japan and the United States signed an agreement to share defense technology, as yet nothing had actually been exchanged.³²

Third, the nations of East Asia that were invaded or occupied during the Pacific War have repeatedly made it clear that they do not want Japanese rearmament unless it occurs in the context of close collaboration with the Americans. It is true that at least some of the Asian rhetoric against "revived Japanese militarism" is intended for domestic consumption or is a tactic in local political infighting. Still, there is no reason to doubt that Asian nations are sincerely opposed to revived Japanese militarism. Fourth, although there is something irrational about posing the Japanese defense debate almost exclusively in terms of percent of GNP devoted to armed forces, that is still the way that the debate is structured in domestic politics. Any Japanese politician must take that as his starting point, even if he would like to move the debate to a new plane. Otherwise he will merely achieve his own political demise, not national policy objectives.

Nakasone's response to these problems is a defense policy with three major elements. The first is a steady addition each year to the percent of national budget devoted to defense while imposing flat budgets on virtually all other governmental expenditures as a matter of fiscal restraint. During fiscal year 1985, with Nakasone reelected and no longer quite so vulnerable on the issue, Japan may exceed the over-1-percent-of-GNP barrier (it has already done so if Japan's defense burden is calculated according to NATO accounting methods). Japan may also raise taxes, which will make possible greater flexibility in governmental procurement. Japan will also continue to develop its liaison and procedures for joint operations with the United States, including providing facilities for two squadrons of F-16s; and it may enact antiespionage laws to bring under control the "leakage" of Japanese high technology to the USSR. These are all matters that are on the domestic political agenda for national action, and they all have only recently become politically feasible. Less likely of enactment but not as politically explosive as was the case only two years ago is the possibility that Japan will start contributing troops to U.N. peacekeeping operations.

The second element of Nakasone's defense policy is the diplomatic attempt to

³² "Japan Inches Toward Sharing Its Defense Technology With U.S.," *Christian Science Monitor*, September 21, 1984.

reengage the USSR in a dialogue about mutual problems. The goal is to bring some of Japan's economic leverage to bear on Soviet behavior. This attempt requires the closest cooperation and coordination with the Reagan administration—one reason why Nakasone, in his 1985 New Year's visit with Reagan, strongly endorsed U.S. policies aimed at restarting negotiations with the USSR over strategic arms reductions. Concurrently, in November 1984, at the funeral of Indira Gandhi, Nakasone met directly with Soviet Premier Nikolai Tikhonov. This seemed to lead to an improved climate at the December 12–14, 1984, meeting of the Japan-Soviet Business Cooperation Committee. Soviet behavior seems somewhat more forthcoming toward Japan than at the time of Leonid Brezhnev's funeral, when Andropov met some five foreign leaders but refused to give the Japanese prime minister even 10 minutes. For this element of Japanese policy to have any lasting effect, two things must also occur: Soviet-American relations must improve, and the Soviets must soften their position on Habomai and Shikotan (presumably in return for a Japanese renunciation of its claim to the two southern islands of the Chishima chain).³³

As a third element in his defense policy, Nakasone is playing down ideological issues within Japan, thereby allowing the domestic political consensus on defense policy to evolve. This means, above all, abandoning his earlier interest in revising the Japanese constitution's "no war" clause. His avoidance of this topic seems to be paying dividends in terms of real movement within the Japanese Socialist Party toward accepting the Self-Defense Forces, plus open support for them by the Democratic Socialist Party and the Clean Government Party. While the Japanese public of the 1980s is clearly willing to see incremental additions to the defense budget, it is not (yet) ready to do so in principle. In this regard the Japanese distinction between *tatema* (principle) and *honne* (actual practice) that is encountered in so many other areas of government is also strongly at work in the defense sector.

Japan's defense expenditures in absolute terms are about half of France's or Britain's and a third of Germany's, although they are growing at a faster rate than those of any of the European nations. If Japan's defense budget were doubled or tripled, it would have little impact on American defense spending, but it would have a devastating effect on the politics of the Western Pacific. A fully rearmed Japan would most likely require a larger, not a smaller, American force in the Pacific; it would certainly accelerate the Soviet Union's nuclearization of the area; it might reunite China and the Soviet Union in some form of military cooperation; and it would greatly alarm Southeast Asia, Australia, and New Zealand. Restrictions are needed on Japan's tendency to use its low defense spending as a way to obtain an absolute commercial advantage over those who do maintain the balance of power in the Pacific. Much more generous technical transfers from Japan to the developing nations of East Asia, including China, than in the past are called for. But at the same time pressure on Japan to rearm is an irrational reaction to some of the inequities that may be traced to the workings of Japanese industrial policy.

³³ On the Northern Territories, see J. A. A. Stockwin, "Japan and the Soviet Union," in Robert S. Ozaki and Walter Arnold, eds., *Japan's Foreign Relations* (Boulder, Colo.: Westview, 1985), pp. 67–84.

CONCLUSION

The problems of Japanese foreign policy are above all educational. Educational efforts are needed on both the domestic and external fronts. Within Japan the public must be weaned away from its infatuation with *Nihonjinron*, which was cited earlier as just about the most dangerous position Japan can adopt in its relations with other countries. At the same time, a foreign-oriented educational effort must make Japan's achievements comprehensible in a universal intellectual framework. Japan's competitors need to understand that although Japan did enjoy favorable circumstances in the postwar world and was fortunate in not having to maintain an army, these factors do not explain Japan's accomplishments. Much more important were Japan's institutional innovations and the competitive energies they released among the Japanese people. Japan's greatest postwar achievement was the invention of the capitalist developmental state and the demonstrations to a skeptical world of its remarkable productivity. Through the prowess of its economy Japan has shown the rest of the world, both capitalist and communist, the limitations of received economic theory. Disseminating the international applicability of this achievement should form the basis of a genuinely Japanese foreign policy.

8. Japan's Perspective and Policies on Asia and the Pacific

Zhu Shi

THE JAPANESE PERSPECTIVE ON ASIA AND THE PACIFIC

Economically, the Asian-Pacific region is not only the broad market for Japan's export of industrial products and capital, but also that country's principal supplier of natural resources. Politically, it provides the necessary backup support for Japan to embark on the road to becoming a "political power." Japan's strategic goal in the coming two decades is to promote the "Pacific Basin Community" concept and turn the Asian-Pacific region into Japan's economic backyard and a political springboard as well.

In recent years, the Asian-Pacific region has gradually become another important area of U.S.-Soviet confrontation. Japan is greatly concerned about this development and, while closely monitoring the situation, has opportunely formulated and adopted its own policies.

Judging from speeches made by leaders of the Japanese government, its "Blue Paper of Diplomacy" and "White Paper of Defense," and relevant reports and editorials in the *Tokyo Shimbun*, *Japan Economic News*, and *Jiyushimpo* [New Liberty Daily] that reflect the intentions of Japan's Ministry of Foreign Affairs, financial circles, and Liberal Democratic Party, the present Japanese official views concerning the political and military situation in the Asian-Pacific region may be summarized as follows:

1. *The strategic balance of power in the form of the "Big Triangle" remains unchanged. The situation in Northeast Asia, however, shows signs of relaxation.* Starting in the mid-1970s, the "Big Strategic Triangle" among the United States, Japan, China, and the USSR (four countries, three sides) gradually took shape in the region. Up to now, there has been no sign of a tendency for any one side to build up overwhelming supremacy over the others. But the Reagan administration's move to return its attention to Asia and the continuing Soviet military buildup in the Far East have increased the number of unstable factors in the region. In recent years, the Korean peninsula has become a focus for tensions in Northeast Asia. The official

Japanese view held that the incident of the shooting down of the South Korean passenger plane was precisely the result of "high sensitivity and tension" in this area. The Rangoon incident in October of the same year, in which a number of high-ranking South Korean officials were killed by a terrorist bomb attack, enveloped the Korean peninsula even more in an atmosphere of deep crisis. However, the sides concerned exercised great restraint, and the situation did not worsen but gradually calmed down.

The Japanese government has concluded that "the relaxation of tension on the Korean peninsula is extremely essential to the stability of Asia." And it has stressed repeatedly that "Japan will keep a close watch on various trends on the Korean peninsula and make use of every chance for further coordination . . . so as to help create an international environment favorable to the peace and stability of the Korean peninsula." Especially, after North and South Korea made new contacts, Japanese government leaders have frequently asserted that "the political climate of the Korean peninsula, which is closely related to and mutually dependent on Japan, has begun to warm up" and has "influenced the situation of the whole Northeast Asian area in the direction of relaxation."¹

2. *The expansion of the USSR poses further threats to Japan's "lifeline."* According to the Japanese press, at present the Soviet SS-20 medium-range nuclear missiles and nuclear warheads deployed in the Far East amount to 135 and 405, respectively. The Soviet Union also has a military buildup of 53 divisions there, among which one division of ground forces is stationed on Japan's four northern islands. The Soviet navy and air force have been greatly strengthened, leaving Japan with an "uneasy feeling."

More noticeable is the fact that the USSR has further strengthened and manned its naval and air bases at Cam-Ranh Bay in Vietnam, which gives the USSR the capability to launch attacks against the Strait of Malacca at any time. The newspaper *Sankei Shimbun* [Industrial and Economic News] has said that the strengthening of Soviet control in the Pacific is tantamount to "pointing a knife at Japan's throat."

Japan's Prime Minister Nakasone has pointed out that the Sea of Okhotsk has become a Soviet strategic nuclear base; this makes one feel uneasy; and the fact that the USSR has deployed a division of ground forces in Japan's northern territories makes one concerned.

3. *The developing countries and districts in the region are now experiencing a period of "political succession of the old by the new."* The Japanese government holds that, because of the assassination of Benigno Aquino, the Marcos regime of the Philippines, which has ruled the country for more than eighteen years, is shaken; discontent is spreading within Indonesia because of the prolonged military rule and the economic crisis resulting from the decline in oil prices; the "independent generation" of Singapore headed by Lee Kuan Yew is getting old and frail, and twists and turns have already appeared in the succession problem; opposition elements in Thailand and Malaysia are "active," and "certain unstable factors" exist. Hence, "the political stability backed by military rule and power politics tends to weaken with the

¹ Kyodo News Service (Tokyo), November 16, 1984.

change of leaders," and these changeovers produce an influence on the relationship between Japan and these countries and districts."²

4. *China's prominence in world affairs has increased.* The Japanese government holds that in recent years China has pursued its goal of modernization programs and an open-door policy, which has produced important achievements. It is "a positive factor for the maintenance of the peace and stability in the region," and trust in China is building up among the ASEAN countries.

In his 1985 New Year's address, Japan's Foreign Minister Abe stated: "How China acts and promotes the solution of the Korean peninsula problem is vital to the advancement of the Korean North-South dialogue." He added: "Japan is in no position to arrange a direct meeting with North Korea, so we have to initiate various negotiations and actions through China."³

Certain officials in the Ministry of Foreign Affairs think that after the reopening of Sino-Soviet consultations, China has enhanced its initiative in the "Big Triangle" balance of power. At the same time, they expressed some concern that "they will wake up one morning to hear the terrible news of the realiance of China and the USSR." Most Japanese officials, however, hold that "it is not possible for China and the USSR to return to the unity of the 1950s as a monolithic whole, but it is possible for the two countries to bring about the normalization of state relations."

JAPAN'S STRATEGIC POLICY IN ASIA AND THE PACIFIC

Based on the foregoing analysis, Japan's basic strategic policy in the Asian-Pacific region is to strive for a strategic framework of a "Japanese-U.S. alliance, Japan-China friendship, resistance against the USSR, and promotion of Japan's relations with ASEAN." This goal is to be accomplished by taking economic strength as its backbone accompanied by military power, and by using political and diplomatic means to provide the base for Japan's gradually becoming a "political power." To this end, the Japanese government will adopt the following policies:

1. *Japan will seek to actively coordinate its strategy in Asia with the United States and to share and gradually take over part of the burden and role to which the United States is committed in Northeast Asia.* In less than one year after he came into office, Prime Minister Nakasone has had three meetings with President Reagan during which he put forward the concept of a "Japan-U.S. community with a common destiny" based on the recognition of the Japanese-U.S. relationship as allies. Answering press correspondents' questions, Nakasone said that the term "community with a common destiny" not only embodies close ties in the political, economic, and cultural fields between Japan and the United States, but also implies that "as far as the peace and prosperity of the Pacific area is concerned, Japan and the United States are bound by a global obligation and the two countries should closely cooperate with each other." At the beginning of 1985, shortly after the formation of his second-term

² *Sankei Shimbun*, June 26, 1984.

³ *Asahi Evening News*, January 1, 1985.

cabinet, Nakasone lost no time in traveling to Los Angeles for a face-to-face meeting with President Reagan, an act that “explicitly demonstrates the direction of the second-term Nakasone cabinet and establishes the worldwide strategic cooperation between Japan and the United States.”⁴ As a major step in coordinating Japan’s strategy in Asia with that of the United States, Nakasone has greatly promoted political and economic cooperation between Japan and South Korea. In January 1983, Nakasone visited South Korea and offered the Chun regime a sum of US\$4 billion as economic aid. In September 1984, Chun Doo Hwan paid a return visit to Japan. The strengthening of political and economic cooperation between Japan and South Korea has led to a new gesture of “trilateral strategic cooperation among Japan, the United States, and South Korea,” thus greatly enhancing the American position of strength in Northeast Asia and providing a reliable base of support for the materialization of Reagan’s strategy of “crosswise escalation.”⁵

2. *Japan will seek to strengthen its naval defense power substantially to check Soviet expansion in the Pacific.* On the question of military buildup, Japan has its own needs while being confronted at the same time with pressure from the United States. From the Japanese perspective, in the face of increasing military threats from the USSR Japan must develop essential defense capabilities; more important, to become a “political power” Japan must “have military strength as its backbone,” otherwise “what it says won’t carry much weight.” To meet the challenge the United States has never found it more necessary than now to give priority to, and rely on, Japan’s strength and role, for the United States wants not only to seek strategic dominance over Europe and secure its position in the Middle East, Latin America, and Africa, but also to maintain the strategic balance against the USSR in the Asian-Pacific region. Since Nakasone took power, Japan has obviously stepped up its defense forces. Nakasone has made a breakthrough in the taboo of the Japanese constitution and the relevant laws by “adaptive interpretation,” which explicitly extends “the sphere of defense” beyond Japan’s territory and its vicinities, thus providing a legal base for the defense of the sea transportation line of about 1,000 nautical miles. Defense expenses made up 0.991 percent of Japan’s GNP for the 1984 fiscal year, approaching the ceiling of 1 percent GNP for the defense budget. As for concrete measures in the development of defense forces, both the “medium-term defense plan of 1981 (1983–87),” which is already in effect, and the “medium-term professional plan of 1984 (1988–92),” now being drafted, emphasize the strengthening of naval and air defense forces, including those of anti-aircraft, antisubmarine, and marine escorts; both plans make it clear that, if anything happens at any time, Japan will lock the passage through which the Soviet Pacific fleet enters the Pacific from Vladivostok—namely, Tsugara, Soya, and Tsushima straits. All these measures constitute a powerful force to contain Soviet expansion in the Pacific.

3. *Japan will attach importance to the consolidation and development of Sino-Japanese relations.* In recent years, relations between Japan and China have

⁴ *Sekai Shūhō*, April 9, 1985.

⁵ *Yomiuri Shimbun*, October 2, 1984.

been developing smoothly. In November 1983, Party General Secretary Hu Yaobang was invited to visit Japan, and the two sides jointly formulated four principles governing Sino-Japanese relations: "peace and fraternity, prolonged stability, mutual trust as well as equality and mutual benefits." In March 1984, when he visited China, Nakasone joined with the Chinese leaders in mapping out a blueprint of Sino-Japanese relations for the twenty-first century. Nakasone has repeatedly emphasized that the development of Sino-Japanese friendship is "an important pillar of Japan's diplomacy" and a key factor for peace and prosperity in the Asian-Pacific region.

It seems that "attaching importance to Sino-Japanese relations" is not an expedient measure by the Japanese government but rather a necessity in its long-range strategy to promote its own future development. The "White Paper of Defense" and "Blue Paper of Diplomacy" compiled by the Japanese government in the last one or two years emphasize that Chinese efforts to keep on friendly terms with Japan and the United States and to contain the USSR are strategically a "fundamental prerequisite" in Japanese security policy. Therefore, the maintenance and development of Sino-Japanese friendly relations is not only a matter of life and death for Japan, but also the "contribution" which Japan can make "in conformity with its state power and conditions" to the collective security of the West. Economically, China is engaged in the Four Modernizations program and needs capital as well as technology, whereas Japan seeks markets, investment opportunities, and sources of raw materials. Japan holds that both sides fall into the economic framework of "mutual complementarity." Diplomatically, as the Japanese Ministry of Foreign Affairs has repeatedly pointed out, if the Sino-Japanese relationship were to improve, Japan would find it much easier to conduct its foreign affairs in Asia and to assume its "political role" in the international arena.

4. *Japan will keep open its channel of dialogue with the USSR.* The Japanese government considers the USSR its neighbor and a great power with massive military strength. It would be harmful to Japan if the relationship with the USSR were to deteriorate or even break off. Therefore, Nakasone has repeatedly stated, "the more powerful our adversary is, the more we will try to keep open the channel of dialogue." The Japanese government has decided to "bring about a kind of friendly atmosphere through high-level discussions and economic and cultural exchanges" so as to seek a breakthrough and avoid confrontation in its relations with USSR.

Despite opposition by the Ministry of Foreign Affairs, Prime Minister Nakasone traveled recently to Moscow to attend Chernenko's funeral and met with Mikhail Gorbachev, who had just come to office on March 14. According to dispatches sent by Japanese correspondents of the *Yomiuri Shimbun* and four other newspapers from Moscow, the two sides were of the unanimous opinion that "it is high time to improve the relationship between Japan and the USSR." But some officials in Japan stated that "the optimistic atmosphere about Gorbachev should be dispelled" and that Japan "might as well smile at the USSR but at heart remain icily clear-headed."

5. *Japan will try hard to draw ASEAN countries closer together and push its "Pacific Basin Community" concept.* The "Pacific Basin Community" concept was first put forward by the late Prime Minister Masayoshi Ohira, who made it clear that as

the United States gives special considerations to countries in Central and South America and the European Economic Community (EEC) gives special considerations to African countries, Japan should do the same to countries in the Pacific region. In June 1982, Zenko Suzuki purposely chose Hawaii, the center of the Pacific, as a proper place to deliver his speech entitled "The Coming of the Pacific Era." In his speech, Suzuki appealed to the Pacific countries to cooperate on the five principles of "peace, freedom, variety, mutual benefit and open policy" with a view to pushing this "concept" into effect. Subsequently, Nakasone warned that Japanese should not raise a hue and cry about it lest the parties concerned suspect Japan of reviving the notorious "Great East Asia Co-Prosperty Sphere." He suggested that Japan should pay attention to the essence of this proposal rather than to the name.

Between the end of April and early May, Nakasone visited the ASEAN countries. During this trip, he offered ASEAN a low-interest loan to US\$800 million, proposed the convening of "conference of ministers as well as experts in science and technology" from Japan and the ASEAN countries with a view to widening technological cooperation, and pledged to convert into deeds the unrealized promises of his predecessors. During his visit to Australia in January 1985, Nakasone proclaimed four principles, dubbed "the Nakasone Doctrine," the first principle of which is "to respect the initiative of the ASEAN countries." The hidden meaning behind this principle is that Japan will push ASEAN to the front while retreating backstage itself to disperse the doubt and suspicion of the ASEAN countries. Additionally, he put forward a "Program of Friendship for the Twenty-first Century," in which 750 young people from ASEAN countries would be invited every year to visit Japan in the following five years. Nakasone's aim here was, of course, to cultivate pro-Japan groups so as to stabilize the relationship between Japan and the ASEAN countries for a long period of time.

Nakasone, on different international occasions, has further attempted to play the role of spokesman for the interests of Asia and the ASEAN countries. At the Williamsburg Conference of seven Western countries, Nakasone, as "the only representative from Asia," transmitted the requests of ASEAN and called for the developed Western countries to open their markets to ASEAN, stabilize prices of primary products, and solve the North-South problem reasonably. The Japanese representative to the United Nations has also explicitly expressed Japan's support of ASEAN's stand on the settlement of the Kampuchea problem and has declared that Japan will continue to freeze its aid to Vietnam if Vietnam does not withdraw its troops from Kampuchea.

6. *Japan will seek to ease the situation in the Korean peninsula.* After its direct involvement in efforts to bring South and North Korea into peace talks was frustrated, Japan began to persuade the two sides by roundabout means. On June 15, 1984, Nakasone met with Tadaharu Kuno, chairman of the Association of Friendship Between Japanese and Korean Congressmen, who had been invited to visit North Korea. Nakasone wished him every success in the planned discussions about restoring Japanese-Korean negotiations on a fishing agreement, mutually situating trade offices, and exchanging correspondents. In September of the same year, Nakasone

asked Masashi Ishibashi, chairman of the Japanese Socialist Party, to convey his message to North Korea calling for the improvement of bilateral relations. When Ishibashi returned home, Nakasone and Foreign Minister Abe received him in turn and inquired about the reaction from the Korean side to Nakasone's message. These personal interviews were important in promoting mutual understanding and improving relations between the two countries.

While adopting a pose of person-to-person contact with North Korea, the Japanese government is further enhancing its official relations with the Chun Doo Hwan regime. The central subject of the talks held during Chun's visit in Japan was about the situation of northern Asia and the unification of Korea. In their joint communiqué, both sides notably emphasized that Japan "highly appreciates" the efforts made by South Korea "to maintain peace on the Korean peninsula and to seek dialogues." On November 5, the two Korean regimes successfully held their first talks on economic issues, to which the Japanese Ministry of Commerce expressed its pleasure, adding that it hoped this meeting would be "a new starting point for the North-South dialogue" and would "create conditions for solving other problems."⁶

In sum, since Prime Minister Nakasone took office, Japan has quickened its pace in enhancing its defense forces and has also strengthened its strategic cooperation with the United States. On the whole, however, Japan still adheres to the principle of "exclusive defense" and continues on the road of peaceful economic development, and this principle plays a positive role in the maintenance of peace and stability in Asia and the Pacific.

⁶ *Tokyo Shimbun*, November 16, 1984.

9. Peace and Stability on the Korean Peninsula

Zhu Jianrong

FAVORABLE CHANGES IN THE RELATIONSHIP BETWEEN NORTH AND SOUTH KOREA

During the thirty years since the armistice went into effect in Korea, the North and the South have been in a state of hostility, and tension on the Korean peninsula has become one of the major factors in the instability of Northeast Asia. It is the long-cherished wish of the people of both North and South Korea to realize the reunification of the country. In 1972, dialogues began between the North and the South, and on July 4 of the same year a joint statement by both sides affirmed the three principles of "freedom, peaceful reunification and the great unity of the whole nation." This is an event of great importance in the postwar history of Korea. Limited by the historical conditions of that time, however, the dialogue failed to make any substantial progress. Beginning in the late 1970s, tension rose on the Korean peninsula, and there were occasions in which it seemed that armed conflicts might break out at any moment. By 1984, however, the ominous Korean situation took a favorable turn.

The improvement began with a series of peaceful initiatives from North Korea. On January 10, 1984, the North formally declared its agreement to hold "trilateral talks" among the United States and North and South Korea. In March, the North proposed that an athletic delegation organized by both sides be sent to participate in the Olympic Games and had two rounds of talks with the South on this issue. In September, when a disastrous flood occurred in the South that affected as many as 200,000 inhabitants, the North offered 50,000 hectoliters of rice, 500,000 meters of cloth, 100,000 tons of cement, and a large quantity of medicine in emergency aid. This humanitarian action was accepted by the South and consultations were immediately held on details of the delivery. Neither side demanded any conditions; instead, both made compromises and concessions with good will and the relief materials were handed to the victims of the flood in a timely manner. This was the first exchange of materials between the North and South since the armistice more than thirty years before.

After this promising exchange, the South proposed economic talks, which were agreed to by the North. On November 15, joint talks on economic cooperation between vice-ministers were held in Panmunjom. During the first round of talks, each

side tried to avoid airing old grudges or finding fault with the other; instead, they held earnest discussions with the attitude of looking forward into the future in the interests of the whole nation.

Though it is the first step on the road of national reconciliation for the North and South to begin talks on material exchanges and economic cooperation, it nonetheless represents a breakthrough in North-South relations, the significance of which should not be underestimated. First of all, both sides showed initiative. The exchange of materials was initiated by the North and accepted by the South, while economic talks were proposed by the South and immediately agreed to by the North. These actions fully expressed the willingness of both parties to maintain stability on the peninsula through peaceful talks and exchanges, and to move on from there toward peaceful reunification.

The significance of these two contacts can be grasped more clearly if one takes into consideration first, the fact that when United Nations Undersecretary-General Diego Cordovez visited North and South Korea last July, both sides pledged not to be the first to take hostile actions. Second, during flood relief negotiations, both sides endeavored to make the delivery a success; likewise, most of the proposals offered during the economic talks were both practical and feasible. During the talks, representatives from the North proposed that both sides should maintain integrated development of the national economy, safeguarding their common interests, respect the fundamental economic policies of the other side, and adhere to the principle of mutual benefit. None of these proposals was challenged by representatives from the South. Such a realistic approach, both in spirit and practice—seeking reconciliation and cooperation without the intentions of overwhelming and annexing the other side—created a favorable atmosphere for future consultation on the great cause of national reunification. Third, these moves won the support of the entire Korean people. Crowds in the North sent off the relief materials with dancing and singing; as the materials reached the delivery site on the 38th Parallel, crowds in the South applauded in celebration. Such episodes dramatize the wish of the Korean people for an early reunification of their country and serve as an impetus to the smooth continuation of economic cooperation and the Red Cross talks.

In short, these events prove that though the two sides have experienced hostilities for several decades, national reconciliation and reunification accord with the will of the people and also with the general trend of history. And with further changes on the Korean peninsula as well as in the world outside, it is highly probable that North and South will advance along the road of reconciliation, discussion, and cooperation.

Of course, the peace process will not be plain sailing. Forty years of division have produced deep-rooted hostility and estrangement between the North and the South, not to mention the significant differences between the two social systems. Hence a genuine peaceful reunification cannot be expected to be accomplished overnight. At the end of 1984, the talks and exchanges suffered setbacks just because of a minor incident when a Soviet reporter crossed the 38th Parallel; at the beginning of 1985, the talks were again postponed because of the U.S.-South Korean joint military exercises.

Nevertheless, both sides have learned from the 1984 dialogues and exchanges that to maintain this positive trend is in the interests of both sides and in conformity with the fervent wishes of all Korean people for reconciliation. Therefore, the economic discussions and the Red Cross talks—that is, the present form of dialogue and exchange—will not be abandoned easily. While condemning the U.S.–South Korean joint military exercises, the North still expressed its hope for an early renewal of negotiations. In 1985, the two sides agreed to resume their economic discussion and the Red Cross talks, during which the two sides will further discuss such issues as the reuniting of separated families and economic exchanges. It is possible that preliminary agreements may be reached on trade and joint enterprises. And if the talks go smoothly, they may possibly be followed by talks at the vice-premier level.

On April 9, 1985, North Korea took another major step in its peace initiative by proposing to open talks between the two congresses of North and South Korea on the issue of a joint declaration of mutual nonaggression, with a view to eliminating hostility and confrontation between the two sides, creating an atmosphere of trust and unity, and finally bringing about a fundamental change in North-South relations. South Korea replied that it would give serious consideration to the new peace initiative.

If genuine, independent, and peaceful reunification is to be realized in Korea, outside interference must be eliminated and foreign troops must be withdrawn so that the two sides can make their own step-by-step efforts in earnest and continue to expand their exchanges and dialogues. It must be admitted that despite progress in the 1984 talks and exchanges, the prospect of reunification is still remote. The general development of the political situation on the peninsula and in the world at large, however, is favorable for the stability and peaceful reunification of Korea.

TRILATERAL TALKS AND THE U.S. ROLE ON THE PENINSULA

China sincerely hopes that peace and stability will be maintained on the Korean peninsula and is opposed to turmoil of wars in that area that would endanger the equilibrium of the whole Asian-Pacific region. China supports the proposal to establish a “Democratic Federal Republic of Korea” raised by Chairman Kim Il Sung in 1980. China also supports both North and South Korea in their efforts to realize independent and peaceful reunification through consultation and federation. At the same time, China maintains its close relationship with the People’s Democratic Republic of Korea, as demonstrated by the frequent visits and exchanges of opinions between leaders of the two countries. Since 1983, China has allowed South Koreans to take part in activities and sports and athletic competitions held in China by international organizations or under Chinese auspices on behalf of international organizations; Chinese now also participate in similar functions held in South Korea. In March 1984, Chinese Premier Zhao Ziyang mentioned in his talks with visiting Japanese Prime Minister Nakasone that China permits members of separated families in China and South Korea to meet and visit each other.¹ China has also taken a positive

¹ *Asahi Shinbun*, March 27, 1984.

attitude toward the Asian Games and the Olympic Games to be held in Seoul. These actions adopted by China are helpful in thawing the hostility existing in this area for so many years and in promoting the peaceful reunification of Korea. They do not, however, spell diplomatic recognition of South Korea.

China and the United States hold common aspirations for the maintenance of peace and stability on the Korean peninsula. Up to the present, however, one cannot but regret the U.S. attitude regarding trilateral talks, troop withdrawal, and so forth. Trilateral talks by the North and the South together with the United States would contribute to further relaxation of tensions on the peninsula. The peaceful reunification of Korea, however, must eventually be realized by the Korean people themselves. North Korea has never demanded that any foreign country take part in the peaceful reunification process. The status quo, however, is that U.S. troops are still stationed in South Korea and that they, together with South Korean troops, are pitted against North Korea across the 38th Parallel. Since South Koreans are in no position to command American troops or to negotiate with the North on the Americans' behalf, it is a logical solution for the United States to take part in the trilateral talks.

The notion of trilateral talks was originally proposed by the United States and supported by South Korea. Making significant concessions, North Korea accepted this proposal and agreed to hold the talks. The U.S. ought to have adopted a positive attitude to this compromise, and so far the U.S. government has given no definite refusal. On June 8, 1984, U.S. Ambassador to South Korea Richard Volker indicated that he personally was for the trilateral talks.² So far, however, the United States still seems to lack full understanding of North Korea's stand on the issue. North Korea has now acknowledged that the three parties concerned in the talks are completely equal in status, that is, it recognizes South Korea as an equal party. North Korea has also agreed not to make U.S. troop withdrawal a precondition of the talks and has further agreed to discuss any major problems that arise. Moreover, North Korea, has indicated its willingness to establish "confidence measures"³ with the South. All this shows sincerity on the part of North Korea. It is expected that the U.S. will be able to make its own judgment from this series of peace moves on the part of the North during the second half of 1984.

It is now South Korea that opposes the trilateral talks most vigorously. This circumstance inevitably casts doubt on the sincerity of the South Korea authorities regarding a peaceful solution of the Korean problem. If the United States could succeed in persuading the South Koreans to take part in the trilateral talks, it will be an important step toward the solution of the Korean problem. As a countermeasure to North Korea's proposal, South Korea has raised a proposal of "quadrilateral talks" that would include China. This proposal, however, is unrealistic. The crux of the so-called "quadrilateral talks" is to involve China. Unlike the United States however, China completely pulled out all its troops from Korea as early as 1958. The Armistice Committee ceased to exist except in name, and is waiting to be dissolved. What is more, North Korea has always maintained that the talks be held among the three

² *Sanke Shinbun*, June 10, 1984.

³ *Washington Post*, October 8, 1984.

parties concerned. And we support this standpoint, though the absence of China from the trilateral talks does not imply China's inability to exert influence on the Korean problem. It is well known that China has made great efforts in recent years to promote peace and stability on the peninsula.

The Gordian knot of the Korean problem is the presence of U.S. troops in Korea. North Korea considers the U.S. military presence on the peninsula as the fundamental barrier to the realization of the independent and peaceful reunification of Korea. It insists on the withdrawal of the American troops so that the Korean people may negotiate the problem of reunification peacefully, free from any outside interference. China supports this stand. Since the Reagan administration came into office, the U.S. military presence in Korea has been strengthened. Joint U.S.–South Korean military exercises have been held for nine successive years, and the troops involved have now increased to 200,000. The 1984 joint exercise was held only a little more than 10 kilometers from the 38th Parallel. The U.S. military exercises have also changed from their previous form of “front line defense strategy” into one of “depth-striking offensive defense strategy.” This escalation is obviously detrimental to the relaxation of tension on the Korean peninsula and constitutes a negative factor for peace and stability there.

Time and again North Korea has explicitly stated that it is “both unable and unwilling”⁴ to advance southward, that it eagerly hopes to put to an end the long-standing hostility between the two sides so that their resources could be pooled for economic development. The North's attitude is completely sincere. Under such circumstances, the presence of U.S. troops is becoming less and less plausible. The Americans have asserted that their 40,000 troops are insufficient to pose a threat to the North. But with its first-rate transportation capability and a foothold for 40,000 troops in Korea, the United States is able to send reinforcements from places such as Japan and even continental America at any time, not to mention the fact that the United States has deployed tactical nuclear weapons in South Korea and has continued to perform frequent military maneuvers there. Since North and South Korea have existed in a hostile state for so many years, such deployment and maneuvers can only make the North feel threatened and doubt American sincerity.

The United States has privately indicated that its troops stationed in Korea could play a role in restraining the South Korean forces. But when the Kwangju incident broke out (May 1980) the South Korean troops were free to act “independently,” suppressing the uprising against the government waged by the students and citizens of Kwangju. It was also reported that the 20th and 9th Divisions of the South Korean Army are already detached from the command of U.S. headquarters in Korea. This means the presence of U.S. troops there is no longer able to check the South Koreans. If the United States really wants to check the South Korea forces, it can do it all the same without stationing its troops in South Korea, because the entire military system of South Korea cannot operate without American support.

At present the United States, if it is not yet determined to withdraw its troops,

⁴ Quoted in Jiji Press News (Pyongyang), September 19, 1984.

could at least take some steps to relax tension on the peninsula instead of doing the opposite. Chairman Kim Il Sung told Masashi Ishibashi, leader of the Japanese Socialist Party: "We will keep demanding that the United States withdraw its troops. But the United States might be reluctant to do it right now."⁵ This statement showed both the resolution of the Korean people to oppose foreign interference and their realistic approach to the solution of this problem. It will not do for the United States to talk about peace in Korea while dodging key problems of this nature. If, as a first step, the United States could cease its large-scale military exercises on the peninsula, it would certainly create a favorable atmosphere for the peace process there.

Direct exchanges of personnel in economic and cultural fields between the United States and North Korea will help bridge the estrangement and give impetus to the relaxation of the Korean situation. In January 1984, the Seventh Korean People's Supreme Congress declared in its resolution of the Third Session: "Economic and technical exchanges will be carried out extensively" with capitalist countries. In June, Chairman Kim Il Sung stated that the country "could no longer be closed to international intercourse."⁶ In September, the Standing Committee of the People's Supreme Congress passed the "Law for Joint Ventures," demonstrating its great enthusiasm for opening up to the outside world. But there has been no response from the United States. Starting last August, North Korea began to allow the entrance of American reporters, while the United States still refused to grant admission to North Korean reporters. North Korea has appealed for economic cooperation with all capitalist countries. France has responded, while the United States remains indifferent. The United States is still exercising an embargo against the North and imposes many restrictions on contacts between diplomats of the two countries. American scholars used to complain that they were unable to get in touch with the North and could learn little about it. Now North Korea has adopted an open-door policy on its own initiative while the United States still pursues an out-of-date policy, restricting contacts between Korean and American personnel. This is obviously unwise.

In 1986 and 1988, respectively, the Asian Games and the Olympic Games will be held in Seoul. This period of time will perhaps be of great significance for the Korean peninsula. It will also provide opportunities for the United States—if it is willing to promote the North-South peace process—and exchanges between Korea and the United States. But there are two possibilities to everything, and so there may also be two different results, depending on which policy the United States adopts on the Korean problem. To promote the Korean peace process is one possibility. The other is to thwart and wreck the process of North-South negotiation and reconciliation and, by so doing, harm peace and stability on the Korean peninsula.

⁵ Quoted in Kyodo News Service, September 28, 1984.

⁶ *International Affairs* (Japan), November 1984, p. 8.

10. The Korean Peninsula: Threat and Opportunity

Robert A. Scalapino

More than three decades after the end of the Korean War, tension between North and South Korea remains high, and with nearly 1.5 million men permanently under arms on this small peninsula, Korea is the most heavily militarized region in the world.¹ Moreover, there is no absence of incidents. The Rangoon bombing of October 9, 1983, remains vividly etched on the minds of all South Koreans, but as recently as November 23, 1984, when a young Russian defector ran across the demilitarized zone into the South, one South Korean soldier and three North Korean soldiers were killed in the ensuing fire fight.

For the first time in many years, however, the possibility of a fresh approach to the Korean problem exists. Events which began in the summer of 1983 offer a chance for reduced tension between the two Koreas and an increase in the type of cross-contacts between these states and the major powers that can promote peace in the region as a whole. Yet there are many uncertainties about the future, not the least of which are the tactics and goals of North Korea—short- as well as long-term.²

A SHIFT OF COURSE?

First, let me briefly outline recent developments, seeking to provide a factual background against which to assess future possibilities. By the summer of 1983, China was taking an active role in searching for some formula whereby tension between the two Koreas could be reduced, thereby enabling the major states to be more flexible in dealing with the Korean problem. In this attempt Beijing had the

¹ Recent data on North and South Korean military strength are presented in Research Institute for Peace and Security, *Asian Security—1984* (Tokyo, 1984), pp. 121–129.

² Essays dealing with various facets of contemporary North Korea are contained in a work edited by this author and Jun-yop Kim, *North Korea Today: Strategic and Domestic Issues* (Berkeley, Calif.: Institute of East Asian Studies, 1983).

active encouragement of the United States, and private discussions had taken place between American and Chinese officials. The People's Republic of China was encouraged to believe that Washington would support tripartite negotiations of the type suggested in the Carter-Park proposal of 1979.

In August 1983, Deng Xiaoping and Kim Il Sung met privately in Dalian to discuss overtures with respect to the United States and the Republic of Korea. About one month later, during their meeting of September 28, Deng indicated to U.S. Secretary of Defense Caspar Weinberger the importance of taking new initiatives on the Korean problem, signaled that North Korea would show flexibility, and asserted in somewhat vague terms that China was prepared to play a role in the events to follow. Ten days later, on October 8, China notified the U.S. Embassy in Beijing that North Korea was ready to participate in tripartite talks, hailing this change of policy as one offering great hope. The following day, however, the Rangoon bombing occurred. North Korean agents managed to install bombs in the Aung San Mausoleum with the intention of killing President Chun Doo Hwan and his visiting party. Chun escaped because his motorcade had been delayed, but seventeen high South Korean officials died.

This incident raised questions about both basic strategy and decision making in Pyongyang that remain unanswered. It seems impossible that this extraordinary course of action could have been undertaken without the knowledge and approval of Kim Il Sung. What was the role of his son, Kim Jong Il? Was it really thought that the plot could be camouflaged as a plan of South Korean dissidents? Did top North Korean officials believe that a new flexibility on negotiations could be combined with continued terrorism? Or was there some breakdown in communications in Pyongyang, or even significant differences of opinion on the proper course?

In any case, while the trilateral concept was informally broached again on December 3, several months passed before North Korea submitted its formal proposal. On January 10, 1984, after a joint meeting of the Central People's Committee and the Standing Committee of the Supreme People's Assembly had approved, the plan was announced.³ As worded, the proposal was significantly different from the unstructured agenda and the full and equal participation envisaged in the Carter-Park proposal. The January 10 proposal called for tripartite discussions "with the South Korean authorities participating in the talks with us and the United States"—an unfortunate wording. Moreover, a clear agenda with certain steps involved was outlined. The question of concluding a peace agreement was to be discussed between the United States and North Korea, with the issue of American troop withdrawal to be taken up in these negotiations. North and South Korea would discuss the adoption of a bilateral nonaggression pact, and then move toward a discussion of military force reduction and an agreement on the nonuse of force. When these agreements had been reached, a political conference composed of representatives of North and South

³ An English-language translation of the proposal is carried in *Pyongyang Times*, January 14, 1984, p. 1. See also Foreign Broadcast Information Service (FBIS), *Daily Report—Asia and the Pacific*, January 11, 1984, D1–D11.

would be convened to take up the question of establishing a confederated state. It seemed clear that two bilateral negotiations were envisaged under a trilateral umbrella, each involving approaches long rejected by both the United States and South Korea.

The United States, confronted with staunch South Korean opposition to any tripartite conference, declined to test some of the ambiguities or to seek alterations in the North Korean proposal. Rather, Washington indicated that its current preference was for bilateral negotiations enabling the two Koreas to resolve key issues, although it was prepared to support quadrilateral negotiations with the People's Republic of China included. There was a certain logic in the latter proposal since China had been a signatory to the armistice agreement—albeit under the guise of Volunteers—and hence could be expected to be involved in the conversion of that agreement into a permanent settlement. But North Korea immediately denounced the quadrilateral proposal, asserting that China had nothing to do with the issue at stake—meaning American troop withdrawal.

China also indicated that it did not wish to become involved in Korean negotiations. Publicly, its position was akin to that of Pyongyang, namely, that it had withdrawn its military forces much earlier. It was suggested privately that participation would not be helpful since China would have to support North Korea on the key issues—a line of argument that might also apply to the United States in its relations with South Korea. In any case, the United States was not enthusiastic about the concept of a quadrilateral or six-power discussion—the latter being another possibility advanced, with the USSR and Japan added to the list of participants. Washington placed ever higher priority on bilateral North-South negotiations, supporting the South Korean view.⁴

By the summer of 1984, there were no indications that the stalemate would be broken. North Korea continued to push its January 10 proposal indicating some flexibility regarding the status of South Korea, but with the agenda basically unchanged. North Korean media, meanwhile, poured abuse on both the South Korean and the American governments, sparing no epithets. South Korean leaders were charged with conducting a regime of “militarist fascism” and seeking to provoke a new war. A North-South dialogue was termed meaningless unless anticommunism in the South ceased and “democratization” took place. It was also asserted that since the Seoul government was a puppet of the United States, it did not have the capacity for independent negotiations. The United States was called the foremost enemy of the world's progressive people.⁵ The signals from Pyongyang were scarcely conducive to a harmonious dialogue.

South Korean authorities answered in kind, demanding an apology for the

⁴ For two papers dealing with recent U.S. policies toward North and South Korea, see Byung-joon Ahn, “North Korea and the United States in Global and Regional Perspective,” and this author, “Polemics and Realities: U.S.—North Korean Relations,” in the work edited by this author and Hong koo Lee, *North Korea in a Regional and Global Context* (Berkeley: Institute of East Asian Studies, 1986).

⁵ See Pyongyang media reports in FBIS, *Daily Report—Asia and the Pacific*, for July–December 1984.

Rangoon bombing before talks could take place and excoriating North Korean leaders for questioning the independence of the Republic of Korea, asking why, if this were Pyongyang's view, it had agreed to bilateral negotiations in 1972–73?⁶

Suddenly, in the autumn of 1984, a chain of events got under way that seemed in striking contrast to recent trends. In September, devastating floods in the South left several hundred thousand people homeless. North Korea offered rice, cloth, medicine, and cement as gifts to flood victims. In all likelihood, Pyongyang expected Seoul to turn down this offer. On earlier occasions, both sides had made such a move for propaganda, and always it had been indignantly refused. After consideration, however, South Korean authorities announced that they would accept the assistance not because they needed it but because it might forward the process of reducing tension. Then another unexpected event occurred. The North had demanded that their trucks laden with supplies be allowed to drive to Seoul. When this was rejected by the South, instead of withdrawing its offer, Pyongyang accepted a transfer of supplies at the border and in several South Korean harbors. Not to be outdone in the propaganda campaign, the South Korean government prepared hundreds of boxes containing transistor radios, wristwatches, clothing, and household items as gifts for their Northern compatriots.

One might say that barter trade had begun. Meanwhile, the North agreed to a reopening of the hot line between the two capitals. Yet North Korean tactics remained unclear. Masashi Ishibashi, chairman of the Japan Socialist Party, was visiting Pyongyang at the time of the September events. In private conversations with Ishibashi and in his banquet speech, Kim Il Sung again emphasized the supreme importance of tripartite talks, and while South Korea was given equal billing with the United States, the structured agenda appeared to be unaltered.⁷ Moreover, North-South talks were said to be feasible only after the South Korean authorities had obtained "all real powers" including total control over their armed forces, after they had repealed anticommunist legislation, after Chun reaffirmed the three principles enunciated in the July 4, 1972 joint communiqué issued by the two governments, and after he had apologized for the Kwangju incident.

Notwithstanding these remarks, another surprising development occurred in November, when North Korean authorities announced acceptance of a South Korean proposal to hold bilateral discussions on economic relations and Red Cross talks on the divided family issue. The meeting on economic intercourse took place on November 15, and the Red Cross meeting followed five days later. It now appeared that, despite Pyongyang's initial insistence that it would never meet with the Chun government, modified only slightly by a series of demands that effectively precluded any meeting, the highest authorities in Pyongyang had suddenly authorized two separate meetings without any preconditions.

The future course, however, remained unclear. The second series of meetings,

⁶ See the text of Chin Ui-chong's letter of March 10, 1983 in *South-North Dialogue in Korea*, Seoul, May 1984, 40–44.

⁷ Kim's speech is carried in FBIS, *Daily Report—Asia and the Pacific*, September 20, 1984, D2–D5.

scheduled for December, were postponed by the North because of the incident surrounding the Russian defector. A new schedule called for the meetings to take place in January, but on January 9, Pyongyang authorities telephoned to request an indefinite postponement because of Team Spirit '85, the military exercises conducted by American and South Korean forces scheduled for February 1. These exercises had been annual, and the North Koreans had been invited to send observers. A protest was natural, but the event was scarcely unexpected. Throughout the spring, the invective against the United States and the Republic of Korea continued at the highest decibel levels.⁸

Various speculations concerning the reasons behind the procrastination of the North were advanced: North Korea strategy had not yet been formulated; the North wanted to await the results of the South Korean February 1985 elections and other political developments in the South; ongoing discussions with the Russians relating to military and economic assistance dictated a cautious policy vis-à-vis the South.

Whatever the mix of factors, meetings were resumed in May and June, with working-level Red Cross sessions held in July. The results as of the end of 1985 are inconclusive. Much is theater. Both sides are aware that a national and international audience is watching. Neither wishes to bear the onus of torpedoing the dialogue. Some agreements have been reached in principle, with the most concrete agreements related to divided family and folk art troupe visits. The first visits on a limited scale took place in September.

In reality, at this point, two separate tracks can be discerned, with no clear sign that they can be successfully meshed. The South is proceeding on the principle that initial attention should be given to specific economic and cultural interaction, proceeding to open intercourse in these fields and testing the results. The North, on the other hand, is insisting that every step be related to high-level exchanges and rapid reunification. Hence, it seeks to use specific issues as instruments to that end. While the South has made the majority of concessions thus far, these two approaches remain clearly distinct and reflect the historic positions of the two governments.

THE REGIONAL CONTEXT

Before drawing any conclusions, let us examine the contemporary setting for relations between the two Koreas, first in terms of the attitudes and policies of the major states.

Among the four states keenly interested in Korea, the Soviet Union probably

⁸ For example, see the Pyongyang radio report on a rally to commemorate the "March First (1919) Uprising" held in Pyongyang, March 1, 1985. The major address played upon all the traditional themes regarding the United States and South Korea and reiterated the North Korean demand for tripartite talks. A swipe at the Japanese was also taken by Yom Tae-chun, who delivered the report: "Japanese authorities must discard the foolish attempt to stage a comeback to South Korea and realize their old dream of the 'Greater East Asia Coprosperity Sphere' by partaking of the U.S. policy of aggression and must refrain from obstructing peace in Korea and her peaceful reunification." FBIS, *Daily Report—Asia and the Pacific*, March 1, 1985, D5–D6.

has had the greatest difficulty in determining its precise course of action.⁹ Given recent trends in Soviet-American relations, Moscow has little interest in following Korean policies that might be of assistance to the United States and Japan. On the contrary, tension short of war conceivably suits Moscow's immediate purposes, especially if such a condition makes North Korea more dependent upon it. It has been speculated that the Soviet Union has long desired access to North Korean ports and bases for military purposes in exchange for increased military and economic aid. Whatever the validity of this speculation, a Korea truly frightened by the possibility of attack upon it, or contemplating attack itself, would be a Korea less haughty toward the Russians.

In the recent past, moreover, Soviet and North Korean interests and perceptions have converged on at least one theme: the need to oppose the United States. Seeking to take advantage of this common interest and building on the assumption that Kim Il Sung and his colleagues were unhappy about various Chinese policies, domestic and foreign, the Soviet Union launched a campaign beginning in 1978–79 to improve its long-troubled relations with North Korea. The level and number of Soviet delegations to that nation were upgraded, increased economic assistance was granted, and Soviet media began to give stronger support to Pyongyang's positions.¹⁰ The Chinese countered with substantial offers of their own. Thus, Kim was able to take advantage of the struggle for influence by feinting first in one direction, then another.

The contest continues. In May 1984, Kim made his first visit to Moscow in nearly two decades. Vice Foreign Minister M. S. Kapitsa reciprocated, traveling to Pyongyang in December for lengthy consultations. The precise Soviet commitments remain unclear but the Russians finally agreed to sell North Korea a significant number of MiG-23s and other military equipment, and in exchange, reportedly have received permission for overflights and port visits by naval vessels at designated areas on the west as well as the east coast of the DPRK. Increased economic assistance has also been pledged. Reluctantly, moreover, Moscow has accepted Kim Jong Il as his father's successor—a prime objective of the elder Kim. Behind these developments lies Moscow's growing concern with the prospect of a strategic entente among the United States, Japan, and South Korea, with China a supporter and low-level participant. While this fear has some basis in fact, it is greatly exaggerated. Nonetheless, the scenario of an Asian NATO is often featured in the Soviet media.

Nonetheless, there is another side to this picture. The USSR, like other major states, does not want a new war on the Korean peninsula, and indeed it has previously been careful to control weapon transfers to Pyongyang with this threat in mind. More important, Russian leaders neither like nor trust Kim Il Sung and his regime. Kim

⁹ For an overview, see Donald S. Zagoria, ed., *Soviet Policy in Asia* (New Haven: Yale University Press, 1982) and Herbert J. Ellison, ed., *The Sino-Soviet Conflict: A Global Perspective* (Seattle: University of Washington Press, 1982). Recent articles include Yu-Nam Kim, "Moscow and Pyongyang—Odd Man Out," and Donald S. Zagoria, "Soviet Policy Toward North Korea," in Scalapino and Lee, *North Korea in a Regional and Global Context*.

¹⁰ See Donald S. Zagoria, "North Korea: Between Moscow and Beijing," in Scalapino and Kim, *North Korea Today*, pp. 351–371.

personally is regarded as a pompous egomaniac, ungrateful for past Soviet assistance, ultranationalist, and wholly lacking in Marxist-Leninist qualities. The Kim cult of personality is ridiculed in Soviet circles. Kim's celebrated *chuch'e* (self-reliance) is seen as nothing more than a combination of xenophobia and bourgeois nationalism. And the repressive character of Kim's monolithic state reminds the Russians of the worst period of Stalinism. In addition, Moscow is convinced that whatever assistance they give North Korea, that country is not likely to move too far away from China, for strategic as well as cultural reasons. Indeed, it can be argued that the improved relations between the USSR and the PRC have made it possible for the DPRK to upgrade its relations with the Soviet Union without deeply offending Beijing. Thus, while the Soviets realize that they have superior military and economic instruments to garner favors from the North Koreans at present, they regard their relationship with the DPRK as one based upon necessity, not trust or great compatibility.

The latter sentiment is shared by Kim. Having been under the baton of the Russians, Kim and his generation regard the USSR as prone to big power chauvinism, lacking in an understanding of Korean sensitivities, and less than generous in its support. Kim is shrewd enough to play off the Russians and the Chinese, maintaining a sizable degree of aloofness from both, but his personal proclivities have been to tilt toward China.

It is not surprising that Moscow has taken a dim view of the proposed tripartite talks among the United States, North and South Korea. The Soviet Union has no interest in seeing Pyongyang's foreign relations made more complex, with an American contact introduced. Moscow also takes pleasure in reminding Pyongyang of China's closer relations with the United States and of its growing contacts with South Korea. Yet it was the Soviet Union that earlier established cross-contacts with the Republic of Korea—at a time of pique with North Korean policies. Nor is the Soviet Union wholly immune to further contacts with Seoul. A thaw in Soviet-American relations would make this easier, but in any case the USSR is not likely to desire a situation where its only "normalized relationship" in Northeast Asia is with Pyongyang. For the Soviet Union, the status quo in this entire region is unsatisfactory, with Russia dependent primarily upon military power and lacking in effective political or economic influence. At some point, therefore, one may expect more flexible, sophisticated Soviet policies toward Northeast Asia to emerge, albeit policies always limited by certain deeply implanted cultural traits as well as the geopolitical realities confronting the Russian empire.

The People's Republic of China also faces complexities in seeking adjustments in its Korean policies.¹¹ Chinese leaders believe—not without reason—that they

¹¹ For recent foreign perspectives on Chinese policies toward the two Koreas, see Jonathan D. Pollack, "U.S.-China Relations and the Security of Korea," September 27, 1983, unpublished ms.; and, by the same author, "China and the Korean Peninsula in the 1980s," paper presented at the George Washington University-Keio University International Conference on Northeast Asia, Tokyo, March 28-30, 1983; and two papers in Scalapino and Lee, *North Korea in a Regional and Global Context*: Chin-Wee Chung, "North Korea's Relations with China," and Chae-Jin Lee, "China's Policy Toward North Korea: Changing Relations in the 1980s."

understand Korea and the Koreans better than anyone else. Nor is the background of traditional paternalism wholly gone. This region was long China's sphere of influence, a land paying homage to Chinese culture and power. With North Korea fronting on Manchuria, and with Koreans one of the largest minorities inhabiting China and concentrated in the Manchurian area, Korea's importance to Chinese security is obvious.

Yet China has had its own problems with the North Koreans. There is very little intimacy between the two peoples despite the large number of high-level visits exchanged, the banquet speeches filled with warm sentiments, and the cultural affinity that exists. The North Koreans have managed to remain aloof even from their closest neighbors except when necessity dictates otherwise.

Privately, moreover, Chinese leaders share some of the same reservations about Kim and his government as are expressed by the Russians. Indeed, the whole course of recent Chinese political evolution has been away from a cult of personality, away from a Stalinist monolithic state with a "big push" economic strategy, away from xenophobia and exclusivism. The Chinese, to be sure, have sought to serve as tutors to the North Koreans, especially in the economic sphere, and with some success. But strains have also developed in recent years. Kim cannot be wholly happy with recent Chinese policies. He followed earlier fashions set by Beijing: the Great Leap Forward and the general philosophy of politics in command, although he wisely refused to borrow the Cultural Revolution. Economic liberalization, however, runs counter to Kim's deepest instincts, although like Chinese leaders, he has probably come reluctantly to the view that an autarkic economy is a prescription for backwardness and must be abandoned. Still, in overall terms, the course of Chinese domestic policies—political as well as economic—is currently diverging from the policies of North Korea.

A similar trend is also apparent in the foreign policy arena. China's policy of tilted nonalignment, with the tilt toward Japan and the United States, has concerned Pyongyang. There has been recurrent fear that Beijing will sacrifice North Korean interests for the broader objectives of establishing closer ties with Japan and the advanced West.¹² That North Korea itself has an interest in moving in that direction at present does not reduce the importance of conditions and timing, factors upon which Beijing and Pyongyang are likely to differ.

It is no secret to the North Koreans, moreover, that China has been moving toward increasingly important contacts with South Korea, especially in economic relations. Trade is growing and South Korean entrepreneurs are now in direct contact with their Chinese counterparts. This development is very natural, given the dynamism of the South Korean economy and the services it can perform for Chinese economic modernization. It is also clear that the South Koreans are anxious to have stronger ties with China and are outgoing in a way not shared by their Northern compatriots. Thus, contacts at international conferences and in other overseas set-

¹² See Zagoria, "North Korea: Between Moscow and Beijing."

tings are easily established. At this point, China has progressed further down the road of cross-contacts than the USSR. Beyond this, it is also involved in a closer relationship with both Japan and the United States, the two states most strongly supportive of South Korea.

To counter North Korean concerns, Chinese leaders continue to underwrite Pyongyang's central demands: the withdrawal of American forces from South Korea, the creation of a Confederated Republic of Koryo in the manner prescribed by Kim Il Sung and, more recently, the convening of a tripartite conference. Americans are told privately as well as publicly that Kim does not have either the means or the will to attack the South, and that the withdrawal of American troops would facilitate rather than hinder a reduction of tension on the Korean peninsula.¹³ Then an incident like the Rangoon bombing—or the November 23 shootout—occurs, and Americans wonder whether the Chinese really believe that leaving the North and South Koreans to themselves would serve the cause of stability and peace.

In any case, Chinese leaders have crafted a Korean policy compounded out of support for main-line Pyongyang policies, serving as model for economic reform and facilitator for the expansion of North Korean–Japanese–American contacts, and adopting a pragmatic approach to relations with South Korea. It is a multifaceted, delicate policy dependent for its success upon a considerable amount of fine tuning and the cooperation of other parties. But it is also a policy that serves China's national interests well.

As noted, the reduction of tension in Sino-Soviet relations may facilitate this policy in at least modest degree. When tension was high, the competition over North Korea naturally intensified, enabling Pyongyang to take full advantage of the situation. It also increased Moscow's desire to play the role of spoiler, with respect to Beijing as well as Washington. That tendency is still present, but if some degree of relaxation occurs in Sino-Soviet and American-Soviet relations, its repercussions would ultimately be felt with respect to Korea. China, however, cannot be happy about the increased Soviet military presence in the vicinity of North Korea.

Japan's attitude toward the Korean problem has been remarkably consistent over many years.¹⁴ Basically, the Japanese favor a "two Koreas" policy, but their commitment to South Korea is genuine and will not be abandoned. History and other factors combine to cause racial prejudices to run deep in Japanese-Korean relations on

¹³ See this author's article, "Current Dynamics of the Korean Peninsula," *Problems of Communism*, vol. 30, no. 6 (November-December 1981), pp. 16–31.

¹⁴ Japan's earlier policies toward Korea are depicted in Soon-sung Cho, "Japan's Two Koreas Policy and the Problems of Korean Unification," *Asian Survey*, vol. 7, no. 10 (October 1967), pp. 703–725; and Hong-Nack Kim, "Japan's Policy toward North Korea since 1965," *Korea and World Affairs*, vol. 7, no. 4 (Winter 1983), pp. 656–676. See also Franklin B. Weinstein and Fuji Kamiya, eds., *The Security of Korea: U.S. and Japanese Perspectives in the 1980s* (Boulder, Colo.: Westview Press, 1980) and this author's "North Korean Relations with Japan and the United States," in Scalapino and Kim, *North Korea Today*, pp. 331–350. Two articles recently completed are C. I. Eugene Kim, "In the Shadow of *Chuch'e*: North Korea's Relations with Japan," and Jung Hyun Shin, "North Korea's Relations with Japan: The Possibilities for Bilateral Reconciliation," in Scalapino and Lee, *North Korea in a Regional and Global Context*.

both sides. To this precondition have been added such modern irritants as the Korean complaint of a restricted Japanese market and other protectionist economic practices. Nonetheless, since relations were normalized in 1965, Japan has played an enormous role in support of the South Korean economic revolution—which is one of the reasons why North Korea is so anxious to upgrade its own economic relations with Japan. Under Prime Minister Nakasone, moreover, Japan has made a conscious effort to move its relations with the Republic of Korea beyond the economic level, and to develop meaningful political ties. Even a very modest security connection has been established in the form of mutual consultations—apart from Japan’s commitment to the United States to allow the use of Japanese bases in the event of an attack upon South Korea. This is a part of the “soft regionalism” that is developing in Northeast Asia under Japanese aegis.

At the same time, Japan is the most important noncommunist trading partner of North Korea, with Japanese–North Korean trade now accounting for about one-sixth of all the latter country’s trade. Kim Il Sung, moreover, has signaled clearly that he would like to expand economic contacts, as noted previously, and were it not for Pyongyang’s serious foreign exchange problem—and the fact that it cannot repay past debts owed Japan and others—trade might develop rather rapidly.

The Japanese must always be aware of the complex political problem implicit in having some 650,000 Koreans resident in Japan, deeply divided and periodically a source of political trouble.¹⁵ In the final analysis, however, Japan’s interests lie in cautiously elevating its economic relations with the North while keeping its primary economic, political, and security ties with the South—perhaps the perfectly counterbalancing policy to that of China, which is seeking to establish a virtually identical policy in reverse. And these trends testify to the increasing “Asianization” of the Korean issue.

In sustaining its security commitment to South Korea (and Thailand), the United States continues a long-debated policy of extending its defense perimeter to the continent of Asia as distinct from the policy of restricting its military commitments to key island allies. Nevertheless, the American sacrifices engendered in defending South Korea during the Korean War (and the lesson learned from sending the wrong signals to Pyongyang, Moscow, and Beijing prior to that war) are deeply engrained in American consciousness. Moreover, the 1976–77 Carter initiative to gradually withdraw American ground forces greatly disturbed the Japanese as well as the South Korean government, and was quickly abandoned. At present, the U.S. defense commitment to South Korea has bipartisan support in the American Congress, and only a major upheaval within South Korea—or dramatic progress toward peaceful reunification—could cause reevaluation of this support, although in the event of need, assistance is likely to be primarily air and naval support. The 40,000 American troops in South Korea, like the troops in Europe, are a guarantee of that

¹⁵ This general issue has been discussed at length in Changsoo Lee and George DeVos, *Koreans in Japan: Ethnic Conflict and Accommodation* (Berkeley, Calif.: University of California Press, 1981).

commitment, as well as a means of preventing incidents between North and South from becoming large-scale conflicts.¹⁶

The American presence gives the United States a degree of leverage over the South Korean government, but that leverage is much less than is assumed in some circles. Pyongyang's charge that the South is a puppet of "American imperialism" is as nonsensical as many other Pyongyang charges. A number of important events have occurred in South Korea without the sanction—or approval—of the United States, including two coups d'état. South Korean nationalism, moreover, is steadily rising. And the complaint of South Korean dissidents is not that the United States controls events, but that it has done too little to force the South Korean government to take certain courses of action or to abandon others.

As South Korean economic strength has grown, issues of trade and investment have loomed ever larger in U.S.–South Korean relations, and these are likely to be increasingly complex since South Korea, like most other developing countries of Asia, is intent upon an export-oriented strategy heavily dependent upon the American market. That market can only tolerate a certain degree of penetration within a given period of time before economic and political repercussions set in, as is now well known.

There is a strong hope in the United States that the political liberalization process, now gathering momentum, can be sustained, and that in 1988 South Korea will witness the first transferral of power from one head of state to another by a peaceful electoral process accepted as legitimate by the great majority of Koreans. In informed circles, however, there is concern lest a spiraling interplay between extremism and repression could once again disrupt the liberalization timetable. Some signs in late 1985 were reminiscent of the trends after Park's assassination that culminated in Chun's rise to power.

The economic, cultural, security, and political ties between the United States and the Republic of Korea are likely to remain strong, assuming the avoidance of political disaster, and the United States has less interest than Japan in establishing economic or cultural ties with the North. Nevertheless, it has been a longstanding U.S. policy to favor cross-contacts, and indeed Washington would accept cross-recognition quite willingly. Two Korean states exist; neither is likely to disappear. To accept this reality and deal with it seems the only rational policy. The U.S. government does not prohibit American citizens from going to North Korea. It also inaugurated a policy of so-called smile diplomacy a few years ago, with American diplomats permitted to talk with their North Korean counterparts at receptions or in other places of contact. Earlier, incidents like the Rangoon bombing and the involvement of a New York-based North Korean official in the molestation of a woman, together with the refusal of the Canadian government to grant North Koreans visas to attend a meeting of the Association of Asian Studies, interrupted or delayed

¹⁶ See Norman D. Levin, *The Strategic Environment in East Asia and U.S.-Korean Security Relations in the 1980s*, Publication N-1960-FF (Santa Monica, Calif.: Rand Corporation, March 1983).

American–North Korean cross-contacts, but the process is now likely to move ahead erratically. Approval was recently given for several North Korean scholars to attend an academic conference in the United States. However, Kim Il Sung's desire to have "Americans of influence" visit Pyongyang suggests a level of visibility not attractive to Washington at this time. In principle, however, the United States is prepared to move toward communication, with North–South Korean relations a key factor in determining the speed with which this develops.

The major states, in sum, have certain minimum interests regarding Korea in common: a desire to see war avoided and a willingness—in varying degrees—to accept cross-contacts that acknowledges the reality of two Korean governments, each having control over its territory and population. Only Pyongyang's veto prevents progress toward a legal acceptance of this fact—a development that would enable both Koreas to enter more fully into the world arena pending peaceful unification, a prospect which seems distant at present.

TRENDS IN THE TWO KOREAS

Meanwhile, domestic trends within both North and South will have a significant impact upon the future foreign relations of the two countries, including their relations with each other. Each Korea faces certain immediate problems. In the North, as noted earlier, an autarkic economy, shaped by the Stalinist "big push" strategy, has reached a point of sharply diminishing returns. Productivity in the North is only about one-fifth that of the South today, and despite considerable Soviet and Chinese assistance, the immediate prospects for satisfactory growth are not good. It is incumbent upon the North to turn out for science and technology, and this has long been recognized by some of Pyongyang's leaders. Patterns of North Korean trade show a steady trend toward interaction with the advanced industrial world. But the foreign exchange problem is serious, as has been indicated, with little prospect that the debts owed to creditors can be paid soon. More important, is the North Korean government prepared to modify its strongly statist, centralized, collectivized economy in any fundamental sense?¹⁷

On the political front, the key issue is the succession of Kim Jong Il to his father's post. Perhaps this succession will proceed smoothly, especially if the elder Kim lives for a considerable period of time. Already, it is reported that young Kim has assumed day-to-day administrative responsibilities, and a campaign to build up his prestige has long been under way. Do his abilities, his policy proclivities, and his personality measure up to the tasks ahead? And will the older cadres, military and civil, accept this generational revolution, in which those over age 50 may be largely

¹⁷ See Joseph S. Chung, "Economic Planning in North Korea," in Scalapino and Kim, *North Korea Today*, pp. 164–196; and his article, "Foreign Trade: North Korean Performance, Policy and Prospects," in Scalapino and Lee, *North Korea in a Regional and Global Context*. See also Suk Bum Yoon, "Macroeconomic Interaction Between Domestic and Foreign Sectors in the North Korean Economy: A Schematic Interpretation," in *ibid*.

bypassed? That factionalism has existed in North Korean politics—and still exists, despite Kim Il Sung's power—is known, although the shadows on the political wall are indistinct, at least so far as the Western world is concerned.

South Korean politics, in contrast, are relatively open for all to view. Chun Doo Hwan has had to fight for legitimacy, having come to power by means of a coup and having been saddled with the Kwangju incident at an early point in his administration. The Chun administration has taken a number of steps to liberalize Korean politics in the recent past, including the restoration of full political rights to virtually all opposition figures except Kim Dae Jung and allowing rival parties to operate. Moreover, Chun has insisted that he will not make the mistake of Park Chung Hee and seek to remain in power. A new constitution limits the presidential term to one seven-year term. Yet Chun faces continued criticism. Many see him as a weak administrator, and one who has not been able to surround himself with able men. His family, moreover, including his wife, are widely regarded as having used their position to benefit financially.

In any case, South Korean politics are likely to be competitive, boisterous, and unpredictable in the period immediately ahead. It seems clear that Chun and a number of others would like to move the Republic of Korea toward a dominant party system, but one sanctified by competitive elections. With a government party candidate like Roh Tae Woo (and a divided opposition), this may be possible. But the success of democratic politics depends on both the tolerance of those in power and the methods of those seeking power. The uncertainties connected with these two requirements loom over the South Korean political scene as a new political era gets underway.

Meanwhile, South Korea has had recent economic problems, despite sharp gains in 1983–1984. Growth in 1985 may not exceed 4–5 percent. The economic problems include a high debt ratio, a trade imbalance, especially with Japan, and the fragile financial base of some large corporations. These problems, however, appear manageable assuming a global depression is avoided and, within Korea, foreign investment rather than foreign borrowing is stressed.

While many uncertainties becloud the horizon, there is good reason to believe that in the competition between the two Koreas, time is on the side of the South. By 1990, the latter will be a match for North Korea militarily without assistance from the United States, assuming the continuance of present trends.¹⁸ The South will be infinitely stronger economically and will possess a much higher standard of living. And it will have international recognition as a modernized industrial state with more than regional impact. These projections, of course, assume a reasonable degree of political stability at home—and a peaceful, economically developing international environment.

If these trends come to pass, perhaps they will be helpful in leading to a rational relationship between the South and the North, a relation not dissimilar to that which has evolved between the two Germanies. Certainly it behooves every major state to

¹⁸ One evaluation of present and future North–South Korean relations is Deok Kim, “The Evolution of North–South Korean Relations: Reassessment and Prospects,” in *ibid.*

encourage such a development. And meeting this goal requires a continued emphasis upon bilateral North-South negotiations. No outside power can resolve the key issues facing the two Koreas in their search for survival and coexistence. It is precisely here that *chuch'e* should be applied, and one can hope that the states having some influence upon Pyongyang will stress this fact. In this direction lies the hope for a secure peace.

11. Vietnam's Relationship with China

Douglas Pike

The Vietnamese, like the Chinese, have a profound sense of history and, unlike the Americans, are heavily burdened by history. This is the central fact of the Sino-Vietnamese relationship, one of a thousand years' standing.¹

RELATIONSHIP AT THE SUBLIMINAL LEVEL

The Vietnamese perceive the Chinese as holding what might be called an implacable world view, one born of being different. The Chinese sense of superiority, as described by the Vietnamese, means China's claimed inherent right to act as Heaven's monitor and supervise the people living on the perimeter of the Middle Kingdom. Conversely, the Vietnamese perception continues, their superior status requires of rimland barbarians such as the Vietnamese an obligation of deference. It is a mentor relationship requiring at least symbolic obeisance.²

The Vietnamese normally treat this Chinese attitude as simply aggrandizement opposed by Vietnam's equally simple Vietnamese resistance. But this simplification

¹ This article is based on source material drawn from the Indochina Archive at the University of California (Berkeley) whose file, *SRV/For. Rels/China*, contains an estimated 65,000 pages of documentation. Most of this file consists of primary source materials such as official statements and documents issued by the governments involved. There have been a few full-length studies on this subject most notable of which perhaps are King C. Chen's *Vietnam and China 1938-1954* and Eugene K. Lawson's recent *The Sino-Vietnamese Conflict*. The works of Dennis Duncanson, Donald Zagoria, and Robert Scalapino also contain much useful material. A more recent short article on this subject is Paul Quinn-Judge's "The Vietnam-China Split: Old Ties Remain," *Indochine Issues* no. 53 (January 1985), an interpretation rather tilted toward Vietnam. The author in recent years has produced several short articles and papers on the subject, including "North Vietnamese-Chinese Foreign Relations: 1976" paper presented at the Association of Asian Studies meeting, University of Virginia, January 22-24, 1976; "New Look at Asian Foreign Policies: China and Vietnam," paper presented at the American Political Science Association annual meeting, Washington, D.C., September 1, 1977; and "Vietnam and China: Past, Present and Future Relations," paper presented at a seminar on China, University of Maryland, March 18, 1977.

² And acknowledged by the Vietnamese. As late as 1880, the Court in Annam was still sending a chest with a token gold coin annually to the Emperor of China.

distorts reality. There is no evidence that China seeks to impose herself physically on Vietnam or become viceroy over the daily lives of the Vietnamese.

Fear of China does underlie Vietnamese attitudes, as we shall see, but it takes a more subtle form: the psychological fear of emasculation, of Vietnam's identity being inadvertently drowned by China, her culture smothered by the sheer power of Chinese civilization.

Thus the Vietnamese sense of Chineseness is the first subliminal characteristic of the Sino-Vietnamese relationship from the Vietnamese side. The second characteristic is a compound of fear, suspicion, and flashes of hatred. The Vietnamese attitude, however, cannot be simply written off as hostile. Certainly it would be inaccurate to say that the Vietnamese, individually or collectively, hate the Chinese. Rather, this cluster of attitudes is closer to the modern-day psychological concept of love-hate. Intermixed with it is fear, a direct result of historical experience.³ But this historical memory in itself is not strong enough to engender either overriding fear or hatred.

The Vietnamese perception of, and attitude toward, China is shaped by its own national character trait, the suspicion and distrust that are an ingrained Vietnamese heritage. Both internally and externally, the Vietnamese have an inability to trust. Always they anticipate betrayal and, as their thousand-year history demonstrates, are usually not disappointed. This ingrained suspicion long ago shaped Vietnamese politics into a strange form of clandestinism that remains its dominant motif today. This phenomenon has altered, by its force of negation, all Vietnamese society, turning the social impetus inward. Hence little loyalty exists beyond the extended family (or *ho*). Externally, it has narrowed the conduct of foreign relations to little more than systematic deceit and duplicity. As more than one wise Vietnamese has observed, the history of Vietnam's relations with her neighbors can be written in terms of double-cross. Thus fear of China as never-ending plotter—and the tendency to ascribe to every Chinese act the worst possible motive—are more or less normal Vietnamese responses. Hate lies always beneath the surface, but it is triggered only when a fear is actually justified by threatening overt Chinese behavior.

The other half of this subliminal love-hate dimension of Vietnamese-Chinese relations—the “love” element—originates in the enormous admiration the Vietnamese hold for things Chinese, which is made doubly complex by their realization that so much of what is admired, and what is best about Vietnam, has Chinese deep roots. Thus there is a sense of common identification, much as with the Americans and their Anglo-Saxon heritage. Yet unlike American culture, Vietnamese culture has not been watered and defused by a dozen other compelling and attractive cultures. There are other cultural influences in Vietnam, of course—Indic and Western—but China still carries primacy.

³ The Chinese (*Han*) occupied Vietnam at the time of Christ and spent 900 years in *Han-hwa* (Sinoization) efforts among the Nam-Viets, who alone among the hundred *yueh* (tribes) in the South China Coast region, according to their history, resisted assimilation. China returned again in the thirteenth and fifteenth centuries and waged war on the Vietnamese in campaigns of conquest. For centuries—in fact, as late as 1953—the main frontier gate between China and Vietnam was called, by the Chinese, *Chemankuan* or “Suppressing the South Pass.”

What this means to the Vietnamese, particularly the cultured Vietnamese taking pride in his heritage, is the demeaning thought, the buried suspicion, that next to China Vietnam is little more than a pale carbon copy, the “smaller dragon.” Doubt enters: Is Vietnam guilty of having stolen an entire culture *en toto* from a neighbor and never making proper acknowledgment? For a nationalistic Vietnamese, this is a hard thought to live with. Yet it does seem largely the case. Vietnam has greatly imitated China’s art, architecture, music, and literature. Vietnamese law, educational system, and governmental and social institutions copy China—and not just old imperial China, but China today. Many of the social changes and the economic experiments introduced into communist-ruled Vietnam can be traced to Chinese examples—often with the same imperfections leading to the same negative results. In surveying Vietnamese culture, the one important authentically indigenous element is the intense Vietnamese sense of ethnolinguistic identity. Even this trait, however, may be an imitation of Chinese ethnocentricity.

Hence Chinese and Chinese-type qualities are at the core of Vietnamese identity. Externally, of course, Vietnam’s very existence, in modern times as well as historically, is intricately bound up with China.

Nothing much ever will—ever *can*—change this basic relationship. China will always dominate Vietnam in a thousand psychological ways and the Vietnamese will always deny this reality. As an act of self-preservation, Vietnam will resist each Chinese advance, even those of best-intentioned motive. Vietnam will go on stealing from China what she admires or needs, never admitting the debt even to herself. The fate of Vietnam is forever to battle the Chinese enemy at the gate, knowing that it matters not whether the enemy at the moment is phantom or real, for already he is inside and can never be expelled.

REDEFINING THE RELATIONSHIP

Given this foundation, however, relations between Vietnam and China are presently undergoing profound and historic transformation. This process began late in the Vietnam War days, about 1970, and continues. Today’s relation is not, as is commonly believed by outsiders, one frozen in hostile confrontation and doomed to more or less semipermanent cold war studded by occasional hot wars, though such would seem the case if the situation were viewed superficially. In fact, what is happening is a dynamic process of transition to some new associational configuration, the outlines of which can only be dimly perceived. The essential relationship that endured through the centuries has now ended and is now developing into something new. The process of change is not rapid; in Asia, where change often is measured in millennia, it could hardly be otherwise. But clearly Vietnam and China are on the road to somewhere, even though neither can be sure of destination or arrival time.

Another way of describing this process of transformation, of course, is that objective conditions change that alter relationships between nations. In the case of Vietnam and China, what has been at work in the past decade or so is the *act* of

delineation, the redefining of the relationship. This is a phenomenon somewhat peculiar to Asia and has to do with status in a nonequalitarian world.

Eventually, historians will probably establish that conditions for an altered relationship began to develop early in the twentieth century. What precipitated the change was the sudden ending of the Vietnam War, which had for everyone involved—not only China and Vietnam—enormous geopolitical as well as psychological meaning. A new regional power struggle erupted overnight, the focal point of which was the long-enduring Sino-Soviet rivalry. Stakes were raised markedly; there was much more to lose or gain. The American presence vanished from Indochina, replaced by a single Vietnam of new power and prestige, making Vietnam less a prize in the Sino-Soviet dispute and more a potential ally/adversary for the USSR and China. Ecstatic in victory, freer than they had ever been from Chinese psychological intimidation, the Vietnamese took a new look at both China and the USSR. It was a heady moment for Hanoi and somewhat embarrassing for Beijing.

Inevitably, the old Sino-Vietnamese association began to deteriorate. By 1976, it was the coolest in the history of the two communist countries. A year later, the downturn became precipitous when Vietnamese actions were met by punitive Chinese counteractions. The nadir was reached in 1979 with a border war. Cold war conditions developed in its wake and continue. This decline and rupture of relations, however—and this is the point of interest—was not in fact issue oriented. Rather, it was the peculiarly Asian manifestation of psychological transition from an existing relationship to a new relationship, a process not yet completed.

The Vietnamese hold that the new relation must be defined in terms of “independence” from China. For the Chinese, who do not believe the associational context has changed all that much, the touchstone seems closer to the previous *sensei*-pupil relationship. Reorientation thus involves attitudes as much as issues. The Vietnamese expect the Chinese to modify past attitudes, including the ancient notion of the rimland barbarian’s deference to the Center of Heaven. The Chinese expect Vietnam to respect historical attitudinal obligations, particularly the principle of harmonious relations. For more than ten years, this sorting-out process has gone on, each side taking measure of the other in terms of past links that each feels should be retained or abandoned. It has gone on independent of issues being contended, gone on even during war between the two—for these are manifestations of the sorting-out process. This process will continue for however long it is necessary to define the new relationship; it is no mere exercise in metaphysical contemplation but is very real struggle with high stakes and profound meaning for the future.

The devices used by both sides are various diplomatic, political, military, and communicational activities in the two respective capitals, Hanoi and Beijing. The process itself may be an abstraction, but the struggle to define the relationship is very material. Essentially, of course, it is a struggle for power.

To serve its ends, Hanoi has allied itself with the USSR, finding both status and security in the alliance. It has moved to eliminate vestiges of Chinese influence within Vietnam and to end, or at least to reduce, Chinese influence in Laos and Kampuchea. It has sought to outmaneuver China among the ASEAN states and throughout the

world. It conducts a tireless campaign of vilifying China at the United Nations and elsewhere, employing the general theme that China's various policies undermine peace and stability in Asia, based as they are on fomenting confrontation between Vietnam and others in the region. The Chinese match or counter these moves, adding some anti-Vietnamese denunciations of their own.

In the late 1970s, the author conducted a series of interviews in Saigon with North Vietnamese military and civilian cadres (aged about mid-thirties) from *chieu hoi* (returnee) and POW camps. These interviews focused on the subjects' knowledge about, perceptions of, and attitudes toward China, the USSR, and the Sino-Soviet dispute. Unfortunately, the data sheets were lost in an Embassy fire and only my notes remain. Two facts emerged clearly from these interviews. First, the basic Vietnamese perception of, and attitude toward, China was a mixture of admiration, hate, and fear, as discussed earlier. Second, there was widespread belief that Vietnam simply must get along with China. Regarding the latter opinion, there were differences of opinion as to what exactly "getting along" meant. A number of interviewees cited as an ideal model the relationship of Finland to the USSR. Apparently cadre lecturers at the Xuan Mai infiltration camps introduced this notion in their "Contradictions of Socialism" course. Many respondents said the Finland-USSR relationship should be pursued as a model by Vietnam with respect to China: that is, maintaining a posture of dignified independence while tacitly acknowledging that certain policies and behavior would be impermissible.

The general conclusion from these interviews—one I believe is operative among Hanoi's top leaders today, though in somewhat more sophisticated form—is that China is too large and too close to permit Vietnam the luxury of permanent confrontation and alienation.

THE MULTIFACETED WAR

The heart of the Sino-Vietnamese struggle to define their future relations is the quiet war, the almost secret war, fought in the mountainous region of Vietnam along the Chinese border. This is also a peculiar war, what the Vietnamese term the "multifaceted war of sabotage"—but from their description it seems well named.⁴

The "multifaceted war of sabotage" is more than cold war or war of nerves, but it is not what could be called continual limited war. Nor is it confined to the border region. Exactly what it consists of is difficult to determine since most of our information about this war comes from the writings of Vietnamese generals who pack their articles so heavily with name calling, historical allusions, and dense ideological jargon that it is difficult to determine exactly how they perceive the Chinese strategy

⁴ For typical and informative Vietnamese discussions of China's current campaign against Vietnam, see Maj. Gen. Sung Lam, "The Army and the People of Quang Ninh Combine Their Strengths to Defeat the War of Sabotage," in *Tap Chi Quan Doi Nhan Dan* [People's Army magazine], December 1983; JPRS SEA 84-069 and Lt. Gen. Vu Lap's "Soldiers and Ethnic Minorities in MR 2 Determined to Defeat the War of Destruction" in the same magazine, April 1984; JPRS SEA 84-124. See the author's *PAVN: People's Army of Vietnam* (San Rafael, Calif.: Janes/Presidio, 1986).

employed against them. Their reports, however, do treat the Chinese “multifaceted war of sabotage” with grudging respect, portraying it as singular, innovative, enterprising, and, the generals seem to suggest, effective. Certainly it is unique and inventive. And it is to be taken seriously.

At the frontier the “war” consists of a sporadic campaign of harassment by each side, chiefly with artillery and mortars as well as with patrols probing across the border. On the Chinese side, this activity has been closely coordinated with events in Kampuchea. Away from the border, action involves various clandestine Chinese activities; hence the term “sabotage”—apparently conducted for the most part by ethnic minority Vietnamese who do so because of traditional antipathy for the Vietnamese or because of familial ties to China.⁵

The doctrinal foundation for this “war,” in Hanoi’s view, is China’s determination eventually to rule the world. Two major obstacles stand in her way: the USSR and Vietnam. In preparation for world conquest the Chinese pursue four military objectives: to become a nuclear power; to build a “special forces belt” of insurgent, proxy, largely ethnic-minority support elements in the arc of its border from Afghanistan to Vietnam; to upgrade the People’s Liberation Army, the most important of China’s “Four Modernizations”; and to ensure that China’s defenses can cope with any foreign invasion.⁶

Such is the big strategic picture as Hanoi generals see it. Since Vietnam stands between China and its dream, it must be dealt with by a special kind of warfare. As described by a major military figure in Hanoi,

the Chinese expansionists and hegemonists pursue a multifaceted war of sabotage which they hope to “win without fighting,” that is, exhausting Vietnam’s resources, crippling its economy, creating political chaos and internal disorder so that, without firing a shot, we are forced to become their vassals. . . . In this multifaceted war of sabotage, the enemy attacks us in many fields: economically, politically, ideologically, and culturally. They do everything possible to undermine our national defense system and our military potential. They use dangerous means and malicious tricks to foment rebellion and a *coup d’etat* when the time is ripe. Militarily they routinely send armed forces across our northern border along with espionage agents, commandos, aircraft, and so forth. They seek to exert pressure, harass, provoke, and engage, and thereby create a state of constant tension. They look for methods to distort our military draft system. They cause a longing for peace and encourage our troops to desert, and youth to evade the draft. . . . The most deadly form of this multifaceted war of sabotage is economic. In sabotaging us

⁵ Memorandum of the Ministry of Foreign Affairs of the Socialist Republic of Vietnam titled *China’s War Escalation and Aggravation of Tension Along the Vietnam China Border* (Hanoi, 1964).

⁶ Drawn chiefly from Nhuan Vu, “Concerning Chinese Military Strategy” in *Tap Chi Cong San* [Communist studies], August 1982. In the same issue see also Thien Nhan, “Fighting the Enemy’s War of Economic Sabotage.” For additional discussion of the PAVN High Command’s view of Chinese strategic thinking, see Maj. Gen. Dang Kinh, “Building District Military Fortresses Along the Northern Border”; Central Committee Agit-Prop expert Nam Huy’s article, “Fighting the War of Sabotage on the Ideological Front in the Northern Border Provinces,” in *Tap Chi Quan Doi Nhan Dan* [People’s Army Journal], January 1983; and the editorial in the same publication titled “Determined to Win the War of Sabotage.”

economically they use lackeys to sabotage machinery, set warehouses afire, sabotage production discipline and the managerial mechanism so as to stagnate production. They encourage smuggling, speculation, and hoarding, and cause a gold "hemorrhage" to undermine our monetary system. . . . China undermines our economic policies, sows skepticism to cause our people to lose faith in the Party's economic leadership. They distort our relationship with other countries and our practice of international economic cooperation. China frantically fixes embargos, pressures private capitalist individuals and companies not to sign contracts with us, or to cancel, postpone, or reduce them. The Chinese sabotage our warehouses, seaports, industrial installations. They organize gangs of smugglers to bring in contraband and take out gold and gems. They also introduce chemical poisons, insects, and microorganisms to injure food production. . . . They conduct intense psychological war to distort Party and State policies. They secretly send reactionary and decadent cultural products into our country to sow the seeds of a decadent lifestyle, especially among youth. They provoke dissatisfaction and political opposition. They bribe or exert pressure on corrupt elements in the State apparatus to get them to serve as their lackeys. All these schemes are designed to erode the confidence of the people, confuse our friends, paralyze our revolutionary will, undermine the solidarity of PAVN and the Party, the special solidarity among Vietnam, Laos, and Kampuchea, and the solidarity and cooperation between Vietnam and the USSR.⁷

Whatever else, this strategy clearly is a coherent, thought-out one. Its success is difficult to estimate since it is new and still untested. Vietnam's response, in effect its counterstrategy, is built around the mobilization of its border population, extensive nationwide motivational campaigns, and reaffirmation of the administrative centrality of Party leadership. Military journals stress the need for more centralized strategic thinking, not leaving the response to the People's Army of Vietnam (PAVN) and provincial officials at the border. They call for intensified internal security controls, particularly for greater control of the ethnic minority people along the border.

At root, however, this "multifaceted war of sabotage" is not so much a war as an integral part of the ongoing process by the two nations to delineate their new relationship.

FINITE ISSUES

The great and overriding issue standing between Vietnam and China today, then, is the nature of their relationship. Beneath this lies a host of finite issues, the most important of which are: Vietnam's intimate relationship with the USSR; Vietnam's intrusiveness into Kampuchea; conflicting land and sea territorial claims; mistreatment of ethnic Chinese in Vietnam; and the economic relationship, or lack of it. As a net over all of these issues is a general competition for influence in Southeast Asia.⁸

⁷ Nong Quoc Chan, "Oppose the Enemy Psychological Warfare at the Sino-Vietnamese Border," *Tap Chi Cong San*, June 1982.

⁸ The regional meaning of Sino-Vietnamese relations are discussed by Sarasin Viraphol in his chapter, "The People's Republic of China and Southeast Asia: A Security Consideration for the 1980s," in Robert

The most transcendental of these finite issues is the USSR presence in Vietnam, particularly in the significance it has for Vietnam and the meaning it has for China.

The Soviet-Vietnamese relationship today is an alliance in all but name. It was born of Soviet opportunism and Vietnamese dependency (which in turn resulted from blunder and misjudgment by Hanoi's leaders). The relation is probably neither as close nor as durable as most outsiders believe. It will also probably endure as long as perceived Soviet opportunism continues and as Vietnamese dependency remains.

Soviet presence in Vietnam appears designed primarily to serve Moscow's anti-Chinese purposes: that is, militarily flanking China; mobilizing Vietnamese resources and strength against China; and creating an anti-China axis which, it is hoped, will eventually run from Hanoi to Jakarta to New Delhi. China's response has been to raise the price the USSR pays for this effort, particularly in Kampuchea, and to drive the USSR and Vietnam even closer together in the calculation that eventually the relationship will self-destruct. This geopolitical struggle continues and, as of this writing, gives every evidence of enduring into an indeterminate future. Meanwhile the Sino-Soviet dispute continues to be a "miserable yoke" for the Vietnamese, just as Vietnam continues to poison relations between China and the USSR.

The Kampuchea conflict exists in three dimensions: as a local war between surrogate Khmer forces; as part of a broader regional struggle for power among Vietnam, China, and the ASEAN states; and as a unilateral effort by Hanoi to dominate Kampuchea as it now dominates (or seeks to dominate) Laos. Unless some sort of a new governing structure acceptable to all of the contending Khmer forces and accompanied by the withdrawal of PAVN troops can be arranged—which seems patently impossible—the war among the Cambodians will continue indefinitely. This seems likely even if outside involvement ends. A regional struggle for power among the outside contenders would go on even in the absence of warfare inside Kampuchea. The sticking point, then, is the third dimension of conflict—Hanoi's hegemonism—and what sort of political configuration Hanoi would accept within the Vietnam, Laos, and Kampuchea system.

The Kampuchan scene—Vietnamese versus the resistance—was marked by setbacks for the resistance forces in the early months of 1985, and at this writing there is pessimism in some quarters about its prospects. The essential condition, however—neither side able to prevail—does continue. For the resistance to win decisively, it must drive out the PAVN forces, estimated at 160,000–200,000. No one expects this to happen. For the Vietnamese to succeed in Kampuchea, two things must be accomplished. First, the resistance must be smashed, or at least driven out (into the Cardamon mountains and confined, or into Thailand and prevented from returning). The Kampuchean conflict is a guerrilla war and there is a law of guerrilla war that Vietnam must face—it says if the guerrilla does not lose, he wins; to survive is a form of victory. Second, Vietnam must create a viable People's Republic of

A. Scalapino and Jusuf Wanandi, eds., *Economic, Political and Security Issues in Southeast Asia in the 1980s*, Research and Papers Policy Studies no. 7 (Berkeley, Calif.: Institute of East Asian Studies, University of California, 1982). See also Lucian Pye's "China and Southeast Asia" in the same volume.

Kampuchea government in Phnom Penh and, within this government, a viable PRK Armed Forces. The control mechanism undoubtedly is intended to be a Kampuchean Communist Party. Building an armed force from nothing is an extraordinarily difficult and time-consuming task, one that cannot be hurried and inevitably is filled with setbacks. The Vietnam challenge here also involves getting outside nations to confer a mantle of legitimacy on the PRK and on Vietnam's presence in Kampuchea.

The three most likely scenarios for Kampuchea in the foreseeable future—that is, the next year or so—are:

- More of the same; that is, an indeterminate struggle without decisive outcome. Vietnam remains bogged down; the resistance continues to survive; efforts to negotiate a settlement get nowhere. This is the most likely scenario.
- Decisive victory for Vietnam, as defined earlier. This could involve the trappings of an international conference but with no true concessions by Hanoi.
- New governing structure for Kampuchea that would incorporate the major contending Khmer forces and satisfy interested outside parties, namely, Vietnam, China, the ASEAN states, and the United States. This could be arrived at through formal negotiations—for instance, at an international conference—or through behind-the-scenes maneuvers, the famed Vietnamese “private arrangements” method. This is a more remote scenario, but still possible; it would probably require significant change of leadership in Hanoi.

The question faced by China, ASEAN, and the United States in dealing with Vietnam in Kampuchea is: Should the present policy—assisting the resistance and taking other measures with a view to forcing a negotiated settlement of the Kampuchean problem—be continued? Some within this camp, though still hostile to Vietnam and its intentions, appear to be weakening in their determination.

It would seem self-evident that the line should be held, that this is no time for gestures of accommodation to Hanoi. Time is the crucial element here. The proper policy should be: play for time, hold the line, wait for the breaks.

Certainly an inspection of past efforts to negotiate with the Vietnamese provides no basis for optimism that a compromise settlement on Kampuchea acceptable to all could be reached at the conference table. When Hanoi negotiates, it does so on its own basis, using with its own rules. Hanoi cannot be placated, it cannot be bought off, it cannot be moved by appeal to its better nature.

In summary, then, the Sino-Vietnamese relationship is an association of long standing that is and always has been exceedingly complex. The Vietnamese-Soviet relationship, by contrast, is starkly elemental. Chinese-Vietnamese relations are best described in psychological terms. What is now underway between the two is a redefining of the relationship. This is more significant than are the finite outstanding problems, knotty and important as they may be. The Vietnamese seek to end their old pupil-*sensei* relationship with China, but they acknowledge that in the long run they must get along, which means accommodating Chinese interests. It is a slow process that could take a decade or more and to a considerable extent will turn on generational transfer of power in the Hanoi leadership. For the Vietnamese, workable relations with China is not a matter of if but of how and when.

Close, harmonious, friendly relations between Vietnam and China are not likely now or ever. The two will always have much over which to compete. Transitory problems and minor disputes are inevitable. Finally there is the stark historical fact that Vietnam has never had close and amicable relations with China—or with anyone else, for that matter.

12. Indochina in Perspective

Ji Guoxing

The Vietnamese invasion of Kampuchea, the third postwar Indochinese armed conflict, has intensified since the end of 1984. Indochina is presently an important political "hot spot," threatening peace and security in Asia and the world. This chapter will explore the present situation on the Kampuchean battlefields, the prospects of political settlement of the Kampuchean issue, the possibilities of Vietnam's abandonment of regional expansionist policy, and measures that should be taken by the world community.

THE VIETNAMESE OFFENSIVE IN KAMPUCHEA

In spite of consecutive offensives launched by its 180,000 troops during the first six years since its invasion, Vietnam succeeded neither in controlling the whole of Kampuchea nor in impeding the development of Kampuchean resistance forces. In 1982, the three patriotic Kampuchean parties formed the Coalition Government of Democratic Kampuchea for concerted action against Vietnam. To extricate itself from passivity in Kampuchea, since last November Vietnam has launched its seventh and biggest dry-season offensive, with 40,000 troops under the support of planes, tanks, and artillery, targeted mainly at the key border camps of Kampuchean resistance forces along the Kampuchean-Thai border. After taking Ampil, Sokh Sann, and four other camps of the Khmer People's National Liberation Front (KPNLF) led by Son Sann in January 1985, in February it besieged the Phnom Melai area base of Khieu Samphan's National Army of Democratic Kampuchea in a pincer movement with 20,000 troops, occupied it, and then captured Sihanouk's army camp at Ta Tum in March. Meanwhile, Vietnamese troops have repeatedly invaded Thailand, imperiled Thailand's security, and intensified their efforts to harass China's border areas. According to Thai Army reports, there were 154 violations of the kingdom's border by Vietnamese forces between the beginning of January and the end of March 1985.¹

¹ *Asiaweek*, May 24, 1985, p. 10.

Two Vietnamese units numbering 3,000 and 1,000 strong, respectively, entered Thailand in mid-March and late April, and were repulsed by Thailand.

The goals of this Vietnamese offensive are: to weaken Kampuchean anti-Vietnamese effective strength and make the Coalition Government of Democratic Kampuchea "a government in exile" with reduced international support; to split the Coalition Government, strike at resistance forces, and soften the Sihanouk and Son Sann parties; to close the Kampuchean-Thai border and cut off Kampuchean resistance forces' links with the outside world so as to "bolt the door and beat the tiger"; and to pressure Kampuchean resistance forces into accepting the "political settlement" put forward by Vietnam in harmony with its diplomatic offensive. But Vietnam has not attained its goals. In the face of fierce Vietnamese attacks, the three anti-Vietnamese Kampuchean forces have withdrawn and relocated in the Kampuchean hinterlands on their own initiative, with few losses of their effective strength and logistic stocks.

The loss of camps would bring about certain difficulties for the Kampuchean forces' future struggles against Vietnam, but Vietnam is only temporarily in the ascendant. The general favorable trend for Kampuchean resistance forces and unfavorable trend for Vietnam has not changed, nor has the strategic stalemate that has been formed during the last few years in the Kampuchean battlefields. The preservation of Democratic Kampuchean effective strength and their guerrilla war in Pursat, Battambang, and the areas around Tonle Sap Lake demonstrate that they are full of promise. The Vietnamese military actions have been internationally condemned and have evoked more international sympathy and support for the Democratic Kampuchean Coalition Government. With the approach of the rainy season, Vietnamese troops will meet with more difficulties, especially in respect to logistic supplies. In my view, one need not to be pessimistic about the Kampuchean anti-Vietnamese struggles.

POLITICAL SOLUTIONS TO THE KAMPUCHEAN PROBLEM

Vietnam cannot exterminate the Kampuchean resistance forces, and the Kampuchean patriotic forces are having difficulties expelling the Vietnamese invaders. Because the Kampuchean issue cannot be solved militarily, eventually it can only be solved politically. But two kinds of political solution exist. One is the total withdrawal of Vietnamese troops from Kampuchea; the exercise of self-determination by the Kampuchean people, without foreign intervention, in choosing their political system and government apparatus through free and democratic general elections; and the establishment of Kampuchea into a peaceful, independent, neutral, and nonaligned country. This is the fair, reasonable, and lasting settlement and the only correct way consistently demanded by the nations in the world upholding justice and the Coalition Government of Democratic Kampuchea. The other solution is to let Vietnam break up the Kampuchean resistance forces, annihilate the Democratic Kampuchean National Army, dissolve the Coalition Government and legitimize the Heng Samrin regime to ensure Vietnamese "vested interests" in invading Kampuchea. This second solution is what the Vietnamese authorities are demanding. If such a scheme on Vietnam's part is

allowed to succeed, it will encourage Vietnamese expansion, surely entailing untold new troubles.

Besides its recent military offensive, Vietnam has deliberately adopted the diplomatic pose of claiming that it desires "a political settlement" of the Kampuchean issue. But at the same time Vietnam has expressed the view that it might reach a compromise with the other two parties of the Kampuchean resistance forces, "but Pol Pot and his associates cannot be allowed to participate in any negotiations on Kampuchea,"² and that the precondition for the political settlement of the Kampuchean issue is "the elimination of the Pol Pot clique."³ This position fully exposes Vietnam's lack of sincerity in solving the Kampuchean issue. The essence of its "political settlement" is purely to wreck the Kampuchean anti-Vietnamese struggle and to split the Coalition Government. As is well known, the Democratic Kampuchean National Army is the main force of the three Kampuchean anti-Vietnamese parties. Vietnam's plot to control the whole of Kampuchea has not succeeded so far just because of the DKNA's brave resistance. To destroy the biggest anti-Vietnamese force, the National Army, is to destroy the Kampuchean anti-Vietnamese struggle. Vietnam has been resorting to tricks to attain its goal by making use of weariness over the Kampuchean deadlock in certain international circles and divergence in opinion among ASEAN countries. We have to be on guard against this tactic.

It is noteworthy that a compromise trend of thought exists in the world community regarding the settlement of the Kampuchean issue. This way of thinking promises to "guarantee Vietnamese interests in solving the Kampuchean issue" and to bring about a "national reconciliation" acceptable to Vietnam. Some people propose "to keep Pol Pot from reassuming power" in return for Vietnamese withdrawal from Kampuchea, since "the Khmer Rouge will become stronger" the longer the war continues. This kind of thinking represents a dangerous tendency. As stated earlier, the Democratic Kampuchean National Army is the first-line anti-Vietnamese force and remains such even after this Vietnamese dry-season offensive. Unity and cooperation among the three patriotic forces is the guarantee of Kampuchean perseverance to the end in anti-Vietnamese struggles. Whatever one's viewpoints on the Kampuchean issue may be, one has to admit this objective reality. If attempts are made to weaken the main anti-Vietnamese force in return for a Kampuchean "political settlement," they will definitely result in ruining the just Kampuchean struggles. Such attempts might achieve a momentary easing of tension, but would surely encourage further Vietnamese expansion and seriously threaten peace and security in the Asian-Pacific region and the world.

Only with resolute support for the Kampuchean patriotic struggles to compel Vietnamese troops to withdraw can the necessary conditions be created for the political settlement of the Kampuchean issue. As for the formation of the Kampuchean government after the Vietnamese withdrawal, it should be decided by the

² *The Age*, March 9, 1985.

³ *Far Eastern Economic Review*, March 21, 1985, p. 50.

Kampuchean people themselves. Democratic Kampuchea committed mistakes while previously in power. It has learned lessons and rectified errors. Democratic Kampuchean leaders have explicitly stated that they "would adhere to the policy of tripartite coalition and not seek to assume power unilaterally after the Vietnamese withdrawal." We are confident that after the Vietnamese withdrawal all Kampuchean political forces will achieve unity and determine their future through general elections, under United Nations supervision and without foreign interference.

Two paths with two sets of consequences. The world community should do its utmost to take the first road and avoid the second.

PROSPECTS OF ALTERING VIETNAM'S REGIONAL EXPANSIONIST POLICIES

Those having the compromise tendency also hold that economic aid to Vietnam "can make Vietnam give up its expansion in Indochina." Can Vietnam's regional expansionist policies be changed through economic aid?

For a correct answer to this question, it is useful to review the history of Vietnam's expansion efforts. Vietnam's ambitions in this direction are long standing. A couple of decades ago it began to take the "liberation" of Indochina and the establishment of the "Vietnam-Khmer-Laos Federation" as its long-term strategic objective. After unification, Vietnam should have centered its efforts on economic reconstruction, letting its people rest and build up stamina. Having an unduly high opinion of its own strength, however, it has wantonly engaged in military aggression these last ten years, being anxious not only to establish "the Indochina Federation," but also to attempt to dominate the whole of Southeast Asia.

Under the pretense of a "special relationship," Vietnam has speeded up its infiltration of Laos and Cambodia since 1975 to put together the "Indochina Federation." First, it made use of its historical links with the Lao party to station 50,000 troops, numerous "specialists" and "advisors," and 100,000 settlers in Laos, confirming its special interests by signing the so-called "friendship and cooperation" treaty. Then it invaded Cambodia in an attempt to "Vietnamize" that country. Vietnam now has 400,000 to 500,000 settlers in Kampuchea dispersed along the Kampuchean-Vietnamese border and in fertile areas around Tonle Sap Lake. Some districts of Phnom Penh and the town of Neak Luong are said to be heavily Vietnamese. Vietnam has encouraged settlers to intermarry with local people, forced Kampucheans to study Vietnamese, and dispatched advisors to the Kampuchean puppet county and province administrations, and even to village offices in Battambang. There is a widespread conviction current even among the Kampuchean puppet government cadre that "Vietnam is bent on colonizing the country through settlement of civilians."⁴ To pursue the all-round integration of the Indochinese countries, Vietnam has convened economic development sessions, foreign ministers' conferences, and summit meetings of the three countries many times since the beginning of 1980 to affirm the

⁴ *Asian Survey*, vol. 25, no. 1 (January 1985), p. 112.

“development of long-range cooperation and mutual assistance in all aspects bilaterally and trilaterally” as a guiding principle, and to authorize Vietnam to conduct dialogues with the outside world as a representative of a “bloc of countries.” Most Kampuchean leaders today are aware that “if Vietnamese occupation of Kampuchea becomes permanent, the Kampuchean nation could fade away as an independent entity.”⁵

Moreover, Vietnam is obsessed with its ambitions to encroach on Southeast Asia and to be the dominant force in this region. Flaunting the banner of “good neighbor cooperation,” it has peddled the idea of “regional cooperation” in Southeast Asia in an attempt to further squeeze out the United States, break up ASEAN, and establish “a Southeast Asian neutral zone” with itself as the core. Vietnam’s recent proposal for holding regional conferences to conduct “bloc dialogues” between Indochina and ASEAN to discuss peace and security in Southeast Asia is aimed simply at enlarging its influence in Southeast Asia and bringing Southeast Asia into its sphere of influence. Vietnam’s territorial ambitions in Thailand’s northeastern parts adjoining Laos and its recent encroachment time and again upon Thailand fully expose its hegemonist features.

Thus, Vietnam will not abandon its regional expansionist policies in the foreseeable future. It is an unrealistic illusion to think that Vietnam will give up regional hegemonism if it receives economic assistance. With the aid of an economic transfusion, Vietnam could possibly accelerate its expansionist steps like a tiger that has grown wings, a result opposite to that desired.

Vietnam’s present leadership is aging; the problem of succession lies ahead. Some hope that the Vietnamese leaders of the next generation will be “milder.” It is difficult now to predict whether this will be so. The problem is that we cannot place our hopes on a change in leadership, for change of policies hinges on internal and external factors. If Vietnam suffers successive setbacks in pursuing hegemonism and is beset with difficulties both at home and abroad, it might change its policies; if it benefits from present policies and all goes well, it may not change policies but may even be encouraged to go farther. To accede to Vietnam’s present invasion might encourage its new leaders to continue their present policies. Vietnam is now in a difficult position economically: its foreign exchange reserve is exhausted, its foreign debt totals US\$6 billion, its inflation rate stands at 100 percent, food production, though restored, is still not self-sufficient, factories operate under capacity due to a shortage of energy resources, unemployment is up to 4 million, and the people are generally dissatisfied. Factors of change exist. The world community, however, should base its attitude on correct policies rather than cherishing an unrealistic illusion.

CONFLICTS BETWEEN VIETNAM AND THE SOVIET UNION

Some observers also believe that to satisfy Vietnam’s interests in Indochina

⁵ *Foreign Affairs*, Winter 1983-84, p. 413.

“would drive a wedge between Vietnam and the USSR” and “make Vietnam sever connections with the USSR,” thereby softening Vietnam. What about this possibility?

In my view, though certain conflicts exist between Vietnam and the Soviet Union, and certain differences in their strategic goals in Southeast Asia, in the main the strategic interests of these two countries are the same. Vietnam’s expansion conforms to Soviet strategic interests to compete globally with the United States and wins full Soviet support. The Soviet Union has actively pursued its strategy of the southward thrust. The Soviet support of the Vietnamese invasion of Kampuchea, the Soviet intervention in Afghanistan, and the Soviet navy’s use of Cam-Ranh Bay are the three links of its southward drive. The Soviets have deployed twenty to twenty-six surface ships, four to six submarines, TU-142 Bear long-range patrol aircraft, and Badger medium-range bombers at Cam-Ranh Bay.⁶ The Soviet Union has made Vietnam “a strategic supply point” to penetrate Indochina, Southeast Asia, and the South Pacific; to threaten the Strait of Malacca; to keep watch on U.S. bases in the Philippines, Japan, and Guam; and to vie with the United States for control of the Pacific. The Soviets have boosted Vietnam as “the center of revolution in Southeast Asia” and have supplied Vietnam with military and economic assistance totaling US\$2 billion with the purpose of using Vietnam as its tool of expansion. The Soviet Union has provided large quantities of arms and ammunition for Vietnam in its current dry-season offensive, including, as a Thai newspaper reports, twenty each of MiG-23s and TU-16s as well as SAM-7s and other missiles. Vietnam needs the Soviet Union as its backstage supporter in pursuing regional hegemonism. Vietnam cannot maintain its actions in Kampuchea without Soviet support.

Vietnam and the Soviet Union are closely interrelated, each having need of the other and each using the other for its own ends. Vietnam’s provision of military facilities to pay off its Soviet debt causes it to lose more freedom in its internal and external policies; the Soviet intention to play a decisive role in Laos and Kampuchea will conflict with Vietnam’s regional hegemonist interests. Thus, the sharpening of Soviet-Vietnamese divergencies is possible. From an overall point of view, however, the shared aspects of Soviet-Vietnamese strategic interests are principal and the divergent aspects are secondary; over a fairly long period of time, the latter will not surpass the former. When contradictions become acute, both sides make mutual concessions to maintain bilateral cooperation in consideration of gains and losses; their divergences are restricted by their common interests. To overestimate the contradictions between Vietnam and the Soviet Union would thus not conform to reality. As to the view that the satisfaction of Vietnam’s interests in Indochina would enlarge Soviet-Vietnamese conflicts, it is a traditional imperialist practice to seek the interest of major powers at the sacrifice of weak nations’ interests, which runs counter to the principle of international justice and the interests of world peace. The world community should discard any thought of such a move.

⁶ *Asian Survey*, vol. 25, no. 1 (January 1985), p. 27.

CONSIDERATIONS FOR THE WORLD COMMUNITY

Flames of war have now spread all over Indochina. The situation in Kampuchea as well as the Kampuchean-Thai border, the Kampuchean-Lao border, the Thai-Lao border, and the Sino-Vietnamese border is very tense. The source of this tension lies with Vietnam. Vietnam's expansion constitutes the principal threat to peace in Indochina and Southeast Asia. Among these issues, the Kampuchean issue predominates. When the Kampuchean issue is resolved, the other issues will follow.

To maintain peace and stability in Indochina, the world community should fight resolutely against Vietnam's aggression; put sufficient political, economic, and military pressure to bear on Vietnam; and offer effective political and economic assistance to the three Kampuchean resistance forces so as to compel Vietnam to change over to new policies, withdraw its troops from Kampuchea, allow the Kampuchean people self-determination, and bring about the correct political settlement of the Kampuchean issue.

China has made, and will make, great efforts to safeguard peace in Indochina and Southeast Asia. China resolutely opposes Vietnam's aggression against Kampuchea and firmly supports the anti-Vietnamese struggles of the Democratic Kampuchean Coalition Government. China opposes the Soviet support of Vietnam's invasion of Kampuchea. China sincerely hopes to improve Sino-Soviet relations, but will on no account change its principled stand on this issue nor slacken its efforts in support of the Kampuchean anti-Vietnamese struggle.

China endorses the peaceful settlement of the Kampuchean issue and holds that the crux of the matter is total Vietnamese withdrawal from Kampuchea. The Chinese government has stated time and again that it hopes Kampuchea becomes a peaceful, neutral, independent, and nonaligned state after the Vietnamese withdrawal. China does not seek its own private interests, nor does it support a single party's rise to power. After the Vietnamese withdrawal, China is willing to guarantee, together with the countries concerned, not to interfere in internal affairs in any form; to respect Kampuchean independence, neutrality, and nonalignment; to honor the result of the choice made by the Kampuchean people through free election under United Nations supervision.

The Chinese government has solemnly stated that so long as Vietnam declares unconditionally its total troop withdrawal from Kampuchea and pulls out its first batch of troops, Sino-Vietnamese talks can be resumed. On Vietnamese harassment and challenges in our border areas, we adhere to the consistent policy of "we will not attack unless we are attacked; if we are attacked, we will certainly counterattack," and will conduct the necessary self-defense.

The Vietnamese invaders are now swollen with arrogance, and conditions for holding international conferences on peaceful settlement are not yet ripe. To my mind, so long as the countries concerned persist in resisting Vietnam and supporting the Democratic Kampuchean Coalition Government, Vietnam will one day be forced to withdraw and the Kampuchean people will eventually win their final victory.

13. The Achievements and Role of ASEAN in Asia and the Pacific

Guo Zhaolie

Eighteen years have passed since the Association of South East Asian Nations (ASEAN) was founded on August 8, 1967 as a regional cooperative organization of the developing countries in Southeast Asia. As stipulated by the joint communiqué at its founding, known as the “Bangkok Declaration,” the goal of the organization has been “to strengthen the basis for peace and prosperity of the South East Asian nations, and, through joint endeavors, to promote economic growth, social progress and cultural development in the region in the principle of cooperation and equality.” We can see from the wording of the declaration, and from the guidelines adopted in its early years, that the association laid more stress on the promotion of regional economic cooperation than on political cooperation, so as to avoid having it mistakenly appear as a refurbished version of the U.S.-mustered SEATO.

It is no secret that most of the ASEAN countries (Indonesia, Malaysia, Singapore, Thailand, and the Philippines comprised the original group; Brunei has recently joined) were colonies of Western nations before World War II and suffered greatly under Japanese militarism during that war. After the war, in consequence, they shared a common desire to strive politically to achieve national independence from old and neo-colonialism and economically to uproot the influence of colonial rule, develop their national economies, and strengthen their resilience through industrialization, so as to safeguard national and regional peace and prosperity. Various conflicts remained unresolved even after the founding of ASEAN, however. These include differences of opinion within and among member countries, between ASEAN and other developing countries, between ASEAN and developed countries outside the region, and between ASEAN and certain hegemonist countries. The overall development of all these conflicting interests has a continuing impact on the orientation of the association’s regional cooperation.

EFFECTIVE REGIONAL POLITICAL COOPERATION FOR PEACE

The association's eighteen years of experience demonstrates that because of the growth of the above-mentioned differences of opinion during the period, ASEAN's achievements in political cooperation for regional peace and stability are even more notable than its much-discussed regional economic cooperation. In its early years, the association played a positive political role in easing frictions among the member countries and adjusting their relations. However, a more remarkable political role was played by the association after the late 1960s.

The Kuala Lumpur Declaration: ASEAN's Political Debut

From the late 1960s to the early 1970s, great changes took place in the political situation in Asia: Britain decided to withdraw its troops from the Far East; the flames of war spread further in the Indochina peninsula; the United States began to pull back its forces from Asia as a result of its increasingly apparent failure in the Vietnam War; the Soviet Union, eager to exploit the opportunity, dished out its proposal for an "Asian Collective Security System"; U.S. President Richard Nixon announced his historic visit to China; China resumed her legitimate seat in the United Nations and steadily increased her influence in Asian and world affairs; Japan gained a mounting economic influence in Southeast Asia; and world politics changed from a U.S.-USSR bipolar structure to a multipolar one. Faced with such drastic changes, the ASEAN countries became increasingly aware of the urgent need to enhance their independence and self-sufficiency, to ward off interference from outside major powers in regional affairs in the spirit of the Bandung Conference, and to safeguard peace and prosperity in the region by maintaining it as a neutral zone.

Under these circumstances, on November 27, 1974, the ASEAN foreign ministers issued the "Kuala Lumpur Declaration of Peace, Freedom and Neutrality," also known as the "Declaration of the Neutral Zone of Southeast Asia." The concept of the neutral zone was aimed at adapting the association to the multipolar reality of the world political structure and at making use of the balance of power among major powers outside the region to pursue a policy of "multipolar balance" in keeping regional peace and guarding against the possibility of being turned into a "battlefield of big power contention."

Some proposals for neutralization of the region had been previously advanced, but they had not been as realistic as this declaration, for they were intended to rely simply on an international guarantee from the major powers on the neutrality of the region.¹ The concept of neutrality embodied in the Kuala Lumpur Declaration, however, was geared more to Asian-Pacific reality, for it intended to seek a neutral status for the region through collective efforts and through the policy of "multipolar balance." Received as a creative initiative in world politics, this concept has been supported by most countries in the world, including China.

¹ *Far Eastern Economic Review*, September 25, 1971.

After the issuance of the Kuala Lumpur Declaration, the political nature of ASEAN became more prominent. And this declaration was even described as the association's political debut,² because through it ASEAN obviously strengthened its own internal political cooperation by speaking with one voice in external affairs, and its political function in maintaining regional peace and prosperity was greatly enhanced as well.

ASEAN's Active Role in Maintaining Regional Peace and Security

ASEAN played an outstanding role in its political cooperation against the Vietnamese aggression in Kampuchea supported by the Soviet Union. In November 1978, the Soviet Union and Vietnam signed a treaty of friendship and cooperation that was a type of military alliance, and this agreement was immediately followed by a large-scale Vietnamese invasion of the sovereign state of Kampuchea. This naked act of aggression in violation of the principles of international relations posed a grave threat to peace in Asia and the whole world. In their attempt to become the leaders of the "Indochina Federation," the Vietnamese practiced jungle law, while the Soviet Union backed the Vietnamese invasion to gain its own foothold for expansion in Indochina. This foothold was also to be used as a linkage between Soviet land bases in Primorski Krai and Afghanistan, which was soon subject to Soviet military occupation.

This development, together with the increased Soviet military buildup of its air and naval forces from the Indian Ocean to the Pacific, in the seas of Japan and Okhotsk, posed an increasing threat to the Southeast Asian region. The ASEAN countries could no longer "watch the fire from the other bank of the river." Their conflicts with local and global hegemonists became prominent and intensified. Confronted with Soviet and Vietnamese expansionism, the ASEAN countries could only unite more closely and appeal to the international community to condemn and isolate the Vietnamese aggressors. Immediately after the takeover of Phnom Penh by the invading Vietnamese troops, the ASEAN foreign ministers held their sixth special conference in Bangkok on January 12 and 13, 1980 and solemnly stated in their joint communiqué: "The foreign ministers of ASEAN countries hold that when performing national determination, the Cambodian people should have the right of national self-determination for their own future without any interference and influence from the outside. Toward this goal, the ASEAN foreign ministers demand that all foreign forces withdraw from Cambodian territory."

Since then, ASEAN has made significant contributions, through the U.N. general assembly and a series of international conferences, to preserve the United Government of Democratic Kampuchea's representation in the United Nations and stimulate international efforts to support this government against Vietnam intervention. In this matter Thailand has played a key role that has won worldwide support and appreciation.

² Japan Institute of International Studies, "International Relations Regarding ASEAN," Chapter 1, paragraph 3. September 1, 1977.

Ever since its invasion of Kampuchea, Vietnam has resorted time and again to the dual tactics of diplomatic and military offensives, trotting out deceptive proposals of “partial troop withdrawal” only to follow with military actions on a large scale or even direct attacks on Thai territory. By such tactics, it has attempted to split ASEAN unity while annihilating resistance forces in Kampuchea. However, the seventh dry season offensive in late 1984 and early 1985 has not fundamentally altered the general trend of the hostilities, which is unfavorable to the aggressors.

Adhering to its expansive ambitions, Vietnam still poses a major threat to ASEAN countries today. Consequently, ASEAN will not withhold its support for the Kampuchean resistance forces, a stand firmly supported by China. Like the ASEAN countries, China is for a peaceful solution of the Kampuchea question, but a complete withdrawal of Vietnamese troops must be the prerequisite. As Qian Qishen, leader of the Chinese delegation to the forty-first annual meeting of the U.N. Asian Pacific Economic and Social Council stated on March 19, 1985 in Bangkok, the aggression and occupation of Kampuchea by foreign troops and the invasion and harassment of Thai territory not only violates the sovereignty and territorial integrity of the concerned countries, it also undermines peace and stability in the region. Demanding that all foreign troops withdraw from the occupied countries, he reiterated that only in this manner can peace and stability in the region be maintained and the economy developed.³

STEADY GROWTH IN REGIONAL ECONOMIC COOPERATION

Since the founding of ASEAN, all its member nations have enjoyed a higher economic growth rate than developing countries in other parts of the world. The growth rate in the region was spectacular even during their two oil crises and the recent worldwide recession. From 1970 to 1982, Singapore’s annual growth rate averaged 8.5 percent, while that of other ASEAN countries was 6–7 percent.⁴ Singapore has now joined the ranks of newly industrializing countries (NICs), while others have become middle-income countries. The economic growth of ASEAN countries provides a solid foundation for their regional economic cooperation, and the latter in turn serves as a stimulus for the economic development of the member countries.

The First ASEAN Summit Meeting

ASEAN countries have reached wide-ranging agreements and made progress in regional economic cooperation after the founding of the organization. In the organization’s early years, however, the pace was rather slow as member countries adjusted relations for ASEAN’s internal unity. After the first oil crisis, the economy in the capitalist world was plagued by “stagflation,” bringing the conflicting interests of ASEAN and Western developed countries to the surface. This situation, together with

³ *Renmin Ribao* [People’s Daily], March 20, 1985.

⁴ World Bank, “World Development Report 1984.”

the drastic changes taking place in the Indochina peninsula, engendered a strong sense of urgency among ASEAN countries to intensify and broaden their economic cooperation to enhance the resilience of the member countries and the region as well.

It was under these circumstances that the first ASEAN summit was held in February 1976 in Bali, Indonesia. The summit published a document of guiding significance to ASEAN cooperation, the "ASEAN Declaration of Coordination," which proclaimed the following goals: (1) in industrial production, to jointly build large industrial enterprises, giving priority to those utilizing local resources, increasing grain production, attracting foreign currency income or saving foreign currency, and creating employment; (2) in some "basic products" such as food and energy, to cooperate more closely in production and trade, giving preferential treatment to member countries in purchase and supply; (3) in trade cooperation, to promote the establishment of a special preferential system within ASEAN and to take coordinated action in dealing with other regional organizations and economic powers, thus broadening the external market; (4) to take concerted actions concerning international commodity problems and world economic issues and to make ASEAN's own contributions to the creation of a new international economic order.⁵

Adapting to the new circumstances, ASEAN's organizational structure was adjusted accordingly. Besides the annual foreign ministers' conference, the economic ministers' conference would now be held twice a year to review and coordinate ASEAN's economic policies. Moreover, it was decided that the ASEAN economic committees—such as those dealing with trade and tourism, industry, mining and energy, transport and telecommunication, finances and banks, grain and forestry—were shifted from the foreign ministers' conference to the economic ministers' conference for efficiency, thus accelerating the pace of regional economic cooperation.

Progress and Problems in ASEAN Cooperative Programs

In the terms of the ASEAN summit declaration, cooperation in industrial production consists of two kinds of programs, namely, large joint-venture industrial projects established by the five member countries, and the fulfillment of the mutual complementary industrial plan. The former involves government-initiated large enterprises, which were to be built with capital invested jointly by member countries or borrowed from abroad, to utilize local raw materials and technology, and to meet the needs of their export-oriented industrialization. Japan made a total loan commitment of US\$1 billion to these projects. Of the projects, the urea fertilizer factories in Indonesia and Malaysia progressed most smoothly; the diesel engine plant was canceled because of internal inconsistency; the phosphate factory in the Philippines was later turned into a copper processing factory; and the soda ash plant in Thailand faced a setback because of internal disagreement. The mutual complementary industrial plan was a cooperative scheme for ASEAN private enterprises, distributing the

⁵ Toru Yano, *Japan's Southeast Asia Policy* (Tokyo, Japan: Simul Press, 1978).

production of assemblies of certain commodities to different plants in the member countries. Member countries in turn enjoy special preferential treatment when their products are sold in the ASEAN market, thus promoting the division of labor and technical specialization and benefiting member countries with lower cost, higher employment, and a thriving foreign currency exchange. A successful example of the plan is the cooperative production of automobiles among some of the ASEAN countries. These "Asia" cars are now available in ASEAN countries.

In February 1977, the ASEAN countries signed the "Elementary Agreement of ASEAN Preferential Trade Arrangement." The number of items under the arrangement increased from 71 in January 1978 to 8,563 in June 1982, while the highest volume of a single commodity item under preferential treatment increased from US\$50,000 to US\$500,000 and, later, to US\$1 million. Although the import preferential tariff rate has been raised during this period, the rate varies with the different economic development levels and different tariff rates currently in effect in member countries in order to bring benefits to all the member countries.

Grain and energy production are not evenly distributed in the ASEAN region, where some countries are oil exporters and some lack oil resources, some have grain surpluses and some are not self-sufficient in grain supply. For this reason ASEAN lays great stress on helping supply each other's needs in grain and energy. When an oil or grain shortage occurs in the world market, the supplying countries give priority to their ASEAN partners. And when a surplus arises, the purchasing countries also buy first from their partners. A collective storage of rice has been established by the 1979 grain storage agreement, which is to be used as relief in case of emergency food shortages in member countries; as yet, the amount of the storage is not very great, however. In the financial area, ASEAN has established an alliance for foreign exchange settlement. Trade payments among the member countries can be settled by means of trading off import loans with export income and settling the balance after a period with foreign currency. This alliance is actually a kind of regional commodity exchange. In 1981, the association also set up the ASEAN Financial Corporation, with shares owned by member countries, to support the collective industrial enterprises in ASEAN as well as those of individual member countries.

ASEAN's policy of regional economic cooperation, though not as striking as its political cooperation, has developed in keeping with the principle of collective self-reliance and practical circumstances as well. The progress of this policy is comparatively steady, though slower than expected. Needless to say, national interests do tend to be put before collective interests because of friction among member countries. Also, the fact remains that regional cooperation has occasionally been blocked by the similarity in products of member countries, giving rise to fierce competition and less mutual complementarity. These issues require further coordination and adjustment within the framework of the association.

NOTABLE DEVELOPMENTS IN EXTERNAL ECONOMIC TIES

Because of their historically formed vertical division of labor and their need for

capital and technology, the developing ASEAN countries have a collective mutual complementarity with developed countries needing resources and markets that is greater, in a sense, than the complementarity among member countries. That is why the economic ties (including trade and investment) between ASEAN countries and developed countries like the United States and Japan have developed faster and constituted a larger proportion of total revenue than economic ties among ASEAN countries. With the diversification of their products and multilateralism of their trade, ASEAN countries have expanded their external economic relations all over the Pacific rim area and even to Europe. ASEAN's economic ties with these developed countries, which are in the nature of North-South relations, are both mutually complementary and contradictory at the same time.

Taking a Common Position in the "North-South Dialogue"

Everything divides into two. The similarity of ASEAN countries in their economy, though a retarding factor for regional economic cooperation, makes it easier for member countries to take a common stand in dealing with the developed countries. As developing countries, they share a common language in their struggle for a stable primary commodities price and improvement of trade conditions and against the "trade protectionism" of the developed countries and their attempts to shift economic crises to developing countries.

ASEAN countries have taken concerted action and made unremitting efforts in this struggle. They are members of a number of specific international organizations of raw materials producers and exporters. For example, the Association of Natural Rubber Producers, founded in February 1970, is mainly composed of ASEAN countries. In March 1975, the five member countries of the association established a system of international rubber buffering storage through which they maintained a stable rubber price on the international market by means of reducing production, setting a ceiling on sales volume, and establishing a reserve shortage. The Association for Timber Producers in Southeast Asia, founded in November 1974 by the three ASEAN countries Indonesia, Malaysia, and the Philippines, has successfully protected the common interests of timber producers and exporters by controlling production and restraining sale volumes. ASEAN has also conducted negotiations with developed countries for economic aid as well as political support. After the second ASEAN summit meeting in 1977, the leaders of its member countries held talks with the leaders of Japan, Australia, and New Zealand and reached agreements to enhance political cooperation: for Japan to provide capital to the ASEAN countries and for Australia and New Zealand to reduce their tariff barriers. As members of the Group of 77, ASEAN countries have joined efforts with other developing countries and made their own contributions to the struggle for a new international economic order.

The "Six Plus Five" Pacific Rim Cooperation Policy

Formerly, ASEAN gave a cold response to proposals for Pacific rim cooperation, fearing that the region might once again be dominated by the United States and

Japan. In the enlarged meeting of the ASEAN foreign ministers' conference held in July 1984, however, at the proposal of Indonesian Foreign Minister Mochtar Kusumaatmadia the foreign ministers met with their counterparts from the United States, Japan, Canada, Australia, and New Zealand to discuss the subject of economic cooperation between ASEAN and other Pacific countries. This was the "six plus five" dialogue—a dialogue between the six ASEAN countries and five others. At this meeting the foreign ministers agreed to continue the dialogue as a key element of the enlarged meetings of the ASEAN foreign ministers' conference. According to news reports in the *Xing Zhou Daily* (Malaysia), ASEAN's plan for Pacific region cooperation will contain the following features: (1) emphasis will be placed on technological cooperation between the ASEAN countries and the United States, Japan, Canada, Australia, New Zealand, and small island countries in the Pacific Ocean; (2) no new organizations will be considered; the "six plus five" dialogue will be used as a lever to facilitate cooperation, exchange ideas about the trends of future development in the region, and make arrangements for the training of personnel in developed countries such as the United States and Japan and for technology transfer.⁶ With regard to specific cooperative projects, development of human resources, an area in which the potential for friction is slightest but the benefits are most obvious, is set as the first and foremost area of cooperation. Economic cooperation, in the form of the "five plus six" dialogue, reflects ASEAN's one-voice policy on external economic relations that resulted from their strengthened political cooperation. It is also a new form of North-South dialogue based on "South-South cooperation." Acknowledging this reality, Japanese Prime Minister Nakasone had to list "respect ASEAN's initiative" as one of the four principles of his concept of Pacific rim cooperation when he visited the countries of Oceania early in 1984. The initiative ASEAN takes in Pacific rim cooperation will no doubt play a broader role in the Asian-Pacific region.

ASEAN'S CURRENT RELATIONS WITH CHINA

China and the ASEAN countries are close neighbors in Asia. They once suffered the same miseries of colonial exploitation and suppression, and today they belong to the same Third World. That is why they share the same ardent desire to strengthen cooperation, develop their economies, and work hard for prosperity while maintaining peace against hegemonism. China supports ASEAN's proposal for a peaceful, free, and neutral zone in Southeast Asia. China stands firmly alongside ASEAN countries in their just struggle against the Soviet-supported Vietnamese invasion of Kampuchea and has joined efforts with ASEAN countries to maintain peace and stability in the region. The Vietnamese-fabricated allegation of a "China threat" is a groundless one used by the Vietnamese as a pretext for their invasion of Kampuchea. As a developing socialist country, China is staunchly opposed to any foreign interference in its domestic affairs, nor will it ever try to interfere in other countries' domestic affairs. Adhering to the five principles of peaceful coexistence,

⁶ *Xing Zhou Daily*, Malaysia, July 13, 1984.

China does not station a single soldier outside its territory, nor has it occupied a single inch of foreign territory. With regard to principles governing relations between the Chinese Communist Party and foreign communist parties, including communist parties in Southeast Asia, our leaders have made explanations in a number of statements. In his interview with the editors of *Reader's Digest* and *Asiaweek* last year, Chinese Foreign Minister Wu Xueqian stated clearly:

The Chinese Communist Party conducts its relations with other communist parties, including the communist parties in Southeast Asian countries, according to the following four principles, namely, the principles of independence and self-decision, total equality, mutual respect and non-interference in each other's internal affairs. Of course, we do not deny there are problems left by history in the Chinese Communist Party's relations with the communist parties in Southeast Asian countries which have to be solved step by step. We have explained this point several times to the leaders of Southeast Asian nations and obtained the understanding of most of them. So we can say this problem is now settled. The fact that we keep a moral relationship with the communist parties in Southeast Asian countries should not obstruct our friendly relations with those countries. . . . Some friends in Southeast Asia still have doubts and worries. They do not understand our position. But it doesn't matter, they can wait and see our actions. I believe someday they will finally understand China's policy.⁷

We are delighted to see that new improvements and progress are apparent in China's relations with the ASEAN countries. In January 1985, China's Foreign Minister Wu Xueqian made a visit to Singapore and Thailand, which was followed by Chairman Li Xiannien's visit to Thailand in March. Premier Lee Kuan Yew of Singapore has publicly expressed Singapore's intention to develop and facilitate its cooperation with China in various industrial sectors. The Malaysian prime minister has made the decision to visit China later in 1985 to enhance our economic and trade relations. The Indonesian foreign minister invited China to participate in the thirtieth anniversary celebrations of the Bandung Conference in Jakarta. And the Indonesian government has recently made clear its intention to seek direct trade and economic ties with China. China welcomes the positive attitude Indonesia is taking to improve bilateral relations.

Determined to realize the Four Modernizations, China has an ardent desire for a stable and peaceful international environment and, needless to say, for a peaceful and stabilized Southeast Asia. China is pleased to see the achievements of the Association of Southeast Asian Nations in their regional cooperation, as well as the prosperous economy of member countries. China sincerely hopes this regional cooperation among the ASEAN countries continue to make progress, to provide useful experience for South-South cooperation and to contribute greatly to the establishment of a new international economic order. Pursuing a comprehensive economic policy of opening up to the outside world, China has every reason to strengthen its friendly relations with ASEAN countries and further develop our economic ties.

⁷ *World Affairs*, vol. 8 (1984), Beijing.

14. ASEAN: Politics, Economics, and Security in the 1980s

Karl D. Jackson

THE PARADOX OF ASEAN

Is ASEAN an embryonic European Economic Community, a further example of economic integration leading to supranational organization? Is ASEAN a security system for supplying a military response to outside challenges? Is ASEAN a regional collective security arrangement designed to exclude great power presence in the area?

Paradoxically, ASEAN is "all of these" and "none of these." It is an organization dedicated to promoting economic integration, but each nation jealously guards its own economic interests as well as its complete sovereignty and independence in international affairs. Lofty goals and symbolic gestures notwithstanding, economic integration and supranational organizational structures remain anemic within ASEAN.

Likewise, ASEAN constitutes a loose security alignment (which over the past decade has considered the defense of its members against Vietnam to be its unspoken *raison d'etre*), but ASEAN today is still far from a NATO or Warsaw Pact; although security considerations are foremost, the primary means to security have been diplomatic and political.

Finally, one of ASEAN's most cherished goals, the Zone of Peace, Freedom, and Neutrality (ZOPFAN), would exclude the great powers from interfering in regional affairs, and yet each of the ASEAN governments publically and privately urges the United States to maintain its military bases in the Philippines.

DOES THE ASEAN ECONOMIC MIRACLE BELONG TO ASEAN?

The ASEAN nations constituted the most rapidly growing set of economies in the world in the 1970s. Aggregate real economic growth rates of the five ASEAN members averaged 7.2 percent per annum. This is twice as high as the growth rate of the world as a whole and a third higher than the growth rates achieved by non-OPEC

developing countries.¹ The 280 million people living in ASEAN are at present the fifth largest trading partner of the United States; the two-way trade in 1983 amounted to US\$23 billion. The ASEAN track record is the product of export-led economic development strategies. Exports as a percentage of gross national product in 1982 were: 12.1 percent for the Philippines; 43.7 percent for Malaysia; 25.2 percent for Indonesia; 18.1 percent for Thailand; and 155.7 percent for Singapore.² Until the last decade these exports were almost exclusively raw materials—for example, tin, natural rubber, coconut, sugar, rice, oil, and gas. Singapore's exports are basically industrial, but the exports of Malaysia and the Philippines are also increasingly manufactured products. For instance, Malaysia is currently the world's largest exporter of semiconductors, and manufactured exports now earn as much as its combined traditional exports, natural rubber and tin.³

The worldwide prospects for export-led growth in the 1980s are not as propitious as in the 1970s because of the threat of increasing protectionism. As the world's export markets become increasingly crowded by would-be newly industrialized countries (NICs), the industrialized countries will be threatened, not only by low cost labor's competition in third country markets, but by finished and semi-finished products seeking entry to the home markets. The U.S. Congress in 1986 appears more likely than ever to adopt trade restrictions that will affect not only Japan, Korea, Taiwan, and Hong Kong but the would-be NICs of ASEAN. ASEAN, as a group, has expressed its displeasure at the higher duties levied by Japan on finished goods as opposed to raw materials, and it can be expected to react vociferously to rising tariff walls in the United States. To the extent that China receives special attention from the United States or Japan regarding textile quotas, for example, ASEAN countries can be expected to object strenuously.

ASEAN's rapid economic development has created a remarkable market for manufactured goods. In 1982, the merchandise imports of ASEAN were US\$74 billion, more than half the size of the Japanese market and nearly four times the size of the Chinese market (excluding Taiwan).⁴ The ASEAN marketplace is expected to expand rapidly. World Bank projections indicate that by the year 2000 ASEAN will import US\$300 billion per year. The number of persons residing in the ASEAN market countries remains relatively small compared to India and China, but to the extent that personal incomes continue to rise rapidly the consumer revolution will be completed in the ASEAN countries more rapidly than elsewhere in Asia (first in

¹ See Eric W. Hayden, "Internal Economic Trends in the ASEAN Region," in Karl D. Jackson and Hadi Soesastro (eds.), *ASEAN Security and Economic Development* (Berkeley: Institute of East Asian Studies, University of California, 1984), pp. 19–52; Larry A. Niksch, "The Association of Southeast Asian Nations (ASEAN): Economic Development Prospects and the Role of the United States," *Congressional Research Services* (Washington, D.C.: Library of Congress, Report No. 84-171, October 1984).

² Calculated from World Bank, *World Development Report 1984* (New York: Oxford University Press, 1984), pp. 218–219, 234–235.

³ Joseph J. Stern, "Malaysia: Growth and Structural Change," Conference on Malaysia, Fletcher School of Law and Diplomacy, Medford, Mass., November 18–20, 1984. p. 6.

⁴ World Bank, *World Development Report*, pp. 234–235.

Singapore and Malaysia, then in Thailand and the Philippines, and finally in Indonesia). Shopping centers are springing up throughout ASEAN as engines of trade and products of development.

The ASEAN marketplace is by no means an American preserve. Although U.S. exports to ASEAN have grown by more than 150 percent in the period 1977–83 (approximately 20 percent per annum), Japanese exports to ASEAN grew by 30 percent per annum in the period 1976–81.⁵ Furthermore, Japanese foreign investment and assistance have outdistanced similar American initiatives everywhere except in the Philippines, thereby providing Japan increased market access with each passing year (see Table 1).

Table 1

Bilateral Economic Assistance to Indonesia, the Philippines, and Thailand
(U.S. \$ millions)

	1978	1979	1980	1981	1982	1983
Japan	462.8	504.5	732.6	838	738.7	n.a.
United States	288	288.7	309.3	258.2	234.6	236.8

SOURCE: Larry A. Niksch, "The Association of Southeast Asian Nations (ASEAN): Economic Development Prospects and the Role of the United States," *Congressional Research Services* (Washington, D.C.: Library of Congress, Report No. 84-171, October 1984), pp. 26–28.

Even if we allow for the fact that only 20 percent of Japanese aid takes the form of grants (as opposed to 40 percent for U.S. assistance) and even if we add in the US\$50 million per year in Economic Support Funds (economic assistance to the Philippines listed under the military assistance program), Japanese bilateral economic assistance is larger, although perhaps not as effective from the host country vantage point.

The phenomenal growth of Japanese private investment in Southeast Asia began in the late 1960s. Total direct investment grew from US\$166 million (1966) to US\$7 billion (1981), whereas total U.S. direct investment in the ASEAN countries totaled \$4.7 billion at the end of 1980.⁶

The above successes of ASEAN notwithstanding, it is important to remember that if the formal structure of ASEAN disappeared tomorrow, this would not dramatically affect the growth process of the ASEAN countries. Growth has been generated within each individual nation rather than resulting from forces of economic integra-

⁵ Niksch, "ASEAN," pp. 21–22.

⁶ *Ibid.*, pp. 30–32.

tion. The most economically dynamic states of Southeast Asia, Singapore and Malaysia, have *not* grown rapidly because of trade within ASEAN; instead, the successes of all of the ASEAN countries have resulted from their concentration on investment resources and markets beyond the Southeast Asian region: in Japan, the United States, and the Common Market countries. Only about 20 percent of the total trade of ASEAN is with other ASEAN members, and this sector has grown rather slowly since 1976. This circumstance contrasts markedly with the European Economic Community (EEC), where trade among member nations accounts for 60 percent of total trade. The economies of ASEAN countries have, and perhaps always will have, much less natural complementarity than those of the EEC countries.⁷ Compared with the EEC, the ASEAN countries (with the exception of Singapore) remain less developed since they are primarily producers of agricultural and raw materials. Natural exports, such as coconut oil and rubber, are produced in great quantity by more than one of the ASEAN states and remarketed outside of ASEAN. Intra-ASEAN trade is small, and intra-ASEAN investment remains little more than a talking point at ASEAN meetings. In addition, the ASEAN countries have chosen interdependence over dependence, development through trade rather than reliance on purely domestic markets, and openness to the outside world rather than compulsive self-reliance. They have adopted export-oriented growth strategies because each national market at this stage in development simply lacks the economic scale to support industrialization. The big markets for raw materials and semifinished goods, in which the ASEAN members have comparative advantage, are found in the already developed economies of Japan, North America, and Western Europe rather than within ASEAN itself.

Furthermore, the bureaucracies of the individual states are in some cases just emerging from the era of import substitution, and leaders are, quite understandably, reluctant to force the degree of economic rationalization (and unemployment) that would be required to change ASEAN into a fully integrated, regional economic entity. Finally, planners in each nation are scrambling to be first in the field of technological transfer, a motivation that leads to the opposite of economic integration, namely, bilateral links with the advanced nations to transfer technology by building particular industries.

In the case of ASEAN economic integration, the whole is almost certainly *not* much more than the sum of its parts and therefore comprehending the economic side of ASEAN requires a scrutiny of each economy in turn.

If we look at the data presented in Table 2, it becomes clear that Southeast Asia is first of all divided into stagnant and dynamic economies. The stagnant economies of Southeast Asia are Vietnam, Laos, Cambodia, and, until recently, Burma. In the early 1960s the list of stagnant economies would also have included Sukarno's Indonesia. At present, the stagnant economies share several characteristics. Burma in the 1960s and early 1970s and Cambodia under Pol Pot (1975–78) explicitly rejected full

⁷ See Hans Christoph Reiger, "ASEAN Trade Directions: Trends and Prospects," in Jackson and Soesastro, *ASEAN Security and Economic Development*, pp. 84–102.

Table 2
Southeast Asia
GDP, GNP per Capita, and Growth Rates

	GDP (in US\$ millions)		GNP per Capita (in US\$ millions)		Average Annual Real Growth Rate ^b (%)	
	1977 ^a	1982 ^b	1977 ^a	1982 ^b		
Singapore	6,650	12,900 (1981)	2,830	5,290 (1981)	8.9 (1971–81)	10.0 (1981)
Malaysia	12,400	24,300 (1981)	990	1,656 (1981)	7.8 (1970–76)	3.6 (1982)
Philippines	20,500	39,000	460	760	6.3 (1976)	2.4 (1982)
Thailand	18,100	38,400	410	800	8.2 (1975–79)	6.0 (1980)
Indonesia	43,000	93,500	310	600	6.8 (1973–78)	4.0 (1982)
Brunei	1,000	(1976 est.)	6,620 (1976)			
Vietnam	7,300	8,400	140	153 (1980)	n.a.	
Burma	3,700	5,900 (1981–82)	120	180	2.5 (1968–77)	8.0 (1981–82)
Laos	250 (1976)	320	90	90 (1977)	n.a.	
Cambodia	less than 500		less than 50		n.a.	

^a *National Basic Intelligence FACTBOOK* (Washington, D.C.: U.S. Government Printing Office, January 1979).

^b *The World Factbook—1983* (Washington, D.C.: U.S. Government Printing Office, April 1983).

involvement in the world market economy, favoring instead either limited or complete autarky. In similar fashion, Vietnam and Laos have limited involvement in the world marketplace, becoming instead almost completely dependent on the Soviet Union, a superpower that cannot provide either the markets or capital investment resources requisite to dynamic growth. Vietnam's economic dependence on the lackluster economy of the Soviet Union is further exacerbated by the necessity of exchanging Vietnamese raw material resources (probably at unfavorable rates) for the products of the Soviet armaments industry; maintaining more men per capita under arms than any other country in the world is the single most powerful factor accounting for Vietnam's continuing economic backwardness.

In addition to their common isolation from the most dynamic economies in the world, the stagnant economies share a history of expelling their economically most dynamic social elements. Burma under Ne Win, Cambodia under Pol Pot, and Vietnam with the March 8, 1978 expropriation decrees chose to drive the most economically dynamic groups out of the country. Burma sought to expel the overseas Indians, Pol Pot drove out the Chinese and Vietnamese minorities, and Vietnam expelled as many of its ethnically Chinese citizens as possible. In each instance decimating the country's entrepreneurial elite had predictable, immediate, and far-reaching negative consequences for economic production and distribution.

The stagnant economies have grown very slowly. Cambodia under the Pol Pot regime suffered one of the most severe economic declines ever experienced by a nation. Vietnam and Laos, especially during the 1975–80 period, showed declining GNP per capita. The stagnant economies of Southeast Asia had per capita incomes of less than US\$200 in the early 1980s when Southeast Asia's dynamic economies posted levels of GNP per capita ranging from US\$600 (Indonesia) to US\$5,290 (Singapore). In the economic race between the garrison states of Indochina and the market-oriented ASEAN states, there was simply no contest; during the decade just passed, the ASEAN states won by very large margins on virtually every indicator of economic growth and personal well-being. Even though the ASEAN economies in general are not without serious problems, it is nonetheless true that their political stability, relative openness to international investment, and pursuit of market-oriented, export-led strategies have been remarkably successful in comparison to their sister systems in Southeast Asia.

Singapore Means Success

With 2.5 million people and no natural resources, Singapore is recognized worldwide as one of the most remarkable economic success stories of the second half of the twentieth century. At the close of World War II the port had been devastated by four years of brutal Japanese occupation, poverty was everywhere, and Singapore seemed an apt spawning ground for chronic political instability based upon class antagonism, ethnic tension, and political uncertainty. The rise of Lee Kuan Yew and the People's Action Party (PAP) brought Singapore to independence, first within Malaysia and afterwards as a sovereign city state. The prime characteristics of

postindependence Singapore have been: sustained, rapid economic growth; practical social engineering; and political stability based upon the predominance of Lee Kuan Yew and the PAP.

The political arrangements underpinning Singapore's success have been unique in Southeast Asia. A democratic political system led by an autocratic political personality has succeeded in making government clean, efficient, and multiracial. Political stability in turn has allowed entrepreneurial dynamism to combine with a skilled labor force and foreign resources and capital to produce a standard of living second only to Japan in Asia. Rapid economic growth has become customary; even in recession years Singapore has outperformed every other economy in Southeast Asia.

Singapore's penchant for pragmatic socioeconomic engineering is illustrated by its present plan to restructure the entire economy by moving away from heavy dependence on petroleum-based industries toward automation and high technology. Lee Kuan Yew and his technocratic government forthrightly intervene in the economy to deal with the problems of the future before they become sufficiently intense to make solutions difficult.

Singapore's major problem is what to do for an encore, economically and politically. On the economic side several storm clouds have appeared: On August 8, 1985, the Prime Minister stated, "Every National Day I reported progress. This year, for the first time, I have to sound the alert." In the first quarter of 1985, Singapore's economy grew only 2.7 percent; in the second quarter, it declined 1.4 percent, the first contraction since 1967.⁸ Singapore's customary 8–10 percent per annum real growth rate was not achieved in 1985. Half of Singapore's oil refining capacity remains unused. In addition, Singapore has lost its competitive edge in the labor market. Real wage costs have systematically outrun productivity gains; wage costs (including mandatory contributions to the national retirement fund) have risen 10.1 percent per annum compared to average productivity growth of 4.6 percent during the 1978–84 period. Wage costs since 1980 have risen 40 percent for Singapore compared with 10 percent for Taiwan and even less for South Korea and Hong Kong.⁹ Although there can be no doubt of the wisdom of moving Singapore out of the lower end of the labor market, economic well-being is a matter of timing. Over the next few years Singapore seems destined to have an increasingly worrisome multibillion dollar trade deficit. If Singapore succeeds in its plan to become the service center for Southeast Asia, the trade deficit will be offset by income earned on services. In 1985, Singapore's economic restructuring program were caught in the doldrums, and new government actions will be required to spur growth through concessions to businessmen and increased government spending. If proper decisions are taken, Singapore is obviously equal to the economic challenge; the national reserves of Singapore in 1983 were considerably larger than those of Australia or New Zealand, and Singapore could run

⁸ V. G. Kulkarni, "All the World's Problems," *Far Eastern Economic Review*, August 22, 1985, pp. 102–103.

⁹ V. G. Kulkarni, "About Face, About Time," *Far Eastern Economic Review*, August 8, 1985, pp. 62–63.

substantial deficits for several years without affecting its international creditworthiness.

Present economic uncertainties are matched by political problems. For the first time in memory there appears to be mass support for parliamentary opposition to the PAP. In October 1981, the PAP's unanimous control was breached by the election of Worker's Party leader J.B. Jeyeratnam, and the December 1984 elections saw a 13 percent swing in the popular vote against the PAP. The PAP retains 77 seats and there are only two opposition members of Parliament, but the days of unquestioned PAP dominance are gone because the new generation of younger voters favors the existence of a real parliamentary opposition. In the immediate aftermath the PAP leadership did not acquit itself well. The prime minister made ominous noises about reconsidering the one man, one vote system and cutting off government services of constituencies returning non-PAP candidates. After the immediate postelectoral shock had worn off, however, the newly designated First Prime Minister Goh Chok Tong wisely moved to soften the PAP's "we know best" image and to open up new channels of communication.¹⁰

Beyond party politics looms the inevitable succession problem. Prime Minister Lee has stated his desire to relinquish his office at age 65, probably before the 1988 elections. He has repeatedly spoken of the danger of leaders who hang on too long in office. Unlike most Asian leaders, Lee has pushed forward by rapidly retiring older politicians and bureaucrats in the PAP leadership as well as in the Cabinet. A thorough talent search has brought younger people into political life, but largely on the basis of technocratic achievements rather than political skills. The new PAP candidates are truly Singapore's best and brightest, but they may lack the most intangible quality of all: political strength at the grassroots level. They are young and terribly well educated, but they may not be more well attuned to the aspirations of the new electorate than the PAP elders they are replacing.¹¹ Finally, in August 1985, Prime Minister Lee requested an amendment to Singapore's constitution that would institute an elected president with veto power over expenditures.¹² It takes no stretch of the imagination to conceive a scenario in which Prime Minister Lee Kuan Yew gives way to the new prime minister (who might even turn out to be Lee's son, the thirty-three-year-old Brig. General Lee Hsien Loong), who in turn reports to an elected president named Lee Kuan Yew. Throughout the past quarter of a century the remarkable success of Singapore has hinged upon the political genius of Lee Kuan Yew, and it is hard to conceive of a situation in which he will actually relinquish power and retire gently into private life.

In 1985, Singapore seemed intent on proving that even miracle economies and stable polities can descend into normalcy where real problems exist and where

¹⁰ V. G. Kulkarni, "Unhappy and Glorious," *Far Eastern Economic Review*, January 10, 1985, pp. 12-15.

¹¹ Chang Heng Chee, "The PAP and the Nineties: The Politics of Anticipation," in Karl D. Jackson, Sukhumband Paribatra, and Djiwandono J. Soedjati (eds.), *ASEAN in Regional and International Context* (Berkeley, Calif.: Institute of East Asian Studies, University of California, in press).

¹² "Singapore: Drafting Powers for the President," *Asiaweek*, August 9, 1985, p. 14.

solutions bring with them new problems. The age of seemingly effortless growth and stability seems to be over in Singapore, but the quality of its elite, the discipline of its people, and its underlying political stability mean that if any country in ASEAN can survive and prosper while solving the problems of political and economic restructuring, Singapore can.

Malaysia: Asia's Next NIC?

In light of the crash in oil prices, chronic oversupply in the semiconductor market, and the generally depressed state of commodity prices, Malaysia's march toward becoming Asia's next newly industrialized country is likely to be delayed even if the policy changes in late 1985 are adopted wholeheartedly by the government of Prime Minister Mahathir. Malaysia is better endowed with natural resources than the original group of NICs, the so-called economic "Gang of 4" (South Korea, Hong Kong, Taiwan, and Singapore); however, the beginning of 1986 finds oil, tin, rubber, palm oil, timber, and cocoa simultaneously in decline. Malaysia's per capita income currently exceeds US\$2,000 as a result of average real growth rates of 7.8 percent (1970–76) but it will prove difficult to support such rates in the late 1980s unless commodity prices rebound.

The last twenty years have witnessed a complete transformation of the Malaysian economy.¹³ The colonial economy was based on rubber and tin production. In 1961, these two products represented 66 percent of exports; by 1976, the proportion was down to 36 percent; and in 1981, rubber and tin accounted for 25 percent of export earnings. As tin and rubber have declined in importance, petroleum and manufacturing have moved up rapidly. Malaysia exports more petroleum and LNG (liquid natural gas) per capita than Indonesia and 20 percent of the government budget is derived from the petroleum industry.¹⁴ Manufactured exports now account for more than 25 percent of total exports, and Malaysia is currently the world's largest exporter of semiconductors. Obviously the resource base of rubber, tin, petroleum, palm oil, tropical hardwoods, and pepper provides a natural base for modernization in combination with more capital-intensive forms of industrialization. Whether Malaysia can succeed as the first resource-rich NIC remains dependent upon general levels of trade protectionism throughout the world as well as the adoption of policies at home that will constrain government spending while increasing foreign investment, especially in export industries.

Obviously there are also significant economic problems. The most important short- to medium-term problem is the collapse of world oil prices. A world price of \$15/barrel oil (which seems likely) would severely constrict Malaysia government revenues and development projects. In the halcyon days of high oil prices Malaysia made impressive strides toward eliminating major economic problems. According to

¹³ On the Malaysian economy, see Kevin Young, Willem C. F. Bussink, and Parvez Hasan, *Malaysia: Growth and Equity in a Multiracial Society*. (Baltimore: The Johns Hopkins University Press, 1980).

¹⁴ *Ibid.*, p. 28.

official figures in 1970, 49 percent of the total population lived below the poverty line; in 1980, the incidence of poverty had declined to 29.2 percent. Poverty is more frequent in rural areas and therefore is disproportionately Malay in ethnic composition; the incidence of rural poverty, however, has actually been declining.¹⁵

The major threat to Malaysia is its long-term political fragility and the ways in which resulting political pressure circumscribes the country's economic growth potential. Fifty percent of the total population is Malay. Malays control the bureaucracy as well as the most powerful political group, the United Malay National Organization (UMNO). The population is also 35 percent Chinese and 10 percent Indian; together these long resident minorities have traditionally controlled the economy. Ethnic divisions and economic differences coincided in 1969 to produce a vicious set of race riots that resulted in the temporary suspension of the constitution. Prior to 1970, agricultural income had grown much more slowly than crop production. All Chinese had been required to move to the cities during the Malay Emergency (the communist insurrection, 1950–57). Economic differences among ethnic groups were mirrored in a 1970 monthly household income study that showed Chinese households as having twice as much income (\$68/month) as Malay households (\$34), with Indian households (\$57/month) being nearly as well off as Chinese.¹⁶

The Malaysian political system's response to the 1969 riots was the National Economic Policy (NEP). The financial powers of the state were henceforth to be used to redress the instability inherent in Chinese ownership of a disproportionate share of business equity. The second goal of the NEP was reducing poverty (which was primarily rural and therefore Malay). The NEP sought, between 1970 and 1990, to increase *bumiputra* (indigenous) ownership from 4 percent to 30 percent. As of 1983, however, the share of all enterprises owned by Malays had reached only 15 percent, far short of the final goal. Under the NEP the Chinese share was allowed to grow from 34 to 40 percent, and Chinese ownership by 1983 had attained the maximum legal level. The adjustment envisioned by the NEP occurred largely at the expense of foreign ownership, which by 1983 had decreased from 62 to 45 percent. NEP goals were attained by buying up foreign-held equity and placing it in large government-owned corporations that hold equity in the name of Malays while leaving control of the operations in either bureaucratic or non-Malay hands. Some 80 percent of the improvement in Malay equity has resulted from arrangements where symbolic ownership is transferred while control of day-to-day operations remains in non-Malay hands because of the absence of a Malay entrepreneurial class.¹⁷

Over the last four years it has become clear that downsides exist for NEP policies; slower economic growth has resulted from the combination of relatively anemic foreign investment and budget expenditures swollen by buying up foreign equity while simultaneously pursuing conventional development goals.

¹⁵ Stern, "Malaysia," pp. 9, 19.

¹⁶ Young et al., *Malaysia*, p. 104.

¹⁷ *Ibid.*, pp. 199–206.

Malaysia's greatest strength is the pragmatism of its elite. Faced with the prospect of permanently slowed growth, the prime minister announced that the NEP goals could not be fulfilled by the hitherto sacrosanct target date of 1990. In addition, the government has now begun to alter foreign investment regulations to allow foreigners to own up to 80 percent of companies that export 80 percent or more of their product. The proportion of permissible foreign ownership declines directly with a company's participation in exporting (with the exception of high-tech industries, where 51 percent foreign ownership will be allowed regardless of export volume). Majority foreign ownership will continue to be prohibited in mining and oil production; the magnitude of the changes being announced in the 1986 budget, however, and the degree to which Malaysia is reopening its doors to foreign investment are indicated by the fact that from 1970 to 1985 foreign equity ownership had been limited to 30 percent.¹⁸

Malaysia represents a race with time between the rising expectations of Malays and the ability of the government to deliver real benefits under the NEP or other economic policies. The Mahathir government's current display of matter-of-fact political pragmatism is indicative of the single greatest Malaysian resource, the good sense of its elite. Malaysia continues to be governed by the National Front, consisting of UMNO, the Malaysian Chinese Association (MCA), and the Malaysian Indian Congress (MIC). The National Front is an example of how sophisticated political engineering at the elite level can prevent ethnic and racial problems from becoming so salient that they threaten the continued peace and prosperity of the country. The Malay political leadership thus far has shown the good sense to eschew literalism in postponing NEP targets and to alter course sharply in 1986 in order to maximize growth even at the expense of progress on the NEP front.

An example of the Malay elite flexibility that keeps the system in balance was supplied by Prime Minister Mahathir during his 1983 visit to Washington. Throughout the previous year, Foreign Minister Ghazali had emphasized that Malaysia was neutral and nonaligned, and Malaysia even hosted a conference on Palestine complete with PLO representation. Simultaneously, however, Malay foreign policy, if anything, was being reoriented toward closer alignment with Japan and the United States. The quality of flexibility in Malay political logic was captured by Prime Minister Mahathir's public comment in Washington, "It is more important to appear to be neutral than it is to be neutral." So long as the Malay and Chinese elites maintain this quantity of flexibility and realism, Malaysia's problems will remain soluble and Malaysia should continue to progress rapidly toward becoming a prosperous nation that will attract further foreign investment.

¹⁸ John Berthelsen, "Capital Idea: Malaysia Opens Most Industries to Increased Foreign Investment," *Asian Wall Street Journal Weekly*, July 15, 1985, p. 10; idem., "Malaysia Seen Taking a Mighty Gamble As It Starts Production of a National Car," *Asian Wall Street Journal Weekly*, July 15, 1985, p. 12; James Clad, "Call for New Carrots: A World Bank-UN Study Urges the Malaysian Government to Rethink Some of Its Most Basic Industrial Measures," *Far Eastern Economic Review*, February 28, 1985, pp. 86-87; James Clad, "Malaysia Mobilises," *Far Eastern Economic Review*, May 2, 1985, pp. 48-50.

Thailand: Growth and Security

Thailand, with a population of 50.7 million in 1983, is approximately the same size as Vietnam. Like Vietnam, it has no oil and has only recently developed its natural gas deposits in the Gulf of Thailand. Here the similarity abruptly ends. Whereas Vietnam's real income per capita declined in the late 1970s,¹⁹ the Thai economy demonstrated a real growth rate of 8.2 percent per annum in 1975-79. Growth slowed with the world recession of the early 1980s, but Thai per capita income remained more than five times as high as in socialist Vietnam. If the two economies maintain their relative growth patterns for the remainder of the decade, Vietnam's gross national product will be tiny in comparison to Thailand's and Thailand will have accumulated the wealth necessary to equip its armed forces with weapons such as the F16-A that may significantly decrease the equipment advantages currently possessed by Vietnam. Money cannot buy security, but it should help.

Thailand's economic strengths are mainly agricultural. Its rice is desired everywhere because of its fine taste and high quality. During the chaos of collectivization in Vietnam during the late 1970s, a very large proportion of Thai rice exports was purchased by the Soviet Union to feed Vietnam. Thailand routinely ranks second to the United States in rice exports, which means that it has usurped Burma's early twentieth century distinction of exporting more rice per capita than any other nation. With predominance also go dependence and short-term vulnerability. The increasingly bountiful rice harvests throughout Asia in the mid-1980s have dampened international demand for rice, but rice-related Thai export earnings should recover when quixotic weather patterns take their toll on the more vulnerable rice production operations in Vietnam, Indonesia, and elsewhere.

One key economic difference between Thailand and its Southeast Asian neighbors is that its large Chinese community (12 percent of the total population in 1930) has been assimilated into the Thai elite and middle class. In the remainder of Southeast Asia (with the exception of Singapore), minorities of Chinese descent remain "pariah entrepreneurs,"²⁰ ever vulnerable to arbitrary taxation/expropriation by indigenous elites or to violence from resentful masses. Indonesia under Sukarno restricted the Chinese to the towns and cities, Burma under Ne Win expelled as many foreign minority members as it could, and Vietnam after March 1978 drove from the country as many Sino-Vietnamese as possible. In each instance the politically satisfying exercise of ethnic prejudice had negative economic impact on the society as a whole. On Java, the economic distribution network was seriously impaired, which exacerbated the very difficult economic circumstances of the early 1960s. Burmese industrial operations in the 1960s proved incapable of reaching 1938 levels of production. The flight of the Chinese, especially from northern Vietnam in 1978-79 had negative effects on coal production (a major export), and Russian

¹⁹ Tetsusaburo Kimura, "Indochina Economy," draft paper, Institute of East Asian Studies, Berkeley, California, October 1984.

²⁰ Successful assimilation in Thailand has only become apparent during the last thirty years. See Fred W. Riggs, *Thailand: The Modernization of a Bureaucratic Polity* (Honolulu: East-West Center Press, 1966).

stevedores had to be brought in on a temporary basis to unload the ships in Haiphong harbor. In contrast, Thailand not only has tolerated the Chinese but has greatly enriched itself by encouraging their businesses and assimilating their children into Thai culture.

Thailand's strength lies in the stability of its institutions (Buddhism, the army, and the monarchy). Even though there has been a large number of regime changes since the 1932 revolution, the system of government has remained constant. From 1932 to the present, Thailand has remained a bureaucratic polity in which army bureaucrats control the government and run the country for the benefit of the monarchy, the army, the highest echelon of the bureaucracy, the business community, and the people in general, in descending order of importance.²¹ The army's unchallenged sway over Thai politics was briefly overturned by the student revolution of 1973, which brought liberal civilian governments to power until the military reasserted its authority in October 1976. In the late 1950s and early 1960s, the style of government was starkly authoritarian. Many Thais today look back with nostalgia on the rule of Field Marshal Sarit (1957–1963), who ruled with close to an iron hand. Conditions today have changed, and the prime minister no longer has the same type of autocratic power. Prime Minister Prem, and his immediate predecessors Kriangsak and Thanin, have ruled through a system of consultation (with factions in the army and bureaucracy, civilian party leaders, business leaders, and trade unions). Most important of all, King Bhumiphol's support is requisite to continued tenure in office. Gone are the days of decisiveness under Sarit; these have been replaced by temporizing, compromising, and the representation of interests from outside the bureaucracy and army.

This transition is not simply a matter of personality. Thai society has been altered markedly by the emergence of new groups, new centers of power beyond the direct control of the army, the bureaucracy, and the Palace. When the Thai economy remained small, the Palace awarded business privileges directly in response to the bargaining outcomes in the military-controlled cabinet; university graduates were absorbed into high-prestige billets in the bureaucracy, creating a stable, entirely elite-centric system of participation.²² The underpinnings of the old bureaucratic polity have been destabilized by successful development. Rapid increases in personal income, mass exposure to modern education, and the intrusion of the mass media into every corner of the kingdom have substantially increased the pressures for political participation. The growth process has produced Thai corporations that no longer depend exclusively on government largesse and the favor of the Palace. Likewise, the hundreds of thousands of office workers employed by international companies are not directly beholden to the Palace, the cabinet, or the army. Controversy still exists over whether "bureaucratic polity" has definitely given way to "bourgeois polity" (as Ansil Ramsay has asserted), but there can be no doubt whatever that the system has changed, that power is more diffuse, that the military no longer holds as much power

²¹ Ibid.

²² Ibid.

as it once did.²³ Growth, education, and mass media exposure have *not* transformed Thailand into a free-swinging democracy but a much larger segment of the public than ever before must now be considered in the public decision-making process.

Obvious problems remain in Thailand. Productivity in Thai agriculture remains remarkably low. This means, however, that greater investment in agriculture could unleash a vast outflow of production that would reinforce Thailand's position as the Southeast Asian cornucopia.

Regional differences exist in income distribution; over the past twenty years, however, these differences have narrowed and the absolute number of persons living below the poverty line has decreased in the Northeast as well as throughout Thailand.²⁴ Income per capita in Bangkok still exceeds that in the North, Northeast, and South, but the differences are not nearly as sharp as they were in the 1960s and the early 1970s. Gas production from the Gulf of Thailand has not reached expected levels, and the fact that Thai gas has come on line during the international oil glut means that Thailand's multibillion dollar investment in the world's longest gas pipeline may pay off more slowly than anticipated. Also, Thailand (like all other ASEAN countries except Singapore) suffers high-cost, inefficient, infant industries that are not competitive internationally. Import substitution strategies have not created as much havoc in Thailand as in the Philippines, but tariff reduction to force competitiveness upon the manufacturing sector remains a high priority on the World Bank's list of suggested reforms. Finally, the specter of Vietnamese military power remains a source of uneasiness among Thais and also among potential foreign investors. There is little doubt that the Vietnamese army of 1,200,000 would be more than a match for Thailand's army of 160,000 men. However, the probability of more than minor border crossings appears to be low because the Vietnamese army is already overextended in Cambodia and Laos, and the majority of its best troops is devoted to protecting its border with China. For Vietnam to invade Thailand would also mean a two-front war, with Thailand (backed by the United States) and, in all probability, with China.

The immediate future of Thailand looks relatively secure. Real gross domestic product rose by more than 6 percent in 1984, indicating that Thailand had emerged from the international recession. Poverty is declining along with the population growth rate. The current account deficit for 1984 decreased by more than one-third (compared with 1983), and 1985 should witness a return to higher rates of growth in Thai exports. Falling oil prices combined with an eventual rise in demand for agricultural commodities should allow Thailand's balance of payments to return to good health.

²³ On the degree of change in the Thai polity, see Ansil Ramsay, "Thai Domestic Politics and Foreign Policy," and Suchit Bunbongkarn and Sukhumbhand Paribatra, "Thai Politics and Foreign Policy in the 1980's: Plus Ça Change, Plus C'est la Môme Chose?" in Jackson et al. (eds.), *ASEAN in Regional and International Context*.

²⁴ See Oey Astra Meesook, "Income, Consumption, and Poverty in Thailand 1962/63 to 1975/76," World Bank Staff Working Paper No. 364, November 1979, and Pranee Thinakhon, Thammasat University, preliminary figures for followup study to Oey's World Bank report, private communication.

Indonesia: Growth with Problems

Indonesia, with more than 160 million people, is the fifth largest country in the world. In the first one and one-half decades after independence, its economy decayed rapidly under the corrupt and economically incompetent leadership of President Sukarno. Economic management was so dismal that gross national product per capita declined absolutely in 1962, 1963, 1965, and 1966. Inflation was rampant, fiscal management was nonexistent, and driving the overseas Chinese into the towns led to a breakdown of the marketing system. As a result, according to U.S. government estimates, the long dry season of 1962–63 produced 200,000 starvation-related deaths on the naturally lush and fertile island of Java. Foreign reserves sank to near zero; the United States was told to “go to hell” with its aid; and President Sukarno invested most of his leadership resources in establishing Indonesia’s political credentials in Moscow, Beijing, and Pyongyang. In trumpeting the New Emerging Forces, President Sukarno almost entirely neglected the material needs of the Indonesian people.

After the aborted communist coup of September 30, 1965, Indonesian policies were sharply reversed by General Soeharto and his U.S.-trained economic advisers, who subsequently were dubbed the “Berkeley Mafia.” New Order economic policies junked the worst aspects of Sukarno’s Guided Economy. The economists were given real power by General Soeharto and adopted stringent measures to wring inflation out of the economy, rehabilitate the infrastructure, and embark on economic development. Their greatest early success was taming the virtually uncontrolled inflation. The Jakarta price index had risen nearly 1,000 percent between September 1965 and September 1966, but the new policies, and the inflow of foreign assistance and investment they attracted, brought inflation down to 18 percent by 1969.²⁵

In addition, under Soeharto exports grew rapidly and the foreign exchange position went from rags to riches, from virtually zero reserves in 1965 to gross reserves of \$6.8 billion by 1980.²⁶ Exports as a percentage of gross national product increased from 8.8 percent in 1967 to 27.5 percent in 1981, and this improved export performance began even before the rapid rise in oil prices during the early 1970s. As Glassburner indicates, however, Indonesia’s success did not stem from trade liberalization following standard IBRD/IMF philosophy. Instead, the Indonesia economic miracle was “primarily a matter of very good fortune in the terms of trade across a broad spectrum of traded goods, combined with a large, sustained official capital inflow.”²⁷ In fact, the seeds of the continuing problems of Indonesian economic performance were set by the failure to opt for an industrialization strategy

²⁵ See Bruce Glassburner, “Indonesia’s New Economic Policy and Its Sociopolitical Implications,” in Karl D. Jackson and Lucian W. Pye (eds.), *Political Power and Communications in Indonesia* (Berkeley and Los Angeles: University of California Press, 1978), pp. 137–170.

²⁶ See Bruce Glassburner, “ASEAN’s ‘Other Four’: Economic Policy and Economic Performance Since 1970,” in Robert Scalapino, Seizaburo Sato, and Jusuf Wanandi (eds.), *Asian Economic Development—Present and Future* (Berkeley: Institute of East Asian Studies, University of California, 1985).

²⁷ *Ibid.*, pp. 5–6.

premised upon attaining international competitiveness. Instead, Indonesia's industrialization strategy is altogether too similar to the import substitution strategy that is one of the primary reasons why the Philippines (after a decade of rapid growth) finds itself in an intolerable economic condition. Indonesia's industrialization strategy is primarily directed toward building plants that produce goods as substitutes for foreign products. This goal would be beneficial if the infant industries were not almost universally insulated from both domestic and international competition. Low and in some instances negative value added tends to disappear from view, lost in the statistics emphasizing growth in industrial output. Also, the small, inefficient, protected manufacturing sector emphasizes capital-intensive rather than labor-intensive investments. As a consequence, industrial growth has not created nearly enough jobs and unemployment remains a problem that is both vital and vexing. In excess of 1.5 million new persons will join the job market each year during the next decade. Finally, the real world costs of overprotected, inefficient industries in the Indonesian case were disguised as long as oil price increases provided ever-escalating budgetary support and foreign currency reserves. In the early 1980s, when the oil bonanza came to an end for the oil-producing countries, the lack of competitive, export-oriented industries exacerbated what would, in any case, have been a difficult crisis.

In 1982–83, the Indonesian current account deficit reached a crisis level. The fact that 60 percent of budget revenues flow from taxes on the petroleum sector additionally brought on a simultaneous budget crisis. President Soeharto's willingness to follow the advice of the technocrats and act decisively was illustrated by the 27.5 percent devaluation of the rupiah and the simultaneous cancelation of billions of dollars worth of planned development projects. The decisive nature of the Indonesian government's March 30, 1983 devaluation restored international confidence and maintained Indonesia's ability to borrow.

Indonesian behavior contrasts markedly with that of the Philippines. President Marcos denied the existence of the economic crisis; the government fed false figures to the International Monetary Fund, and as a result much larger devaluations of the peso were required to stem growing international lack of confidence in the ability of the Philippine government to manage its own affairs. To their credit, Soeharto and the "Berkeley Mafia" avoided the "confidence gap" by acting early and decisively.

Perhaps the single most positive long-range economic development in Indonesia since 1965 has been in agriculture. Whereas food grain production per capita actually declined during the twilight years of the Sukarno regime, the Soeharto years have manifested steady, if unspectacular, progress in terms of both rice production and productivity. Emphasis on rice production led to taking land away, in some cases, from other more fruitful uses; when we compare the 11.67 million tons of rice produced in 1968, however, with the 28 million tons production of 1984, it is clear that the Indonesian farmer has been remarkably successful in meeting national planning goals. Put in human terms, starvation conditions on Java in the early 1960s have been replaced in 1984 with a situation where rice is rotting in the warehouses in spite of the rapid increases in rice consumption per capita throughout the 1970s. Rapid increases in agricultural production within the small farm context of rural Java bodes well for

increasing rural income and creating a much larger Indonesian marketplace for consumer products and light industrial goods.

What accounts for the Soeharto regime's successes and relative failures in developing Indonesia? Indonesia (like Thailand and the Philippines under Marcos) is neither a Western democracy nor a mobilization regime with totalitarian characteristics. Indonesia has functioned as a bureaucratic polity since at least the late 1950s.²⁸ Mass pressures for political participation have remained remarkably low throughout President Soeharto's rule. Political power and participation in national decisions have been limited almost entirely to the employees of the state, particularly the officer corps and the highest levels of the bureaucracy, including especially the technocrats. These decision makers are largely isolated from social and political forces outside of the highest elite echelons of the capital city. In spite of the existence of regular elections, the military and the bureaucracy are basically not accountable to political forces such as political parties, interest groups, or organized communal interests. Political parties, to the extent that they exist at all, neither control the central bureaucracy nor effectively organize the masses at the local level.

The main arena for political competition is not the country at large, and power is not obtained through mass movements. Instead, meaningful power is obtained through interpersonal competition in the elite circle in closest physical proximity to the president. The chief function of elections is to legitimize, through democratic symbolism, the power arrangements already determined by competing elite circles in Jakarta. Even after the developmental progress of the Soeharto era, the general public consists mainly of peasants who are neither involved nor greatly affected by the outcome of Jakarta's political struggles, and outside narrow elite circles public opinion on most national issues either does not exist or can be safely ignored.

The crisis extending from the attempted communist coup of September 30, 1965 to Sukarno's final removal from office in March 1967 was the most far-reaching of the last two decades. Sukarno's ouster illustrates that the Indonesian bureaucratic polity is not a one-man sultanistic regime. In Indonesia, even an incumbent president must be backed by at least a minimal consensus among the military and bureaucratic elite. President Soeharto, like President Sukarno, has a natural primacy in declaratory politics; even Soeharto, however, could not survive politically if his policies expropriated the wealth and position of very large segments of the elite produced by the prosperity of the New Order. The elite-centric nature of power in a bureaucratic polity and clientelist tendencies flowing from within the Indonesian political culture make it difficult for any Indonesian government to expose protected infant industries to either domestic or international competition. Political connections with the official ruling circle still determine who gets what concession and the domestic market remains too small to foster multiple robust competitors within identical product lines. Excessive protection of infant industries and constraints upon internal competition are a probable (but not inevitable) outcome of this type of political system. This was especially

²⁸ See Karl D. Jackson, "Bureaucratic Polity: A Theoretical Framework for the Analysis of Power and Communications in Indonesia," in Jackson and Pye, *Political Power*, pp. 3–22.

true in an era, such as the 1970s, when an oil-fattened government budget allowed the bureaucratic polity to avoid difficult choices. President Soeharto's personal commitment to rapid economic development and the budgetary constraints imposed by falling oil prices have led to the elimination of plans for several dubious projects. However, it will be much more difficult for the Berkeley Mafia to convince the president to winnow existing inefficient industries in the name of economic rationality when these inefficient industries are both symbols of Indonesia's industrial achievements and sinecures for his most loyal supporters.

The economic successes of the Soeharto regime also stem from the nature of the political system. Rice production is an activity involving millions of peasant landowners and is not compatible with monopolistic or even oligopolistic control. Furthermore, the high priority given to the attainment of agricultural self-sufficiency has led the regime to limit the negative impact of BULOG, the state rice support agency. Finally, power over national decision making is more concentrated in a bureaucratic polity than in more participatory forms of government. This has allowed the government to move boldly to cancel projects and sharply devalue the rupiah. The ability of a bureaucratic polity to impose austerity measures (even on elite elements) becomes significant when the president is convinced of the absolute necessity for such actions. At such points (the economic stabilization program in 1966–68, the Pertamina crisis of 1975, the 34 percent devaluation of the rupiah in 1978, and the 27.5 percent devaluation in 1983), the Indonesian bureaucratic polity is capable of acting decisively. One of the technocrats in charge of the early economic stabilization program described this quality of bureaucratic polity:

Oh, people may say this is ignoring the voice of the people, but we simply had more important things to do with our time. We had clear support for our policies from the government, and that was really all that was necessary. When you are in the government, you can do certain things.²⁹

The long-term prospects of the Indonesian economy remain problematic because of Indonesia's size and its dependence upon price stability in the international oil market.³⁰ As long as the international price of oil does not fall below US\$25 per barrel, Indonesia should post healthy but unspectacular growth rates. If oil drops to US\$23 or even US\$20 per barrel, development prospects will be sharply curtailed. Finally, problems of corruption at the highest level remain endemic in the Indonesian system of government, inhibiting foreign investors and alienating significant proportions of Indonesia's younger generation.

Philippine Immobilism

President Ferdinand Marcos ruled the Philippines from 1965–1986. During this time, Filipinos have experienced a decade of martial law, the rise of a large com-

²⁹ Franklin B. Weinstein, "The Uses of Foreign Policy in Indonesia," Ph. D. thesis, Cornell University, 1972, p. 630.

³⁰ Paul Handley, "Crude Strategy Fails," *Far Eastern Economic Review*, August 8, 1985.

munist guerrilla movement, the assassination of the popular opposition leader, Senator Benigno Aquino, and a multifaceted economic and political crisis that wracked the Philippines since the summer of 1983. By 1984 some in the international banking community were describing the Philippines as "terminal," and yet a consortium of private international banks in mid-1985 agreed to a US\$3 billion trade facility and a US\$295 million commercial loan.

As 1985 drew to a close, Marcos appeared more vigorous and confident. On November 3, 1985, in response to pressure from Washington, President Marcos called a snap election for February 1986. In a truly remarkable series of events Marcos's election ploy backfired and resulted in his being driven into exile, bringing to an end the crisis of political legitimacy that had become apparent with the Aquino assassination.

The Economic Crisis

The economic crisis of 1983–84 resulted from long-term weaknesses of the economy that were exacerbated by capital flight in late 1983 and the inability of the technocrats to restore economic order. Even with the best possible economic and political management, the Philippines would have experienced serious economic problems in the early 1980s. The Philippines has neither the oil of Indonesia and Malaysia nor the industrial efficiency of Hong Kong, Taiwan, and Singapore. In addition, the politics and personal considerations of the president and the first lady have repeatedly taken precedence over the technocrats' economic rationality. The world recession of the early 1980s (with the attendant rapid decline in earnings from such key exports as coconut and sugar) brought the economy to the brink of rescheduling *before* Senator Aquino's assassination, when the current account deficit was US\$1–2 billion and US\$9 billion in short-term debt was coming due.

The extent of the economic crisis is illustrated by two figures: the GNP for 1982 (before the rapid devaluation of the peso) was US\$36.6 billion; foreign indebtedness in late 1983 totaled US\$25.6 billion. Foreign indebtedness as a percentage of GNP exceeds 60 percent—three times the level considered tolerable for a healthy economy. The debt-service ratio reached 40 percent at the end of 1982, meaning that 40 percent of the total export earnings would have been necessary to meet interest payments on all debts plus amortization on medium- and long-term debts. Even assuming the Philippines had been able to roll over its entire short-term debt, the debt service was such that six months before Aquino's assassination the Philippines was clearly destined to have very serious cash flow problems.

The peso has been devalued repeatedly from 9.4 pesos/\$US (October 1982); to 11 pesos/\$US (July 1983); to 14 pesos/\$US (October 1983); to 18 pesos/\$US (June 1984). In mid-October 1984, the peso was floated and rose to 20 pesos/\$US before stabilizing at 18.6 pesos/\$US. Inflation reached a zenith of 60 percent per annum in 1983–84 but declined rapidly in 1984–85 with the stagnation of the Philippine economy as a whole. In the first seven months of 1985, inflation was running at an annual rate of only 5.9 percent; this is a negative as well as a positive sign, however,

because it indicates the sharp decline in economic activity. The index of production value for manufacturing stood at 71 in May 1985, a 30 percent decline since 1981. According to official statistics, unemployment in 1984 was approximately 6 percent, whereas an accurate figure is probably closer to 35 percent; austerity measures required by the IMF and the international banking community will stimulate unemployment and will probably provoke social unrest, especially in urban areas. Economic growth prospects remain poor. There has been a drop in real GNP of 5.5 percent in 1984, and 1985 will post a further decline of 2–6 percent. The total population of the Philippines expands over 2.5 percent per annum, meaning that the drop in GNP per capita has been very steep and is likely to remain negative through at least 1986. In 1982, GNP and per capita stood at US\$776, whereas by mid-1985 it had fallen below US\$600.

On October 15, 1983, the Philippines asked its creditors for a 90-day moratorium on the payment of principal on the outstanding foreign debt. On April 3, 1985, the Philippines sought its seventh 90-day moratorium because rescheduling agreements with private banks had repeatedly fallen through. Political requirements of the regime led to the postponement of the agreement with the IMF until the last month of 1984. Repeated IMF missions visited Manila. The new loan package was contingent upon floating the peso, cutting the budget, controlling the money supply, and breaking up monopolies in the agricultural sector, and these measures could not be enacted until after the May 14, 1984 legislative elections. Furthermore, the level of distrust felt by IMF officials toward the Government of the Philippines (GOP) had grown throughout the crisis. The GOP had established a dismal record of nonfulfillment of previous agreements with international lending institutions. Individuals within the IMF were disciplined when it was disclosed that the Central Bank of the Philippines had intentionally overestimated its foreign reserves by US\$600 million. Also, a previous agreement set the target for money supply growth at 3 percent over an eight-month period; actual money supply growth for the period was more than ten times as high.

The protracted negotiations involving the IMF, the IBRD, and private banks were completed in December 1984. Rescheduling of all official debts was completed by the Paris Club on December 21. The total amount of debt to be rescheduled amounted to \$16 billion. The IMF disbursed the first tranche of a new program aimed at restructuring the Philippine economy. Over eighteen months the IMF was expected to supply US\$615 million in SDRs (special drawing rights). The private banks were to supply US\$925 million in new loans as well as continuing to provide billions per year in trade financing. Inflows were expected from the American and Japanese governments.

The major question was whether the Marcos government could stay in compliance with IMF austerity requirements. The IMF team visited Manila in March and held up distribution of the second tranche. The Philippines and the IMF subsequently reset economic targets, and the second tranche was released along with the third tranche after the government's performance for May had been assessed. The US\$925 million in new loans from international banks, which had also been held up through-

out 1984–85, were released as a result of the IMF review. The agreement with the private banks was signed on May 20, 1985, after prolonged resistance by several private lenders; this agreement will bring US\$3.0 billion in trade financing as well as the US\$925 million in new loans. Of the more than 400 foreign creditor banks, only eight international institutions now will maintain credit lines to the country amounting to US\$1.53 billion—more than half of the US\$3.0 billion revolving trade facility. On the other hand, ten banks will contribute US\$384 million to the US\$925 million new commercial loan—42 percent of the total.

In the midst of all the ongoing uncertainty, the Philippine economy continues to be lackluster, with negative elements continuing to outweigh positive ones. Inflation was down, but so were exports, which in the first half of 1985 were 11 percent below the already poor performance of the first half of 1984. Export earnings from coconut products have declined by 40 percent in the first half of 1985, and a slackening U.S. demand for Philippine-produced electronic components contributed to this export decline. This trend could be partially alleviated by an upturn in coconut prices expected in late 1985.

Long-term potential exists for a return to real growth. Most of the economic aspects of the problem are amenable to solution. During his long tenure in office, Marcos built up a set of cronies who control vital aspects of the economy—e.g., coconut and sugar. To stimulate economic growth requires opening up the channels to market forces. At the end of his term in office Marcos could not afford to alienate the cronies who were his wealthy and powerful friends because in doing so he would have been severing one of his few remaining political lifelines. The IMF agreement required full implementation of a plan for restructuring the coconut and sugar monopolies by the second review, October 1985, but in reality the regime's most successful crony, Eduardo Cojuangco, was becoming more rather than less powerful; hence it is not surprising that Marcos resisted to the bitter end rather than curtailing constrictive economic practices. With the new Aquino administration the political polarities are reversed and the monopolies belonging to Marcos' cronies will probably be disbanded, thereby satisfying one of the key demands of the IMF, private banks, and the U.S. and Japanese governments.

The Political Crisis

The assassination of Senator Benigno Aquino mobilized an opposition to President Marcos unprecedented in its size and social breadth. Opposition surfaced within Marcos's New Society Party (KBL) to his handling of the Aquino affair and the board of inquiry. In particular, Prime Minister Cesar Virata, Foreign Minister Carlos Romulo, and his successor Arturo Tolentino each took actions that undercut President Marcos's efforts to sweep the crisis aside.³¹ In the May 1984 elections, the moderate opposition, clustering around Salvador Laurel, achieved a positive electoral showing

³¹ Abby Tan, "Noted Manila Official Bitter at Handling of Aquino Murder," *Washington Post*, December 17, 1983, pp. A21, A32.

that was unprecedented since 1972 and unexpected by virtually all observers.³² The Makati business community, which for years had suffered in silence, was brought out into the streets and into the election campaign by the Aquino assassination and the ensuing economic crisis. At times, Cardinal Sin placed the Roman Catholic Church in direct opposition to the Marcos government and to Imelda Marcos in particular. The peaceful opposition was supplemented by the student radicals and protesters who became a “parliament of the streets” under the leadership of Benigno’s brother, Agapito Aquino, and Senators Lorenzo Tanada and José Diokno of the postassassination organization called Justice for Aquino, Justice for All (JAJA). Diplomatic sources indicate that this organization is infiltrated by communists affiliated with the NPA.

During 1984 and 1985 Marcos became more confident and assertive despite continuing pressure for reform from Washington and the IMF, and a worsening insurgency led by the New People’s Army (NPA). He may have calculated that, as the insurgency worsened, the United States would step in with millions of dollars in military aid and perhaps even advisors to “save the Philippines” from a communist takeover. Businessmen were told by Defense Minister Juan Ponce Enrile that it would take at least ten years and “billions of pesos” to eradicate the insurgency no matter who was president of the Philippines. He warned the business community that if the government lost its political will to fight, “then I sincerely suggest that you start thinking of moving out.”

The government’s recent “white paper” on the NPA acknowledged a communist “political and military structure” in at least 1,700 of the country’s 42,000 villages. According to U.S. military estimates in late 1985, the NPA mustered nearly 16,500 armed guerrillas. Particularly on the main southern island of Mindanao, and more recently on the central island of Negros, the NPA has established a parallel government structure in many villages and rural areas; and the level of terrorism in urban areas has been increasing.

More significant in the long term, the NPA’s political cadres have been courting liberals, moderates, labor, officials and lay leaders of the Catholic Church, and human rights activists. Within the Church, leftist priests, nuns, and lay religious have formed an underground group, Christians for National Liberation, intimately tied to the NPA; and a few have openly joined guerrilla ranks. Some of these opposition sectors were open to working with the communists in the 1984 parliamentary elections in which 85 percent of the population voted, ignoring an NPA boycott. Of the 183 legislators elected, 60 were drawn from the opposition, nearly all from the most moderate sectors. Some opposition figures have rationalized collaboration with the NPA, saying that by so doing they will have a “moderating influence” on the communists at the time of final victory. Now that the moderate opposition has taken power under Aquino it remains to be seen how many moderates will remain enamored of the NPA’s promises. Once Aquino forces have taken full control of the government their

³² William Branigan, “Marcos Is Confident of Victory,” *Washington Post*, May 14, 1984, p. A12.

representatives will replace Marcos's stalwarts as the chief targets of the NPA and the National Democratic Front. It is hoped that the accession to power of a more legitimate government will be combined with genuine military reforms, seducing the NPA into surrendering while simultaneously increasing effective military pressure on the diehard elements.

Marcos's Last Hurrah

The crisis of immobilism that has gripped the Philippines since the assassination of former Senator Benigno Aquino in August of 1983 ended on February 25 with the ouster of President Ferdinand Marcos. This remarkable turn of events resulted from constantly increasing pressure from Washington, massive and virtually nonstop coverage of the Marcos regime by the American mass media, a strong showing at the polls by presidential candidate Corazon Aquino, blatant intervention in politics by the Philippine Catholic Church, and, most importantly, crumbling support for the Marcos regime within the upper ranks of the Philippine military establishment. To the very end, President Marcos held most of the coercive cards, but these were rendered irrelevant by the willingness of tens of thousands of Filipinos to place their bodies in front of Marcos's advancing tanks, thereby creating a standoff that revealed increasingly that the regime had lost its ability to dominate the opposition through either political legitimacy or coercive force.

Even in December 1985, sources within the moderate opposition did not think that there was any way in which they could actually assume power. Even Aquino's closest confidants thought that Marcos's mobilization machinery was too strong and that it would allow the incumbent president either to buy the election or steal it. As one member of the Aquino entourage stated, "We cannot envision how we can win but we will try to make something happen, make Marcos commit a fatal error."

Calling the snap election proved to be the fatal misstep for four reasons. First, President Marcos assumed that the opposition would be weak and unable to unify around a single appealing candidate. He assumed that Salvador "Doy" Laurel and Corazon Aquino would not be able to convince their faction ridden political followers to fight a united campaign. This reasonable prognostication was upset by the intervention of Cardinal Jaime Sin, who used his moral weight to enforce unity around the Aquino candidacy. The American Embassy also played a part by insuring that the two sides would keep talking to one another. The result, in mid-December, was what Marcos most feared, the so-called "Coy-Doy" ticket which united the appeal of a political innocent whose popular husband had been gunned down by a military conspiracy with the country's only significant opposition political organization, UNIDO, led by Salvador Laurel.

The second aspect of Marcos's election miscalculation was his assumption that the election would be fought according to "Philippine rules of the game." Philippine elections during the democratic period prior to the declaration of martial law in 1972 always featured rampant vote buying. Philippine elections had always featured patronage democracy on a scale that would have made Chicago's Mayor Richard

Daley envious. In Philippine presidential elections in the 1960s, 10–20 percent of the voters exchanged their votes either for direct payments at the polling places on the day of the election or for jobs, special favors from government, and so forth. Voting “early and often” had been more prominent in the Philippine democratic elections of 1965 and 1969 than it ever was in Mayor Curly’s Boston. Hence, in January 1986 Marcos’s political operatives were confident, even though opinion polls in December showed the two candidates running neck and neck with more than 15 percent undecided. They assumed that the fence-sitters would be readily mobilized by the KBL election machine during the last 72 hours before the vote. Aquino had money for neither precinct workers nor bus transportation to the polls and had foresworn publicly the utilization of payments at the polling places on election day.

The third aspect that Marcos did not anticipate was that this would be the first mass media election in the history of the Philippines. As an American Embassy official remarked in early December, “There are three major stories in the world: South Africa, Khadafy, and the Philippine elections. South Africa is no longer news and covering Khadafy is either boring or dangerous. That leaves only the Philippines.” By election day nearly one thousand employees of the American mass media had descended on Manila. Many had never been to the country before, and Philippine history for most of them began in the summer of 1983 with the assassination of Senator Aquino. There was no appreciation of the fact that Ilocano candidates (like Marcos) have always carried Ilocano districts in northern Luzon by thunderous majorities,³³ that the martial law administration had doubled the rate of growth of real per capita income, and that Marcos, with a handwritten 1972 proclamation, had given the right to land ownership to all tenants working rice and corn land. To the press Marcos was a tired, corrupt dictator who could not possibly be popular, and certainly not overwhelmingly so, even within his own ethnic group. As the election approached the press was primed to write one story, “How Marcos stole the election.” Sticking to a “good” versus “evil” story line avoided complications such as explaining past voting patterns of northern Luzon, traditions of patron-client politics, and the peculiarities of Philippine pork-barrel democracy.

The fourth aspect that President Marcos did not appreciate was the sincere determination of Washington to ensure a fair vote count. The U.S. government, as part of a bipartisan policy, pinned its hopes on NAMFREL, the citizens’ poll-watching organization. When the policy was put in place there was no realization that NAMFREL itself would become relatively partisan during the course of the campaign. The assumption of the press and American politicians was that NAMFREL would operate as it had in earlier elections, as the equivalent, if you will, of the American League of Women Voters. For this reason, Senator Lugar, head of President Reagan’s official panel of election observers, endorsed the NAMFREL count before the voting began. As the vote totals at NAMFREL indicated an early Aquino lead,

³³ Harvey A. Averch, John E. Koehler, and Frank H. Denton, *The Matrix of Policy in the Philippines*, (Princeton: Princeton University Press, 1971), p. 50.

cheers rang out from the “nonpartisan” vote tabulators.³⁴ Likewise, when NAMFREL refused (on grounds of fraud) to include the majority of the votes cast in the Marcos strongholds of northern Luzon, ignorance of the political past of northern Luzon combined with NAMFREL’s League of Women Voters image to make the highly selective count acceptable to the international press and wide segments of the American government, especially on Capitol Hill.

When the government election commission (COMELEC) and NAMFREL showed different election results, the assumption was that NAMFREL was objectively nonpartisan and reliable. NAMFREL refused to count 30 percent of the total vote nationally, and a majority of the vote in known pro-Marcos areas where there were no NAMFREL volunteers. NAMFREL informally reported (but did not include in its vote count) margins of 98–99 percent in favor of Marcos in some of these areas, particularly the Ilocano areas of northern Luzon. In the 1965 election, when Marcos won the presidency for the first time, Marcos as an Ilocano received 95 percent of the vote in purely Ilocano areas; however, NAMFREL in 1986 decided that the high percentages favoring Marcos and turnout above the national average indicated fraud in northern Luzon and therefore refused to count the vast majority of votes from these areas. In addition, foreign reporters, unaccustomed to traditional Philippine election practices, placed great emphasis on instances of vote buying and the presence of coercion near the polls. The election of 1986 was probably the most abuse-filled in Philippine history; however, what had changed was not the presence of such abuses but the level of outrage expressed by the Church as amplified by the mass media. Finally, for the uninitiated foreign observers there was scant appreciation of the difficulty of determining the truth from either side in the highly partisan atmosphere of this particular election.

In any case the true vote totals (which will never be known) probably showed the candidates within five percent of one another. Neither candidate achieved a clear mandate by the numbers, but Aquino won the media war. Both sides selectively tabulated returns,³⁵ but Aquino’s claims were given credibility by the Church, American politicians, and the American media. For the first time in Philippine electoral history there had been a close vote, and neither side was willing to accept the outcome. Marcos’s solution was to remove vote counting from the hands of COMELEC and NAMFREL, giving it to the constitutionally appropriate vote certifying organization, the Batasan, the legislature that just happened to be two-thirds controlled by Marcos’s own party. The legislature certified Marcos as the winner but the certification did not increase the legitimacy of Marcos’s claim either inside or outside the Philippines.

At this point security was clearly beginning to disintegrate even in Manila. Cracks had begun to appear in the facade of the Philippine military establishment.

³⁴ See Rodney Tasker, “Marcos fights back to stem the ‘Cory’ tide,” *Far Eastern Economic Review*, February 20, 1986, pp. 11–12.

³⁵ Guy Sacerdoti, “Standing polls apart,” *Far Eastern Economic Review*, February 20, 1986, pp. 10–11.

Defense Minister Enrile and Lieutenant General Ramos for two years had been quietly encouraging the Military Reform Movement as part of their struggle to regain control of the military from General Fabian Ver (Marcos's former body guard and chauffeur who had been made commander of the Armed Forces of the Philippines [AFP] in 1981 and reinstated in that position after his acquittal in December 1985 on charges of complicity in the murder of Senator Aquino). In the immediate postelection furor it became increasingly apparent that Marcos would be forced to reassert his control by using the armed forces to restore order. Such actions would be opposed by the Military Reform Movement, and the logic of the situation required that Enrile and Ramos be pushed aside and Ver maintained in control in spite of the fact that Marcos had announced Ver's retirement. At this juncture, Enrile and Ramos did something absolutely unprecedented in the history of the Philippine military. With the wholehearted backing of Cardinal Sin, they went into open rebellion against the civilian authority of President Marcos. Their charges against the Marcos administration echoed those of the Church, the opposition, and the foreign observers. With their statements as well as their personally courageous stand, Enrile and Ramos irretrievably committed Washington to pushing Marcos out of power. Official American disenchantment with Marcos had been growing steadily since August 1983 when the panicked inner circle of the critically ill Philippine president carried out the ham-fisted assassination of former Senator Aquino. From the assassination onward the attitude of official Washington permanently soured. Officials who had previously argued that there was no alternative to Marcos began discussing the post-Marcos era. The assumption was that Marcos had entered a twilight period in which the United States must push for internal reform and democratization while simultaneously distancing itself from a corrupt and crumbling power structure. The degree to which the assassination itself moved official opinion in Washington is indicated by the official statement released the next morning by the U.S. government which put the Marcos regime on notice that justice must be done. The United States government denounced the killing as "a cowardly and despicable act which the United States Government condemns in the strongest terms." President Marcos was warned in no uncertain terms when the same statement indicated, "The United States Government trusts that the Government of the Philippines will swiftly and vigorously track down the perpetrators of this political assassination, bring them to justice, and punish them to the fullest extent of the law." President Reagan's trip to Southeast Asia was cancelled in yet another indication of unease in Washington. In repeated testimony before Congress from the summer of 1983 to early 1986, the administration echoed themes emphasized by the moderate opposition by favoring democratization and economic reform, both of which would cut into Marcos's remaining support within the Philippine elite. The ever rising tide of the Communist New People's Army combined with the rapidly declining economic fortunes to create a growing sense in Washington that something simply had to be done about the Philippines. This sense of foreboding brought Senator Laxalt's October 1985 mission to Manila to urge President Marcos to undertake vital economic, military, and political reforms. The pressures from Washington led in turn to Marcos's surprise announcement on November 3 that he would run

for reelection. In early December 1985, Marcos chose to ignore Washington's advice when he reappointed General Ver after a special court had acquitted Ver in the Aquino murder. President Marcos seemed, at that point, to have successfully defused Washington's pressure by calling an election. What he did not anticipate was that the election would be unlike any election he had ever fought.

In the immediate post-February 7 furor the Reagan administration seemed to hesitate in taking the final steps necessary to push Marcos from power. On February 11, President Reagan at a press conference suggested that fraud and violence had taken place on both sides. However, by February 19, the administration began to sever its connection with Marcos when Secretary of State George Shultz stated that "fraud and violence on a systematic and widespread scale" had been the work of Marcos supporters. The final outcome became inevitable when Juan Ponce Enrile and Fidel Ramos went into open revolt. At that point Washington threatened to cut off all military aid to the Philippines, and messages were conveyed through diplomatic channels that an orderly transition of power required the immediate exit of President Marcos.

No one knows the future at this writing in February 1986 because the outlines of the new Aquino administration remain unclear. However, the magnitude of the real problems would daunt even the most experienced political administrator. When the euphoria of the international press dies down and the New People's Army continues killing provincial police and officials, the business class may prove constant in its refusal to invest in the Philippines, and the Church's predilections for peace may collide with the army's desire to take the offensive against the NPA. A point may be reached where the panacea of today (a brand-new leader) may give birth to the problems of tomorrow as events betray the extent to which the problems of the Philippines could not be solved merely by ridding the country of Marcos.

There can be no doubt that the Philippines will have opportunities to escape from the current economic crisis, but these opportunities will evaporate if they are not forthrightly seized and immediately implemented. The heterogeneous nature of the new ruling coalition probably precludes the type of bold approach that could lay the foundation for investor confidence and sustained economic growth. Export oriented economic restructuring is probably required, but the new government may feel itself beholden to the very import substitution capitalists who have been responsible all along for slow growth in the Philippines. Likewise, the Church, and particularly Cardinal Sin, may be opposed to placing maximum military pressure on the rebels; without such pressure it is unlikely that it will be possible to restore the exporting capacity of agro-business. Finally, the most fundamental problem of an Aquino administration will be to avoid becoming afflicted with the Carter syndrome of unfulfilled good intentions yielding to national disunity and renewed malaise.

The above caveats notwithstanding, the Republic of the Philippines has embarked on a new era, featuring a return to democracy under a leader whose campaign spurned the darker, more dishonest sides of the Philippine political tradition. Her attempt to institutionalize a new, cleaner form of democratic politics may capture the imagination, not only of her countrymen, but also of Washington. Hundreds of

millions in economic and military assistance may become readily available and something akin to a Marshall plan might be created for the Philippines which in turn might inspire renewed confidence among investors at home and abroad. At the very least, the seemingly unending downward spiral of the economy and polity in the twilight years of Marcos has been replaced, it only temporarily, with renewed hope and a modicum of political legitimacy. Observers should guard against heady optimism based on euphoria rather than fact, even while recognizing that the election of February 7, 1986, has turned a new page in Philippine history.

ASEAN AS A SECURITY SYSTEM

Economic integration has not grown rapidly within ASEAN, and the exchange of products is in reality not the organization's central *raison d'être*. The historic reality of ASEAN is that political and diplomatic arrangements gave birth to what at first were barely visible elements of economic cooperation. ASEAN, founded in 1967, became a significant organization in the wake of the abandonment and subsequent collapse in 1975 of the U.S.-supported regimes in Saigon, Phnom Penh, and Vientiane. For the five remaining pro-Western and pro-market countries, the events of 1975 created a profound sense of vulnerability among separate states in a region from which the United States seemed to be running and in which traditional enemies seemed to be growing inexorably more threatening.

Since the Bali Summit in 1976, the world has witnessed a remarkable transformation of the five ASEAN countries into a smoothly functioning political and diplomatic alliance that has proven capable of organizing not only itself but also significant outside powers such as the United States. Out of the acute sense of vulnerability following the U.S. collapse in Vietnam, the ASEAN countries fashioned a new regional political balance, which, in turn, fostered limited regional economic integration and allowed for maximum economic growth in each individual nation. Thus, the necessity of dealing with a pressing regional security problem enlivened ASEAN as a diplomatic and political alliance. This, in turn, gave birth to limited economic integration (ironically, in the name of "proving" that ASEAN's main motives were not security related). Finally, ASEAN unity, which reassured foreign investors and allowed relatively meager military expenditures prior to 1979, provided a secure psychological environment in which each of the five ASEAN countries developed, independently achieving levels of economic dynamism that no one would have predicted in the immediate aftermath of the Indochina debacle. Political decisions involving security gave birth to a regional organization, which, in turn, fostered rapid economic growth in separate countries.

To this day, ASEAN's major achievements as a regional organization lie in the diplomatic realm. Victorious Vietnam, with the world's third largest mobilized army and tens of billions of dollars in Soviet military and economic assistance, closes out the first decade after victory as the poverty-stricken parvenu of Southeast Asia. As a garrison state, its diplomatic isolation has been so great that it could not win votes in

the United Nations, even against the representatives of one of history's most monstrous creations, Pol Pot's Democratic Kampuchea. Repeatedly, and by increasing margins, ASEAN managed to swing the vast majority of the nonsocialist world behind retaining the credentials of Democratic Kampuchea in 1979–81 and, thereafter, in favor of the Coalition Government of Democratic Kampuchea (CGDK). Although Vietnam retains the capacity to cause military trouble, especially on the Thai-Cambodian border, ASEAN has neutralized and isolated Vietnam without involving itself in an economically debilitating direct military competition with Vietnam. The fragile diplomatic alliance, born of the rise of Vietnamese/Soviet military power on the mainland of Southeast Asia, has managed to rally the support of virtually all the nonsocialist world as well as the People's Republic of China.

The fundamental threats to ASEAN's future will also remain political and diplomatic. The five principal threats to ASEAN include: (1) the loss of U.S.-Japanese military and economic predominance in the Western Pacific, (2) the rise of Soviet military power, (3) a Vietnamese victory in Cambodia, (4) the breakup of the consensus among ASEAN elites, and (5) the internal collapse of one or more ASEAN states, leading to withdrawal from ASEAN.

U.S.-Japanese predominance in the Western Pacific is fundamental to ASEAN's continued viability. If the United States and Japan refused, for whatever reason, to continue to shoulder special military and economic responsibilities in Southeast Asia, each ASEAN country would be faced with the prospect either of yielding to Vietnamese/Soviet power or alternatively of becoming overly dependent upon the People's Republic of China. The U.S. military presence in the Philippines and in the Western Pacific maintains a balance that prevents the South China Sea from being dominated by the Soviet presence at Cam-Ranh Bay. The Japanese economic presence as a source of aid, an investor, and a limited market for Southeast Asian exports has made a vital contribution to the economic boom in ASEAN during the past fifteen years. Economic well-being as well as the American presence have made possible ASEAN's balanced and coherent response to the expansion of Soviet and Vietnamese power. Without these two factors, each individual nation would have been forced into a self-defeating militarization program, which would have precluded almost all meaningful economic growth and social change. The American and Japanese presence has allowed the ASEAN countries to move less precipitously—arming themselves, but slowly—using China as a counterweight to Vietnam without creating a perception of Chinese preponderance. Given the current leadership constellation in the United States and Japan, it is unlikely that these external inputs to Southeast Asian regional stability will be allowed to deteriorate. In fact, U.S. and Japanese strength in the Pacific should continue to grow at a sufficient rate to maintain ASEAN confidence in its own ability to manage events in Southeast Asia by moderate, basically nonmilitary means.

The second threat to ASEAN is the rise of Soviet military presence in Southeast Asia. The era of *pax Americana* is obviously over in Southeast Asia. Before the 1960s, the Soviet Pacific fleet was a coastal navy supplemented by submarines and confined by its dependence on isolated ports of the northern Pacific. Only the United States was

a significant naval power with bases and aircraft carriers, marines, and naval aviation. With the 1970s, Soviet naval expansion became significant; carriers were built, naval aviation expanded. The Soviet Pacific fleet is now the largest of the four Soviet ocean fleets, although it is still not as powerful as the Baltic fleet. Furthermore, one-third of Soviet SS-20 intermediate-range missiles have been deployed to the Soviet Far East, which means that approximately 800 nuclear warheads are targeted on East Asia and the Pacific.³⁶

With the triumph of North Vietnam in 1975, Soviet naval vessels first visited Cam-Ranh Bay, albeit for transit purposes only. In terms of arms deliveries, Vietnam received more than other regular Soviet clients such as Cuba, Ethiopia, Angola, and Mozambique in the period 1979–82. In 1979, at the same time as China's invasion of Vietnam, the Soviets began permanently to station their forces in the former American facilities. The size of the Soviet presence has expanded inexorably from a permanent presence of five to eight ships in 1979; by 1982, the deployment averaged fifteen ships on a given day, and five new piers were constructed to service Soviet submarines and surface ships. In 1983, twenty-two to twenty-eight ships and auxiliaries were based in Cam-Ranh Bay.

The most remarkable development in years occurred in November 1983, when the Soviet Union for the first time stationed strike bombers at Cam-Ranh Bay. By late 1984, sixteen Badgers (ten with strike capabilities) were stationed at Cam-Ranh along with eight Bear bombers and a squadron of advanced fighters (MiG-23s). The Badger bombers can carry out missions along a 1,500 mile radius from Cam-Ranh.³⁷ The wartime mission of the aircraft is probably to attack shipping from the Indian Ocean, through the Malacca Straits, to the Java Sea and the South China Sea and the southern coast of mainland China. These aircraft would probably be a poor match for sophisticated American air elements stationed at Clark and Subic in the Philippines and, in the event of direct war between the superpowers, these Soviet air elements would be extremely vulnerable. The most likely function of both the air and sea elements is *not* against the United States but to pressure other potential enemies in the region, especially China. An additional motivation is probably to give practical meaning to the concept of parity by projecting Soviet military power into another region where American power had once predominated. This reasoning applies to both the Indian Ocean and the South China Sea, where Soviet naval and air elements can now operate much more readily because of their new-found facilities at Cam-Ranh Bay. Access to these new facilities reduces the Soviet navy's transit time to the vital straits of Southeast Asia from two weeks (using Vladivostok) to three days (using Cam-Ranh Bay).³⁸ Enhanced capability to project Soviet naval power into the Indian Ocean is

³⁶ See *Office of the Secretary of Defense, Soviet Military Power 1982, Soviet Military Power 1983, Soviet Military Power 1984, and Soviet Military Power 1985*. See also "Buildup on the Bay," *Far Eastern Economic Review*, December 29, 1983, p. 16.

³⁷ See John W. R. Taylor (ed.), *Jane's All the World's Aircraft 1980–81*, pp. 206–209.

³⁸ Karen De Young, "New Arms, Troops Expand Soviet Military Role in Southeast Asia," *Washington Post*, December 21, 1983, p. 1, and Drew Middleton, "Soviet Buildup in Far East Causing U.S. Concern," *New York Times*, January 30, 1984.

probably the single most compelling motivation for increased ship and aircraft deployments.

The most germane questions about the new deployments at Cam-Ranh Bay concern their portent for the future. Why would the Vietnamese agree to such a significant increase in Soviet utilization, particularly at this time, and what do the new deployments imply for the future?

There are several interpretations of Vietnam's decision to allow the Soviets to bring Badgers and MiG-23s to Vietnam. The isolation of Vietnam may be such that the elite did not fully appreciate how the outside world would perceive this new deployment. The Vietnamese Politburo may not have seen the deployment as a major change; the leadership may not have been aware that such deployments, beyond areas directly contiguous to the Soviet Union, are rare. Although the deployment to Vietnam is the first of its kind by the Soviet Union since 1972, it is at least possible that Vietnam's leaders incorrectly gauged the reaction to this, in the same way that they failed to anticipate the adverse worldwide reaction to marching their forces into Cambodia to topple Pol Pot in 1978.

A more likely explanation is that Vietnam may have felt that this concession would permanently foreclose any unilateral Soviet concessions on the Cambodian question in future Sino-Soviet discussions. This concession to the Soviet Union is the ultimate insurance policy for Vietnam; by giving the Soviets the potential capacity to extend their manned bomber coverage over the entire southwestern Pacific (assuming that Badgers will one day give way to Backfires), Vietnam will have made itself irreplaceable in the eyes of Soviet strategic and political planners. Just as Philippine security against external attack is guaranteed by the U.S.-Philippine Mutual Defense Treaty and the Military Bases Agreement, Vietnam may perceive the Treaty of Friendship and the Soviet base facilities as permanent assurances that the Soviets will never desert Vietnam in favor of China.

The third possible, but improbable, threat to ASEAN's longevity is a Vietnamese victory in Cambodia. This scenario has four basic variants: (1) Vietnam pacifies Cambodia; (2) a Sino-Vietnamese rapprochement leaves ASEAN out in the cold; (3) the People's Army of Vietnam (PAVN) humiliates the Thai army, causing ASEAN's frontline state to sue for peace at any price; or (4) international support for ASEAN collapses as a result of Khmer Rouge dominance of the CGDK.

The odds against the first variant, that is, an outright Vietnamese victory, are long; even after the most extensive exertion of Vietnamese military power since the late 1978 invasion, the politico-military balance has not been altered fundamentally. There are more anti-Vietnamese/anti-Heng Samrin forces in 1985 than there were in 1984. After each year's Vietnamese dry season offensive, the number of Cambodian guerrillas operating along the border as well as inside the country increases significantly. Stalemate at an ever-increasing level of violence is the most likely short- and medium-term outcome in Cambodia. For Vietnam, there is no light at the end of the tunnel.³⁹

³⁹ See Rodney Tasker, "Cambodia: The War Continues," *Far Eastern Economic Review*, May 9, 1985, pp. 28-30.

Under the second variant, a Vietnamese victory might conceivably result from a diplomatic deal between Beijing and Hanoi that would isolate ASEAN in return for Vietnamese movement away from the Soviet-Vietnamese alliance. China might recognize Vietnamese sovereignty over Cambodia and discontinue support to Pol Pot in return for a slow but steady diminution of Soviet access to bases inside Vietnam. Successfully wooing Vietnam away from its military alliance with the Soviet Union would require either China or the United States to assume the Soviet burden as the multibillion-dollar bankroller for Vietnam's advance to socialism. In spite of improvements in crop production, Vietnam remains an economic basket case, incapable of maintaining the economic and social system dictated by its ideology without massive infusions of foreign capital, equipment, and military supplies, and there is little or no likelihood that either China or the United States would be willing to devote major resources to such a dubious enterprise. One problem with moving Vietnam away from the Soviet embrace is that Vietnam is not a "cheap date"; China and the United States have more promising uses for limited budgetary resources.

The third variant of a Vietnamese victory in Cambodia that might threaten ASEAN's cohesion would be if the Vietnamese, as a result of the frustrations of counterinsurgency, expanded the war into Thailand. PAVN's generals are not immune to frustration. Many of them expected to finish off the Cambodian opposition in the first six months after the December 25, 1978 invasion. More than seven years of fighting have produced no resolution, and PAVN planners would be unusual if they did not seek a military victory by changing the political parameters by closing off external supplies and sanctuaries and directly coercing Thailand. This may be the motive behind the 1984–85 dry season offensive that destroyed most resistance camps along the Thai-Cambodian border and repeatedly crossed into Thailand. PAVN may intend to force Thailand to alter its overall policies by demonstrating to the Bangkok elite that the Thai army remains incapable of ensuring the kingdom's security. The present escalation of border tension might be raised to an intolerable level at some point in the future by a Vietnamese attack in force and occupation of an important road junction or a town within Thailand followed by the humiliation of Thai attempts to reassert control. This would be attractive to elements of the PAVN leadership that seek a quick solution in Cambodia on strictly Vietnamese terms.

PAVN undoubtedly has the military resources to accomplish such a feat. The political and military costs to Vietnam, however, probably preclude such an initiative. When Vietnam occupied Cambodia in 1978, PAVN planning assumed that China would not attack; China's brief but bloody incursion into Vietnam in 1979 made an indelible impression on Vietnamese decision makers. China has repeatedly indicated that it would not stand still in the face of a major Vietnamese incursion into Thailand. In addition, in 1980, 1983, and 1984–85, when Vietnamese troops briefly crossed into Thailand, the impact on Thai politics directly contradicted Vietnamese expectations; the Bangkok elite rallied around the government rather than being frightened into compromising national interests. Finally, a direct attack on Thailand would probably solidify support for Thailand within ASEAN. Rather than breaking ASEAN apart, such a Vietnamese attack would probably inspire new unity, along with additional international support.

With the Cambodian situation the way it is, a much more realistic threat to ASEAN's future is provided by the fourth variant of a Vietnamese victory: the Khmer Rouge's overwhelming ascendance within the CGDK. Great moral revulsion justifiably exists toward the Khmer Rouge because of their unparalleled record of brutality toward their own people between 1975 and 1979. If the CGDK's fortunes developed favorably through Khmer Rouge military successes, the world would be faced with the possibility of the return to power of Pol Pot's butchers. To the extent that the Khmer Rouge receive sufficient amounts of money and arms from China for an extended war while Sihanouk and Son Sann receive amounts of arms that are sufficient only for fighting in the immediate border areas, it appears almost a certainty that the Khmer Rouge will increasingly become the predominant segment of the CGDK in the Cambodian interior.

Officials from ASEAN and other countries want to avoid fanning the flames of war in Southeast Asia. Furthermore, they do not want to see the Khmer Rouge gain power within the CGDK coalition. However, less than enthusiastic support for Son Sann and Sihanouk may combine with China's seemingly wholehearted financial support for the Khmer Rouge to produce a completely unacceptable outcome, which in reality will favor Pol Pot. Revulsion against dealing in any way with the Khmer Rouge is fundamental to understanding why Australia and France provide only tepid support for the ASEAN position on Cambodia. If the Khmer Rouge become even more prominent militarily, the Australian and French positions will become more attractive to other countries, thereby delivering victory by default to the Vietnamese because ASEAN and the West could not bring themselves to face the distinctly lesser evil of supplying Khmer noncommunists with economic and military assistance comparable to that received by the Khmer Rouge from China. Those favoring the noncommunist forces have been able to follow a "clean hands" policy up to 1984-85 because Son Sann and Sihanouk forces seemed in 1982-83 to be catching up, at least in numbers, with the Khmer Rouge.

The ease with which the Vietnamese moved against the noncommunists during the 1984-85 dry season offensive has undercut the viability of the "clean hands" policy. Official U.S. policy since 1978 has been "to follow ASEAN's lead" on the Cambodian problem. However, the ASEAN foreign ministers, including Indonesia, called for military and humanitarian assistance to the noncommunist forces. Liberal democrats in the U.S. Congress proposed \$5 million per year in overt military assistance to Son Sann and Sihanouk. Inner circles in the Reagan administration initially opposed such moves but eventually agreed to the provision of \$10 million over two years, which would consist of Economic Support Funds (ESF), economic assistance administered by USAID but taken from the military assistance budget. The post-Watergate, post-Vietnam syndrome is finally fading and the stage may be set for significant change in the degree of American involvement in Cambodia. No one should expect a massive program, but even a symbolic \$5 million per year marks a major change in U.S. policy toward Indochina and increases ASEAN's security while simultaneously opening the door, if only a crack, to a political settlement of the Cambodian problem.

In addition to Cambodia, there are two other worrisome factors that might result

in the decline or disintegration of ASEAN. First, the generation of leaders who gave real life to ASEAN after 1975 will be passing from political power in the 1980s. Will the succeeding generation of leaders show the same commitment to submerging narrow national interests to maintain the momentum of ASEAN? Will the successors of Lee, Marcos, and Soeharto be strong enough domestically to resist the centrifugal forces of nationalism? The economic environment of the 1980s is less favorable to these efforts than that of the 1970s. The Philippine financial crisis of 1983–86 has both internal and international causes; however, one certain result is that foreign banks will scrutinize much more carefully the borrowing efforts of the individual ASEAN countries. International lending to Third World countries has been decreasing, and the Philippine situation proves that the ASEAN countries are not immune to the evils of misdirected investment, corruption, and political instability. Changing conditions in the international economy mean that the seemingly unlimited expansion of the 1970s has given way to a situation in which government planners must trade off some of the gains of economic growth for the long-term benefits derived from fundamental economic restructuring. Finally, the intra-ASEAN trade agreements in the 1970s concentrated on easy times. Easy tariff reductions (such as the agreement by ASEAN to drop all duties on snowplow blades) have already been made, and ASEAN negotiators must begin to make more painful reciprocal concessions if the push toward economic integration is to be sustained in the 1980s.

The ASEAN chain is only as strong as its weakest link. The economic cement binding ASEAN together remains weak and the political and diplomatic rationales for integration continue to predominate. Internal politics is the causal variable within each ASEAN country, and the degree of variation remains wide. In the Philippines, the political crisis sparked in the summer of 1983 by President Marcos's medical problems and Benigno Aquino's assassination made an already difficult economic situation nearly unmanageable. Even with the advent of the Aquino administration the rapidly rising New People's Army and the truly formidable economic problems may steadfastly refuse to disappear. In ASEAN the strength of each country's sociopolitical fiber is prerequisite to a strong regional association. What politics has tied together, it can also put asunder.

15. An Analysis of Soviet and U.S. Relations with India and Pakistan

Wang Hongyu

Besides internal contradictions within various South Asian countries and India's relations with its neighbors (especially Pakistan), the crucial factor influencing the situation in South Asia is Soviet and U.S. policies towards South Asia, especially towards India and Pakistan.

The Soviet invasion of Afghanistan in 1979 symbolizes the important development of this superpower's southward thrust. To continue this thrust, the Soviet Union has further implemented its policy of supporting India and exerting pressure on Pakistan, because it believes that close relations between the Soviet Union and India are the cornerstone in securing Soviet interests and preventing the increase of U.S. influence in South Asia. While fully supporting India, the Soviet Union has always struck and stroked Pakistan alternately. Since the Soviet Union has got into difficulties both at home and abroad, severely so in Afghanistan, the impetus of its southward thrust has weakened. Consequently, it is difficult for the Soviet Union to take further major actions in South Asia.

From the second half of the 1960s into the 1970s, the United States did not attach enough importance to South Asia. Since the Iranian and Afghan incidents, however, this attitude has changed and the status of South Asia has risen in the eyes of U.S. policymakers. The United States has supported Pakistan and stroked India, putting emphasis on the support of its important ally, Pakistan, so that the continued Soviet southward thrust can be checked. To encourage India to drift away from the Soviet Union and to expand U.S. influence in India, the United States has stepped up its military aid, sale of high technology and other measures. The United States is unwilling to involve itself in regional conflicts in South Asia and take conspicuous action, however, because its interests there are not as strong as in other parts of Asia.

STRATEGIC CHANGES IN SOUTH ASIA SINCE THE SOVIET INVASION OF AFGHANISTAN

The Soviet invasion of Afghanistan at the end of 1979 greatly influenced the South Asian political situation and represents a new phase of Soviet offensive

strategy. Its objectives are not only the occupation of Afghanistan and consolidation of its bases in Central Asia, but also the creation of favorable conditions in which to exert further control on Iran and Pakistan, push southward to the Indian Ocean by land, and restrict the strategic passage of Western countries. Once the Soviets establish a firm foothold in Afghanistan and gradually "Mongolize" it, their pressure on Iran and Pakistan and the potential for interference in Iranian and Pakistani internal affairs will be increased. In the long run the Soviet Union is attempting to link together Southeast Asia, South Asia, West Asia, and North Africa. With this linkup achieved, it can either break up its own encirclement or fatally threaten the oil supply lines of the Western countries and Japan, thereby gaining more initiative in its global contention with the United States.

Early in the 1980s, because of the outbreak of the Iran-Iraq war, the stagnation of the war in Afghanistan, U.S.-Soviet rivalry in the Indian Ocean, and little progress in the Sino-Soviet talks, the Soviet Union decided that its relations with India were of new importance. Despite the fact that India perceived the Soviet presence in Afghanistan as an encroachment on its own leading role in South Asia, Indira Gandhi's government recognized the Soviet Union as its important ally and maintained a close relationship with it politically, militarily, and economically. Foreign observers felt that the Indo-Soviet relations had already entered "a close, friendly, mature and stable phase," and that "the heart of the friendship lies in the strategic harmony between the Soviets as a superpower and India as a regional power."¹ From 1960 to 1982, the Soviet Union provided US\$4 billion in military aid for India and became its biggest supplier of military hardwares. Seventy percent of the advanced military equipment imported by India came from the Soviet Union.² Viewed another way, however, this reliance could make the Indian government feel uneasy. Should Indo-Soviet relations decline (as did Sino-Soviet relations) such arms supplies could be cut off.

The Soviet Union provided more economic aid for India and promoted their bilateral trade relations to achieve its strategic objectives in South Asia as soon as possible and lessen U.S. influence in India. Soviet economic aid to India reached US\$2.74 billion by August 1981 and included more than seventy projects. The steel mills, power plants, oil fields and refineries, machine-building factories, and other industrial projects financed by the Soviet Union had already become the backbone of the Indian state economy, and the Soviet Union had trained more than 100,000 Indian technicians. Soviet-Indian trade developed rapidly, with a total trade value surpassing U.S.-Indian trade and reaching US\$3.26 billion in 1982, when the Soviet Union became India's major trading partner. It gained a lot from its aid to India, especially in the political realm. India is the biggest Soviet ally in the Third World. After the Soviet invasion of Afghanistan, India tried to explain on the Soviet Union's behalf that the Soviet troops marched into Afghanistan "at the invitation of the Afghan government." India recognized the Heng Samrin regime in Kampuchea. Every time draft resolu-

¹ Sen Gupta and Dilip Bobb, "In Danger of Isolation," *India Today*, no. 23 (1980).

² *World Affairs Yearbook, 1983* (Beijing: World Affairs Publishing House, 1983).

tions demanding Soviet withdrawal from Afghanistan and Vietnam withdrawal from Kampuchea were put to vote in the United Nations Assembly, India's attitude was always different from that of most other countries. It either voted against or abstained on these two issues. On other international issues, India delivered ambiguous statements and assumed an equivocal attitude. Therefore, India fell into diplomatic isolation for a time and was despised in the international community.

The Soviet invasion of Afghanistan also had negative effects on Soviet-Indian relations. To improve the Indian political image in the international arena and contain the continual Soviet southward thrust that would bring harmful results to India, in recent years India has kept the Soviet Union at some distance and improved its relations with Western countries. In 1982, Mrs. Indira Gandhi visited the United States first, then the Soviet Union. The Indian cabinet gradually reduced its members' visits to the Soviet Union. Indira Gandhi refused to provide ports for the Soviet Union as naval bases and criticized the U.S.-Soviet rivalry in the Indian Ocean.

Soviet trade with India also resulted in an adverse balance of trade. To reduce its dependence on the Soviet Union, India began diversifying its arms supplies and actively importing from the United States and other Western countries, actions that caused the Soviet Union great dissatisfaction.

The Soviet invasion of Afghanistan has put Pakistan under direct threat. The Soviet Union cannot push southward to the Indian Ocean by land unless it occupies Pakistan. The time is not yet ripe for the Soviet invasion of Pakistan, however, because the Soviet troops in Afghanistan are confronting strong resistance.

Under such circumstances, the Soviet Union has adopted the dual policies of hard and soft tactics, with exerting political and military pressure the primary means, to compel Pakistan to submit. This policy is conducive to reducing international pressure on the Soviet Union, splitting the Western world, and isolating the United States. The Soviet invasion of Afghanistan has caused more than 4 million Afghan people to leave their country, of which about 3 million have entered Pakistan. These refugees have become a heavy economic burden and have caused social problems for Pakistan, which has repeatedly condemned the Soviet invasion and appealed to the international community to urge Soviet withdrawal from Afghanistan. On the excuse of pursuing and attacking "rebels," the Soviet Union has deployed five divisions and many armored units to make provocative skirmishes on the Afghan-Pakistani border, indirectly exerting great military pressure on Pakistan. The Soviet Union threatens Pakistan by saying that its stand on the Afghan issue "cannot but have an impact on Soviet-Pakistani relations."³ On the other hand, the Soviet Union has continued its economic aid to Pakistan as an incentive for this country to stop its support of Afghan resistance forces, recognize the Karmal government, and acquiesce to Soviet occupation of Afghanistan. During Andropov's tenure in office, Soviet-Pakistani relations were improved, bilateral trade developed further, and Soviet economic aid to Pakistan increased. In 1983, the Soviet Union agreed to provide a loan of about US\$300

³ Tass, New York, September 20, 1984.

million on “quite favorable terms” to build a 630,000-kilowatt power station at Multan in central Pakistan as well as commercial credit for other equipment needed in the station.

The Soviet Union tries its utmost to obstruct the normalization of Indo-Pakistani relations because maintaining tension between these two countries is conducive to its maneuvers in expanding its influence in South Asia. The Soviet policy of supporting India, exerting pressure on Pakistan, and obstructing the improvement of Indo-Pakistani relations has intensified the arms race and military confrontation between the two countries and is also an important factor in maintaining turbulence in South Asia.

DEVELOPMENT OF U.S. POLICY TOWARDS INDIA AND PAKISTAN

After the fall of the Pahlavi monarchy in Iran and the Soviet invasion of Afghanistan, the United States was confronted with serious situations in the Middle East and South Asia. The Reagan administration has clearly announced that U.S. interests extend all over the world and that it wants to revitalize U.S. military prestige and stop its retreat from Asia. The United States is determined to rebuild a defensive line, starting from Northwest Asia and extending to the Indian Ocean, to secure its strategic passages at sea. Therefore, it is drawing India back to its side while continuing to support Pakistan.

The United States holds that the existing close relations between India and the Soviet Union cannot be changed overnight. To encourage India to drift away from the Soviet Union and normalize relations with Pakistan, the United States must also improve its relations with India. The United States believes that if India and Pakistan go to war again, it will harm U.S. interests, because the Soviet Union will firmly support India. In the event of lack of U.S. support, Pakistan will certainly collapse again, greatly weakening the U.S. strategic posture in South Asia. Therefore, the best way out for the United States is to ease the tension in Indo-Pakistani relations. India worries most about the appearance of a U.S.-Pakistan-China axis, though it resolutely opposes Pakistan's militarization. On the other hand, India feels that the Soviet troops in Afghanistan will stimulate the strengthening of U.S. military presence in the Persian Gulf and the Indian Ocean. That will do no good to India. In view of India's economic requirements from the United States, it needs to maintain a balance between the United States and the Soviet Union, and thus it refrains from being excessively pro-Soviet. In spite of great divergences on international issues and many problems in bilateral relations, the United States and India need, each for its own interests, to improve relations.

At the end of the 1970s, the Carter administration decided to recognize India's leading role in South Asia, bearing in mind that India is a large country with vast territories and a comparatively greater influence over Third World and nonaligned countries and could be a valuable American partner in fulfilling Carter's desire for North-South cooperation. Since Reagan came to power, both countries have worked for rapid improvement of their relations. In 1981, Regan and Indira Gandhi met in

Cancun, Mexico, and Mrs. Gandhi's visit to the United States in 1982, her first to that country in more than ten years, symbolized the renewed ties between the two countries. During Mrs. Gandhi's visit, the two heads of state reached an agreement on the outstanding question of American fuel supplies to Indian nuclear power stations and decided to strengthen cooperation in the areas of science, culture, and education. Through this exchange of visits, the Indian government believed that maintenance of friendly relations with the United States was beneficial not only to implement "equidistance diplomacy" toward the two superpowers, improve its image, and raise its status in the Third World, but also to receive more funds and advanced technological equipment from the United States for the development of the Indian economy. The U.S. government has likewise changed its views on India. It believes that, with the continuing occupation of Afghanistan by the Soviet troops, India is an important major power in stabilizing the political situation in South Asia. India is not willing to follow all the Soviet examples in the diplomatic field; some Indian foreign policies are not in harmony with those of the Soviet Union. Further, India has many achievements in economic construction and is one of the important spokesmen in the Third World. It is therefore politically and economically advantageous to the United States to strengthen its relations with India.

Based on such an understanding of mutual benefits, U.S.-Indian relations have gradually been improved. During his 1984 visit to India, U.S. Vice President George Bush emphasized that India is a major power with key functions in South Asia and world influence as well. He praised India's "pivotal role" in the Nonaligned Movement and advised India to improve its relations with Pakistan so as to prevent turbulence in South Asia and to prevent the Soviet Union from making use of them for southward thrust. Earlier in the year, U.S. warships visited the ports of Cochin and Bombay—the first such visits in thirteen years.

After the Soviet invasion, Afghanistan lost its function as a traditional buffer zone. Under such circumstances, U.S. President Carter began to attach greater importance to Pakistan. U.S.-Pakistani relations have developed further since Reagan was elected. At the end of March 1981, the Reagan administration proposed a five-year package plan providing US\$500 million every year for Pakistan; the total sum was increased to US\$3.2 billion when the agreement was signed. Pakistani President Zia-ul Haq's visit to the United States further promoted bilateral relations, and the United States increased its supplies of advanced arms to Pakistan. In spite of Indo-Soviet opposition, early in 1983 the United States dispatched the first batch of advanced F-16 planes, then the "Harpoon" antiship missiles, to Pakistan. When Caspar Weinberger, U.S. Secretary of Defense, visited Pakistan in 1983, President Zia-ul Haq praised the fact that both countries were developing mature and practical relations.⁴ Vice President Bush on his visit to Pakistan in 1984 was the highest-ranking U.S. official to come since President Nixon's visit in 1979. Mr. Bush's visit to Pakistan before that country's general elections symbolized U.S. support of Zia-ul

⁴ Xinhua, Islamabad, October 4, 1983.

Haq's government. Bush supported Zia's plan for the general elections, praised Pakistani achievements in construction, and indicated that U.S. aid to Pakistan would be given priority treatment.

Reagan's policy towards Pakistan has been more extensively developed than Carter's. The Reagan administration has put Pakistan into its Gulf defense plan, and the aggregate value of aid and its term of validity undertaken by this administration has doubled that of Carter's. The Reagan administration has rejected the "veto" on U.S.-Pakistani relations enjoyed by India; Pakistani status in U.S. global strategy has been raised. The main U.S. objective in supporting Pakistan and stroking India is to check the Soviet southward thrust and strengthen its own strategic position in South Asia.

PROSPECTS FOR SOVIET AND U.S. RELATIONS WITH INDIA AND PAKISTAN

From the winter of 1984 to the spring of 1985, Reagan and Zia were both reelected presidents after the U.S. and Pakistani general elections, Rajiv Gandhi succeeded his mother as Indian prime minister after Indira Gandhi's assassination, and Mikhail Gorbachev became general secretary of the Soviet Communist Party after Chernenko's death. All these events will certainly influence Soviet and U.S. relations with India and Pakistan.

In four years, the Reagan administration's "return to Asia" policy has achieved developments not to be ignored and has built closer U.S.-Pakistani relations. In his new term of office, Reagan will continue to implement his policy of resisting the Soviet southward thrust and expanding American influence. The United States cherishes considerable hopes for Rajiv Gandhi's government. It is firmly seizing this favorable opportunity for action and adopting flexible tactics towards India. When Rajiv Gandhi was elected Indian prime minister, Reagan sent him a message of congratulations expressing his hope to improve U.S.-Indian relations. Afterward he sent Secretary of State George Shultz and other high-ranking officials on official visits. The United States has reaffirmed its recognition of India's pivotal role in South Asia, considered the transfer of high-level military technology to India, and expressed its understanding of closer Indo-Soviet relations. But the Reagan administration holds that the further development of U.S.-Indian relations can lessen Indian dependence on the Soviet Union, ease Indo-Pakistani conflicts, reduce pressure on Pakistan's east front, and help to weaken Soviet influence in South Asia. As long as both Reagan and Zia remain in power, the United States and Pakistan will continue to develop their bilateral relations on the basis of existing policies.

As for the Soviet Union, its acts of aggression have constantly been condemned by the people of the world. Because it acts in isolation and is confronted with many difficulties in Afghanistan, it dares not push southward. What is more, the Soviet Union has lost three general secretaries in more than two years. The urgent task before the new general secretary, Mikhail Gorbachev, is to solve domestic problems and consolidate his status in the Party, so he is not likely to make major readjustments of

Soviet foreign policy in the near future. Therefore, the Soviet Union will continue to implement its policies of supporting India, pressuring Pakistan, and contending with the United States in South Asia. However, it will also develop economic relations with Pakistan to a certain degree so as to expand its influence and continue its strategy of southward thrust. The Soviet Union may adopt a “wait and see” negative attitude towards India’s improving relations with the United States and Pakistan.

Rajiv Gandhi’s government appreciates that the Soviet Union has stood “firmly” on its side during India’s hard times⁵ and professes that Indo-Soviet relations are a model of cooperation between societies with different traditions and political systems. India believes that being on friendly terms with the Soviet Union is the cornerstone of its foreign policy, and it gives first priority to its relations with the Soviet Union in foreign policy because it requires not only that country’s political support but also military aid, which no other country can replace. Rajiv’s government will continue to strike a balance between the United States and the Soviet Union and speed up the development of economic relations with the United States while strengthening its relations with the Soviet Union. Since the United States will not change its basic policy of supporting Pakistan in the near future, the development of Indo-U.S. relations has certain limitations and will experience twists and turns from time to time. India is seemingly making use of its improved relations with the United States and the Soviet Union as leverage to influence its relations with Pakistan and the Soviet Union. The United States, however, will not sacrifice Pakistani security while strengthening its relations with India. As long as Soviet troops still remain in Afghanistan and no substantial improvement of Indo-Pakistani relations occurs, U.S.-Indian relations will be no better than U.S.-Pakistani relations.

Pakistani President Zia-ul Haq will continue to implement his present policy towards the United States and the Soviet Union. Pakistan will carry out the principle of separating economic issues from politics in its relations with the Soviet Union. Provided the Soviet Union makes no substantial changes in its stand on the Afghan issue, Pakistani-Soviet relations can undergo no major breakthrough. Since Pakistan is willing to develop economic relations with the Soviet Union, however, bilateral relations may thus develop faster than before. Pakistani relations with the United States will move forward smoothly on its existing basis because Pakistan wants to enlist American support in contending with pressure from the Soviet Union and India, and American aid is the most important and indispensable foreign aid it has acquired. In its long-term association with the United States, Pakistan holds that the United States is an unreliable ally, so Pakistan will implement its policy of seeking multiple sources of support. It will strengthen its friendly cooperation with China, strive for the support of the Nonaligned Movement as well as Islamic and Third World countries, and seek to ease the heavy pressure from the Soviet Union and India.

In conclusion, Soviet and U.S. relations with India and Pakistan will develop on the whole within their present structure. Soviet-U.S. conflict in India and Pakistan

⁵ Tass, Moscow, January 3, 1985.

will not worsen in the near future. The contradictions between the Soviet strategy of southward thrust and India's thirst for exercising a leading role in South Asia may grow more obvious, but they will not become acute in the near future because the two countries both need each other. Therefore, no great changes in the situation in South Asia are likely to take place for a period of time to come. At present, the Soviet invasion of Afghanistan is the main factor influencing the stabilization of the situation in South Asia. Thus, the international community must continue to support the Afghan people's just struggle against the Soviet invaders, force them to withdraw from Afghanistan, and encourage India and Pakistan to normalize their relations and promote good-neighbor relations. Only in this way can a stable and peaceful situation be created in South Asia.

16. India and Pakistan: Relations with East Asia, the United States, and the USSR

Leo E. Rose

My objective in this paper will be to analyze the perspectives and policies of India and Pakistan, the principal South Asian military and political powers, toward major external power involvement in South Asian political and security matters. The focus here will be on the role of the People's Republic of China, the Soviet Union, and the United States in South Asia, and the policy options available to the two South Asian states in the context of the involvement of these external powers in the region.

Political, strategic, economic, cultural, ethnic, and even historical considerations intrude upon foreign policy decision making in both New Delhi and Islamabad, and often in complex and contradictory ways that inevitably add a touch of ambiguity to most policy decisions. Nevertheless, it is possible to discern a rational process at work in both states' responses to an external environment that, given their long history as "colonies," is generally seen as at least potentially hostile and threatening. Their own capacities to control and manipulate the outside world they regard as highly limited and indecisive. Both Indians and Pakistanis appear to view themselves as vulnerable to intervention by "malevolent" external forces, and their foreign policies are specifically designed to forestall such contingencies.

Thus, while the perspective of the political elites in India and Pakistan on specific aspects of their external environment may have varied at certain points in time since the British withdrawal from the subcontinent in 1947, there has been a wide degree of consistency in their general attitudes toward external power intervention in South Asia. The controlling factor in determining their response to threats of external intervention, real or imagined, has been the specific regional and international circumstances at the time, and how these were seen as affecting the interests of each of the two countries.

The history of the post-World War II period in South Asia demonstrates clearly the very different, indeed often conflictual, geostrategic factors that shape the world

view of the key foreign policy elite groups in India and Pakistan. Most of this paper will be devoted to a discussion of the differences in elite perceptions in the two societies. But let me begin with a brief commentary on some subjects on which they share a commonality—or at least a partial convergence—of views and perceived interests, as these points of convergence often tend to be ignored in their much noisier disagreements and disputes.

One characteristic both elites hold in common is their broad socialization in British imperial foreign policy and strategic theories and concepts. While the generation that was directly trained, educated, and politicized (in the careful British imperial manner) in the British system prior to 1947 has now largely disappeared from the scene, their theoretical overlay on strategic issues is still extremely influential among the new generation that has been educated and socialized in a different milieu. In part, this has occurred because the British imperial perceptions on such matters were not narrowly ideological or nationalist. British India's imperial policy toward areas and countries adjacent to their Indian empire was usually determined by a New Delhi (i.e., Indian) rather than a London-centered interest projection, and thus did not vary that much from the views projected by the Indian rulers in New Delhi these days. Similarly, the British officials serving on the Northwest Frontier playing "the Great Game" with the Russians and Chinese in the mid-nineteenth to mid-twentieth centuries had views that were largely responses to local factors and needs that were, in many cases, out of step with the broader-based regional objectives of New Delhi or the global obligations of London. To a considerable extent the strategic calculations of the current Indian and Pakistan governments are directly and logically derived from their British Indian predecessors—which may explain the interest of the current crop of officials in both countries in the publications by the British officers on the "frontier question."

The Indian and Pakistani foreign policy elites have also, over the years, developed a highly skeptical and cautious attitude toward the involvement of external powers in the region. Both elite groups have been prepared to accept and even encourage the involvement of outside powers in South Asia when this was seen as necessary, or at least unavoidable, in protecting their own national interests. India did this quite assiduously in encouraging a greater Soviet role in South Asia in the mid-1950s, in seeking American and British support against Chinese "intruders" into the subcontinent in the 1960s, and again in accommodating Soviet support in 1971 in the context of the "Bangladesh crisis." Pakistan solicited U.S. involvement in South Asia in the mid-1950s, both Chinese and Soviet support in the 1960s, and then turned again to the United States in the 1980s following the Soviet military intervention in Afghanistan.

The experience of India and Pakistan with these external powers, however, has not always been a happy one even on those occasions when the latter's involvement resulted from their own initiative. By the 1980s, the first preference in both countries was for an "exclusion" policy except when regional and extraregional developments (e.g., for Pakistan, Soviet intervention in Afghanistan) made this implausible. The maximum possible isolation of South Asia from external intervention and influence

has been a basic feature of Indian policy since independence, of course, though it was only after the 1971 Bangladesh War that this objective seemed attainable to New Delhi. Pakistan's policy in the 1950s and 1960s was directed at soliciting external support from various sources—the United States, China, the USSR—against India's dominant position in South Asia. Eventually this policy was seen as futile and counterproductive by many Pakistanis, particularly after the 1971 war with India during which, in that traumatic period in Pakistan's history, none of the "friendly powers" provided effective assistance.

One novel development in recent years is a growing perception in both India and Pakistan that only through some form of mutual Indo-Pakistani accommodation can the influence of outside powers in the region be kept to a reasonable level without necessarily sacrificing either state's national interests. This major change in elite opinion has made it possible for the Pakistan government to propose an accommodation with India on terms—e.g., a no-war pact—that were unacceptable to earlier generations of Pakistanis.

But while there is a broad convergence of views in India and Pakistan on the utility of a cooperative relationship between the two countries on security, political, economic, and cultural issues, there are also serious differences in their respective terms of accommodation. India insists upon what had come, by 1984, to be called the "Indira doctrine":

1. Acceptance of India's hegemonic status in South Asia.
2. Exclusive use of bilateral rather than multilateral forums for the resolution of disputes between South Asian states.
3. The exclusion of any kind of security relationship with external powers—e.g., the granting of bases or other military facilities that would tie a South Asian state into an external powers security system in the broader southern Asian region.

The Pakistani response does not constitute a complete rejection of the Indian terms, but it does involve a substantial modification of them:

1. India's status as the "major" power in South Asia is recognized, but not the hegemonic power status New Delhi insists upon.
2. Pakistan is willing to begin with bilateral negotiations of issues in dispute but is not prepared to exclude the use of international forums if the bilateral talks fail.
3. Pakistan stresses its policy position against granting military bases or facilities to any external power but refuses to be bound to this policy, as the Indians demand, if circumstances should change.

The two governments reportedly had been close to reaching a compromise agreement in mid-1984 when relations between them again deteriorated. A year later, they are again renewing their discussions under different domestic political conditions that may improve prospects for some form of agreement on the basic issues.

But even if New Delhi and Islamabad should be successful in concluding a no-war or a peace-and-friendship pact (on what would have to be artfully defined ambiguous terms to be acceptable to both), serious obstacles would still exist to effective cooperation on critical security issues. One of the more subdued but important problems is the basic difference in Pakistani and Indian geopolitical

perspectives, based upon historical and cultural factors integral to the world view of the dominant elite groups in both countries. Indian foreign policy is largely dominated by the North Indian Hindi belt elite from Uttar Pradesh, Bihar, and Rajasthan, amply supplemented by Brahmanic migrants from Kashmir and Tamilnadu who are excluded from any significant political role in their area of origin out who have been accommodated into the Hindi belt elite, often in high, influential positions. Their strategic concepts and views reflect the volatile history of the Ganges river area over 2,500 years during which innumerable invaders from outside poured into the Gangetic plains through the highly strategic and vulnerable pass areas on the northwest corner of the subcontinent. Indian policies on Kashmir and the Punjab, for instance, are to a considerable extent explained by the great strategic importance the North Indian elites attach to the northwest. Because Pakistan and Afghanistan control most of this frontier region, it is only through Kashmir and the Punjab that Indian authority and power can be projected into this area to any significant extent. The basic objectives of strategic policy, as defined by the Hindi belt elite, is to exclude all external powers from the Gangetic heartland and adjacent areas and to attain hegemonic status over the subcontinent for the government in New Delhi.

The Muslim Punjabi/Paktoon political elite in Pakistan has a very different historical background and thus a different perspective on geostrategic issues. Historically, their conquerors have come from both directions—that is, from the Gangetic plains as well as from Central Asia, Iran, and Afghanistan. Their “traditional” foreign policy has not been to exclude external powers, since exclusion was beyond their capability in most instances, but to use contending external powers to counteract each other. Balance-of-power international politics was thus the norm in the area that now constitutes Pakistan, and it has also been the policy adopted by the Pakistanis to meet the challenges posed by India, Afghanistan, and the USSR since 1947. I do not want to press this dichotomy between the psyches of the Indian and Pakistan elites too far, as India has played balance-of-power politics regionally and internationally (while denouncing the concept) as enthusiastically and adeptly as has Pakistan. The difference is that it has been the Pakistanis’ first and immediate response to any external threat while the Indians tend to use the strategy more as a last resort, when their preferred isolation policy for the region is obviously not protective of India’s vital interests. The differences in Indian and Pakistani elites on foreign policy strategies also has some impact on their basic views on the role of external powers in South Asia and, more specifically, on their perceptions of China, the Soviet Union, and the United States in broader global political terms as well. I will now turn to a discussion of this subject as seen from a South Asian perspective.

CHINA, THE SOVIET UNION, AND THE UNITED STATES

An ardent propensity for theoretical explorations on the outer realm of reality would appear to be intrinsic to the great Hindu and Islamic traditions permeating the intellectual cultures of India and Pakistan. This is clearly evident even in most of their

more narrow issue- or area-oriented studies of international relations in South Asia and beyond. The general theories supposedly underlying these analyses are often based on sets of geostrategic assumptions that were defined two or more decades ago under very different circumstances and would seem to be of limited relevance in the 1980s. Moreover, they often refer to some historical precedents that are, from the perspective of an outsider, examples of selective memories. It should be noted that in many of these studies, the authors then proceed on to carefully and thoroughly researched analyses of specific themes and policy considerations with little or no concern for the introductory theoretical framework.

The old international relations principle—sometimes defined as Machiavellian but expounded centuries earlier by Kautilya, an equally brilliant Hindu social and political theorist—that a country has no permanent friends, just permanent interests, underlies most theorizing on geopolitics of both Indian and Pakistani specialists. Occasionally some of the more ardent pro-Soviet advocates in India try to project the Soviet Union as a “firm friend” during all Indian crises since 1947 and an assured friend in all crises in the future. But even their brief historical surveys are more notable for the past crises in which they carefully refrain from discussing the Soviet role in any detail (e.g., in the 1962 Sino-Indian War or the 1965 Indo-Pakistani War) to avoid embarrassment. The more pragmatic Indian view in the foreign policy establishment was expressed to me by a high External Affairs Ministry official in the mid-1960s: “We know that Moscow will abandon its supportive policies towards us whenever these no longer serves its purposes. But as long as they do, we shall use Soviet support as much as necessary to advance India’s interests.” In the Soviet Union, meanwhile, one persistent, if quietly expressed, theme since the mid-1970s has been: “when will India become another Egypt?” The pledges of eternal friendship that are exchanged on a regular basis between India and the USSR are thus based upon immediate and temporal factors that are important to both governments but by no means impervious to change.

In broader continental geopolitical terms, there is general agreement among Indian and Pakistani geopoliticians that the worst of all possible worlds is one in which the Soviet Union and the People’s Republic of China have forged an alliance relationship that supersedes their relationships with all other Asian states and obligates the latter to devise policies that treat these two giant powers as a unit. Nothing could be more frustrating and awesome for the states on the southern fringes of Asia, since the sensible policy options available are limited in number and are not deemed reliable over an extended period.

This was, of course, the situation that India and Pakistan faced in the early 1950s, and it had a decisive impact on the foreign and security policies of both governments. “Nonaligned” India’s determined efforts to develop close working relations with the USSR and China are usually interpreted as a response to the threat posed by the U.S.-Pakistan alliance. New Delhi’s efforts to improve and expand relations with both Moscow and Beijing were, however, initiated with some determination in 1952, more than a year before the United States and Pakistan began serious consideration of an alliance relationship. New Delhi understood its limited

abilities to influence the Sino-Soviet relationship on its own, but apparently it sought to offer options to both Beijing and Moscow other than their alliance system.

First, India sought to make China an integral part of the nonaligned Asian (and later Afro-Asian) system then beginning to emerge, with limited ties to both the U.S. and the Soviet blocs. Thus, the definition of the five principles (*panchshila*) of peaceful coexistence between communist and noncommunist states (at that time still an unacceptable concept to the Soviets) in the 1954 Sino-Indian agreement on Tibet, as well as China's inclusion, on India's insistence, in the 1955 Bandung Conference were integral to New Delhi's policy objectives. India sought to enhance China's identification as an *Asian* state and as part of a nonideological Asian international system; it was hoped that the contradictions between that kind of status and China's membership in the Soviet-dominated alliance system would gradually lead Beijing to reduce its ties to the USSR on security issues.

At the same time, however, New Delhi assiduously sought to expand and improve its own relations with Moscow on the hope that the Soviets would eventually conclude that India was a better channel than China for developing contacts with newly independent Asian and African states. Needless to say, New Delhi was delighted with the growing rift in Sino-Soviet relations in the late 1950s, as this division provided India with a whole new range of policy options that had been previously lacking. The "India factor" was at best a minor consideration in the growing estrangement between Moscow and Beijing. It was not, however, from lack of trying on New Delhi's part, but merely that the USSR and China did not require any other country's assistance in this endeavor.

Pakistan's policy in the 1950s took markedly different forms from that of India, of course, but was also strongly influenced by the Sino-Soviet alliance. The debate in Pakistan over a security relationship with the United States was finally resolved in favor of Pakistan's participation in the CENTO and SEATO alliance systems. Here again it was South Asian and Southwest Asian factors—the attractiveness of an alliance relationship with Iran, Iraq, and Turkey—that motivated the Pakistani government. But the sense of helplessness in competing with India for both Chinese and Soviet support under the circumstances prevailing in the mid-1950s was important to Pakistan. What the Pakistanis saw emerging was an India with firm working relations with both the USSR and China, and in this context there appeared to be no real alternative but to opt for membership in the American-sponsored alliance systems then beginning to take shape in both Southeast and Southwest Asia. Thus, several Pakistani leaders who had been rather negative about a security relationship with the United States when this policy option first began to receive serious attention in Pakistan in 1951 had changed their minds by 1954.

Broader Asian political and security developments in the 1960s dramatically changed both Indian and Pakistani perceptions on the policy options available to them. The Sino-Indian border dispute, culminating in a brief border war between the two countries, seriously constricted India's decision-making options as Indian foreign policy became almost exclusively preoccupied with the Chinese "threat" in the

post-1962 period. Nehru stated it quite explicitly and accurately—India was non-aligned with everyone but China. New Delhi turned to both Washington and Moscow for support; and as both the United States and the USSR had separate but supportive “containment of China” policies in South Asia—but not Southeast Asia—India was successful for most of the 1960s in extracting support from both superpowers. In exchange, India sided with the Soviets in the one arena where it could be of assistance to Moscow—that is, in repelling China’s efforts prior to the Cultural Revolution to gain a powerful voice in Afro-Asian forums and to restrict Indian and Soviet influence in these organizations. Similarly, in reacting to the American “containment of China” policy in Southeast Asia, focused on Indochina in the 1960s, New Delhi took a quietly supportive position of the American decision on intervention in Vietnam in 1965, as North Vietnam at that time was seen in India as a projection of Chinese power—a misperception that had changed by 1968–69, when India began to assume a more critical position on the U.S. role in Vietnam.

The 1960s seemed to be a period of expanding opportunities for Pakistan, particularly with respect to the three major external powers. Indeed, by 1961—i.e., before the 1962 Sino-Indian conflict—Pakistan was already beginning to substitute what President Ayub Khan called a “trilateral policy” in place of the security relationship with the United States. The objective of Pakistan’s trilateral policy directed at the United States, the USSR, and China was to elicit the support of these three powers in Pakistan’s dispute with India or at least to neutralize the pro-Indian positions taken earlier by both Moscow and Beijing. For the Pakistan government, trilateralism was projected as a supplement to the security relationship with the United States, but the United States, USSR, and China were obviously not predisposed to view this policy innovation in this way. What occurred in the 1960s, therefore, is that Pakistan became a nonaligned power in fact, if not in form, and adjusted its policies accordingly—e.g., in 1965 taking a “pro-China” position on the Vietnam war that violated Pakistan’s obligations under the SEATO Agreement. Of course, Pakistan continued to insist that the United States abide by its obligations to Pakistan under the 1959 Ankara Agreement (as interpreted by Pakistan) when this was considered necessary, such as in the 1965 and 1971 Indo-Pakistani wars, but Islamabad’s demands for a one-way compliance with the terms of the pact were obviously not persuasive to Washington.

The 1971 “Bangladesh War” marked another turning point in South Asian policies toward external powers. The victorious Indian government concluded that circumstances would now permit the implementation of its old ideal objective to “isolate the subcontinent from outside interference” to a much greater extent than ever before. Indeed, the Indians were so confident and exuberant that when Moscow offered to mediate a 1971 Indo-Pakistan War settlement, as they had after the 1965 war at the Tashkent Conference, New Delhi rejected the offer and stated that any peace agreement would be negotiated on a strictly bilateral basis within South Asia.

The 1971 war had also been an excellent learning experience for Pakistan, with the primary lesson being that no outside power or combination of outside powers was

prepared to render the kind or amount of assistance Pakistan would require in any hostilities with India. Little as it liked the idea, the Pakistan government concluded that there was no practical alternative to bilateral negotiations with India. The consequence was the Simla Agreement of June 1972, which addressed, explicitly or implicitly, most of the major issues disputed between the two countries without any reference to the major external powers or international organizations. In the mid-1970s, Pakistan formally identified itself as part of the Nonaligned Movement (NAM) and was eventually accepted into the movement once New Delhi had concluded that it would be more expedient to deal with Pakistan within the NAM rather than in an ambiguous half-aligned, half-nonaligned status.

Basic perceptions of relevant members of the international community that influenced Pakistan decision making on critical issues in the 1970s can be summarized as follows:

1. Pakistan was in no position to compete with India for Soviet support in any controversy, and thus would normally have to contend with a hostile India on its eastern frontier and a hostile Afghanistan on its northwestern frontier, both the recipients of Soviet support.

2. China was a good friend but lacked both the capability and the strategic interest to provide sufficient political and military assistance to Pakistan in conflicts with either India or the Soviet Union, as its ineffectual, largely verbal support in the 1965 and 1971 wars demonstrated.

3. The United States was seen as unreliable in any crisis situation in South Asia in which a complexity of American interests, globally defined, were involved; in the Pakistani perception, the United States had not upheld its security commitments in the past and there was no sense of assurance that it would do so in the future if this proved "inconvenient" for the Americans elsewhere.

4. The Islamic world was generally supportive of Pakistan in its struggles with neighboring states but had a very limited capacity to provide the kind of assistance Pakistan required during conflicts, even though it was helpful in providing economic assistance in the post-1971 war recovery period.

With the external powers seen as only marginally useful to Pakistan in its perennial disputes with India, a new strategic approach for South Asia seemed unavoidable. By early 1979, the Pakistan government was even considering a substantial expansion in Indo-Pakistani private sector trade—previously rejected as an economic instrument that the Indian could exploit to establish both economic and political dominance over Pakistan. By the end of 1979, however, the Soviet Union had intervened militarily in Afghanistan, and a whole range of more attractive policy options opened up once again for Pakistan.

SOUTH ASIA AND SOVIET AGGRESSION IN AFGHANISTAN

One of the favorite preoccupations of both Western and South Asian specialists on the USSR in the immediate aftermath of the Soviet military intervention in

Afghanistan was speculating about the factors that had motivated this decision by Moscow's ruling elite. A goodly number of such experts concluded that the USSR had been stimulated into action by a concern for a variety of security interests that were threatened by the prospective collapse of the pseudo-Marxist regime in Afghanistan. The Soviet military intervention in this unreal intellectual exercise was thus purely defensive, and the occupation of Afghanistan posed no threat to neighboring states or other countries with interests to protect in Southwest Asia. Another group of analysts immediately reached far more sinister conclusions—namely, that Soviet intervention in Afghanistan was just another step in Moscow's long-term inexorable drive toward a Persian Gulf outlet and a dominant role in the oil-rich areas of Western Asia.

Whatever factors may have persuaded the Soviet government to take such a drastic step in late December 1979 are now incidental to the new geopolitical fact of life in the highly strategic border region connecting South, Southwest, and Central Asia. The Soviets are fixed in place there and may be unwilling to withdraw except in the context of a broad international agreement in which Afghanistan is only one of the principal issues. However divergent their public responses to the Soviet invasion of Afghanistan may be, both India and Pakistan cannot make decisions on any aspect of South Asian policy without making Afghanistan a major factor in their calculations. The Pakistanis do this publicly and effusively in an effort to present their views to both a domestic public audience and a difficult set of foreign powers with diverse interests and objectives on the Afghan issue; the Indians pretend to be comparatively unconcerned with developments in Afghanistan (or at least incapable of influencing the course of events there), but they have recognized how the Soviet presence has seriously disrupted international trends in and around South Asia to India's ultimate disadvantage.

Pakistan identifies itself as the most threatened state in southern Asia and possibly the next object of Soviet destabilization and eventually intervention. According to some political analyses, the Soviet intervention in Afghanistan has strengthened support within Pakistan for President Zia and his martial law government. A number of important developments in Pakistan, both internally and externally, grew out of the Soviet intervention that have subsequently worked to the distinct advantage of President Zia. Some of the more serious political opposition forces, such as Wali Khan's Paktoon-dominated National Democratic Party in the North-West Frontier Province (NWFP) and some sections of Baluchistan, have had to suspend their antiregime—and occasionally anti-Pakistan—activities, as this would be viewed as a betrayal of their kinship groups in Afghanistan that are the core of the resistance movement against the Soviets. On the international front, a number of important external powers have renewed or expanded their economic and military assistance programs to Pakistan in the context of the risks that Islamabad now takes in rendering support to the Afghan resistance (the *mujahidin*) as well as in channeling support into the resistance from a variety of other sources.

In the process, a large number of changes have taken place in Pakistan's position in the critical transition zone between South and Southwest Asia as well as in

its bargaining position with virtually all key participants in power politics in this highly strategic region. Let us summarize these:

The Soviet Union

As the sanctuary for two to three million Afghan refugees who are an important support base for the resistance against the Soviet aggressors as well as a channel of support to the *mujahidin*, one would assume that Soviet-Pakistani relations would have reached the brink of disaster. As yet, however, that is not the case. Moscow has sought to use a combination of carrots and sticks in an effort to induce the Pakistani government to halt the aid that—the Soviets charge—moves through Pakistan to the Afghan resistance movement. In 1985, the emphasis has been on threats. The limit on Soviet capabilities to carry out these threats under existing conditions is understood, but it is also assumed that these limits may no longer apply five or ten years from now. The carrots, both political (acceptance of the Zia regime) and economic (substantial assistance for major Pakistani development projects) are attractive to many Pakistanis who argue that an “accommodation” with the Soviets is a vital Pakistani interest. But the price Pakistan would have to pay for such an accommodation in its strategically important relations with the United States, China, and Islamic states, and possibly even India has been a deterrent to serious consideration of the concept by the Pakistan government. Whether this continues to be the case in the future will depend, of course, on Pakistan’s perceptions of the trend in its relations with these other powers.

The United States

The relationship between Pakistan and the United States has been a study in contrasts over the past three decades, ranging from the excessively warm and close ties developed in the mid-1950s that had evaporated by the mid-1960s to the cold and near-hostile relations that had emerged in 1979 with the termination of U.S. economic and military assistance and, subsequently, the burning of the American Embassy in Islamabad. Since the Soviet intervention in Afghanistan, both the United States and Pakistani governments have made determined efforts to renew the very limited security and economic relationship between the two countries, but on a more pragmatic basis than in the past. There are still major problems in this relationship, and on both sides: some Pakistanis consider the United States unreliable and have no confidence that Washington will not once again, as they perceive it, abandon Pakistan if the cost for support is too expensive or inconvenient. Some Americans, on the other hand, interpret Pakistan’s claims on U.S. assistance as reflecting narrow issue-oriented Pakistani interests rather than broader strategic considerations. Nevertheless, both governments appear determined to retain the present relationship on existing terms. This goal, however, will not be easily accomplished in either country.

China

The Pakistanis have been generally inclined to view the People’s Republic of

China as the most friendly and reliable of the major external powers and rarely if ever publicly question China's determination to do what it can to assist Pakistan during its hours of need. But some Pakistanis have also concluded that there are serious limits to China's capacity to be of help even in Pakistan's disputes with India—and much less so in any direct or indirect confrontation with the Soviet Union. The military and economic assistance that China provides is seen as valuable, and the political role of Beijing in complex negotiations around the Afghanistan issue is even more appreciated. But Pakistani decision making regarding relations with the Soviets and India can never be decided solely on the basis of China's supportive policies. In particular, China's encouragement of a closer relationship between India and Pakistan as necessary in the context of the Afghanistan crisis has been welcomed in both Islamabad and New Delhi.

Pakistan's value to the United States, China, the Islamic states, and even India has risen dramatically since December 1979, and Islamabad has not been slow in devising new policy positions on critical international political, economic, and security issues in order to take advantage of their improved position. Unfortunately, however, there have been both gains and losses for Pakistan. One of the losses has been renewed strains in Indo-Pakistani relations that have set back the conclusion of an agreement on political and economic relations. It is possible, however, that the circumstances under which the dialogue continues between the two governments may result in a better and more viable agreement if and when one is finally concluded.

For India, the 1980–1985 period has been extremely frustrating. The 1970s had moved along for the most part in very satisfactory ways, both in New Delhi's relations within South Asia and with the major external powers. The Soviet Union and the United States had both accepted India's dominant position in the subcontinent and were disinclined to challenge its status in any substantive ways. The process of “normalizing” relations with China began in 1975 and the prospects that the latter's policy in South Asia would be adjusted on terms more acceptable to India appeared reasonably good. After the 1971 Indo-Pakistan War, even the Shah of Iran and the Saudis adopted tacit policy positions that, in effect, recognized India's preeminence in the region—e.g., the Shah's regional economic proposal that included India in contrast to an earlier Iranian proposal that had stopped with Pakistan. And in South Asia itself, all the other regional powers were reluctantly but pragmatically accommodating themselves to the reality of power in the subcontinent.

The Soviet intervention in Afghanistan has modified this situation in significant ways even if the basic power relationship continues. The Soviet Union has violated the fundamental principle of India's regional security policy by its armed invasion of a South Asian state and its armed incursions across the border into Pakistan. New Delhi, determined to maintain its “close and friendly” relationship with the Soviets, has generally maintained a discreet silence on the Afghanistan issue except to call occasionally for a political settlement under which *all* “foreign forces” are withdrawn from that beleaguered country. But the possible implications for India of a continuation of the crisis in the highly strategic area to their west is very disturbing. And,

indeed, the Indian government is not quite sure what would be more of a problem for India—Soviet military and political pressure on Pakistan that could erupt into some form of limited hostilities or a Soviet-Pakistan “accommodation” on Afghanistan and other issues that would have uncertain consequences for everybody. While some Indians refer to such an accommodation as resulting in the “Finlandization” of Pakistan, others who know the situation better use the term “Afghanization.” And that would not be an easy change in status for India to adjust to in its “own” region.

Afghanistan has also reintroduced the United States as a major factor in South Asian international politics, and in ways that most Indians find disturbing. Despite India’s loud protestations about the “arms race” that has resulted supposedly from U.S. high-tech military sales to Pakistan, New Delhi’s strongest and most deeply felt concerns are not with this aspect of the U.S.-Pakistan relationship—which is understood to be too limited to seriously affect the military balance in South Asia—but with the political and security relationship that is emerging. In the Indian view, this development has provided Pakistan with policy options that have effectively counteracted the regional pressures upon Islamabad to seek and accept a settlement with India. The Pakistanis offer India a “no-war” pact that is devoid of virtually any economic or political impact on their relationship, and Islamabad can make this seemingly generous gesture precisely because of its political relationship with the United States. The limitations on the U.S.-Pakistan relationship in all its aspects is becoming more apparent to India and the scope for a renewed dialogue with Pakistan seems more promising.

One of the more curious facets of Indian foreign policy in 1985 is the relatively tolerant attitude taken toward China’s policies in South Asia. This was not the case in the past, of course, since almost everything that happened in the region from 1962–1975 that ran counter to India’s interests was usually described as Chinese (or, since 1971, Sino-American) in origin. This does not mean, of course, that Indian suspicions of China have completely disappeared, but they are certainly much reduced. Now only the most blatantly pro-Soviet publications indulge in anti-Chinese diatribes on a regular basis, and even they act with more restraint than in the past (probably to avoid complicating the normalization of Sino-Soviet relations). China’s policy in South Asia is not seen as favoring India, but Beijing is no longer regularly accused of trying to organize the other South Asian states into an anti-Indian alliance.

Another important factor in India’s perception of China has been the establishment of a continuing dialogue between the two governments through semiannual meetings. A few optimists in India even project the settlement of the Sino-Indian border dispute on reasonable and honorable terms, though this still seems problematic. One major factor contributing to a boundary settlement is that China has largely disappeared as a contentious issue in Indian politics. Any Indian government in a reasonably firm position internally could sign a border agreement with China that was not based on India’s maximum terms without eliciting much political protest from anyone but the small and noisy pro-Soviet communist parties and cliques.

Thus, while the major external powers are reinolved in South Asia at a level

that has not been evident since the mid-1960s, it may be that their impact on South Asian developments is less than at any time in the past. Both India and Pakistan have learned from bitter experiences in the past that to invite in extraregional intervention can, over time, have as many negative as positive results. There is another option—to expand the scope of cooperation with each other. And while there are many deeply felt psychological and emotional—as well as practical—obstacles to an Indo-Pakistani cooperative relationship, the alternatives no longer appear nearly as attractive as they once did. The outside powers are still vitally important to the South Asian states, including India and Pakistan, but there is a firm sense of determination in both countries to have their relationships with these powerful states serve South Asian needs and purposes to the greatest extent possible.

Since 1980, there have been major changes in both Pakistan and India in their previously negative attitude toward a South Asian regional system. In Pakistan, a broad segment of elite opinion has concluded that there can be no security for the country, even with the present external sources of support, without a broad-based agreement on regional security and political issues with *either* India or the USSR. The “accommodation with the Soviets” groups argue that Pakistan can come to terms with Moscow on the Afghanistan question without having to make major concessions to India. The larger and politically more powerful elite groups that argue for an agreement with India find this alternative much more attractive, primarily because it would not complicate Pakistan’s relations with the United States, China, and the Islamic states as would an accommodation with Moscow.

For their part, a major proportion of the Indian foreign policy establishment have concluded that: (1) Indo-Pakistani hostility has provided external powers with opportunities for intervention in South Asia, often to India’s disadvantage; and (2) the integrity and security of Pakistan is of vital interest to India. Thus, the major differences between India and Pakistan in 1985 do not concern the utility of an effective South Asian regional system but over the operating principles of such a system. These differences are important and not easily resolved. But it is, in substantive terms, a considerable improvement over any previous period in the Indo-Pakistani relationship since 1947.

17. Sino-American Relations: Political and Strategic Considerations

Lowell Dittmer

Since the accession of the Chinese Communist regime in 1949, Sino-American relations have been characterized by an ambivalence consisting by turns of bitter aversion and fascinated attraction.¹ Most bilateral relationships in which the United States has been engaged may be categorized much more simply as friend or foe; in no other case in the postwar era has such a relationship run the gamut all the way from undeclared war to undeclared alliance. Thus Sino-American relations are intrinsically problematic. The first question is: What is the essential nature of the relationship? Historically, the problematic character of this question could be traced to the vicissitudes of the relationship. Since “normalization” in 1979, even though the relationship has stabilized considerably, it also seems to have become more ambiguous. The second question is: Given its record of mutability, is there any rational way of anticipating future changes in the relationship? Can political analysts find anything like a “price/earnings ratio” to calculate the intrinsic value and future prospects of the Sino-American relationship?

This study consists of two sections. The first provides a historical overview of the evolution of Sino-American relations from Liberation to the most recent postnormalization period. The second attempts to characterize and evaluate the relationship as it now stands.

THE HISTORICAL DIALECTIC OF SINO-AMERICAN RELATIONS, 1949–1984

The three decades from Liberation to normalization may be divided into two subperiods: a long period of ideologically based antagonism (1949–1971), followed

¹ I wish to thank Professors David Bachman of Princeton University, Avery Goldstein of the University of Pennsylvania, and Wang Jisi of Beijing University for their helpful comments and criticisms on an earlier version of this paper.

by a somewhat briefer period of friendship. These two subperiods are divided by the 1972 Nixon visit, a watershed that the U.S. president correctly characterized at the time as “a week that changed the world.” Each subperiod may of course be further subdivided into distinguishable phases.

The Period of Ideological Antagonism

On June 30, 1949, three months before the establishment of the People’s Republic, Mao enunciated the “lean to one side” policy of alliance with the Soviet Union. “Internationally, we belong to the side of the anti-imperialist front headed by the Soviet Union,” he declared, “and so we can turn only to this side for genuine and friendly help, not to the side of the imperialist front.”² In December 1949, he traveled to Moscow and, two months later, forged a formal alliance with Stalin. Thus he clearly placed China on the socialist side of what Zhdanov and Stalin (and Dulles) had characterized as a “two camps” polarization of the international system.

The Sino-Soviet alliance created a geopolitically imposing land mass that dominated the “heartland” of the Eurasian “world-island,” which was for the time being, however, strategically vulnerable (largely because of the advent of nuclear weapons) and essentially landlocked, hence “containable” by the commercially lively capitalist nations on its periphery who dominated the sea lanes. In view of the strategic importance of China’s defection to the “communist bloc,” the issue has periodically been reopened of whether the domestic victory of communism necessarily implied a corresponding international polarization.³ That such a linkage was by no means inevitable is demonstrated by the wartime collaboration of communist and capitalist powers against the Axis, and it is conceivable that China saw no necessary contradiction between friendship with the United States and close alliance with the Soviet Union because of this precedent. But once the Soviet-American polarization emerged at the end of the 1940s, the Chinese saw noncommunist international options cut off by the emerging Iron Curtain/containment barriers. It is true that the Chinese Communist Party leadership made overtures to Washington while the international system was still in transition, but whether these advances offered any real prospect for turning the flank of the Soviet Union seems doubtful.

What is usually neglected in discussions of the plausibility of a liaison between “Red China” and the United States is some realistic consideration of the options open to Washington. As an established order based (*inter al.*) on principles of “possessive individualism,” it seems safe to say that the United States harbors an innate suspicion of communism and has in fact never managed to preserve friendly relations with a socialist country while the latter undertakes “socialization of the means of production.” That process typically involves expropriation of private capital (including

² Mao Zedong, *Selected Works* (Beijing: Foreign Languages Press, 1967 ed.), vol. 4, p. 47.

³ Two recent such “revisionist” interpretations of this period are James Reardon-Anderson, *Yenan and the Great Powers* (New York: Columbia University Press, 1980), and Kenneth Chern, *Dilemma in China: America’s Policy Debate, 1945* (Hamden, Conn.: Shoe String Press, 1980).

overseas investments) and persecution of “imperialist agents,” actions usually interpreted by the capitalist press as officially condoned terrorism and mob violence.⁴

During the 1950s, as China began exploring possibilities beyond the Bloc in the wake of the Bandung Conference and *Pancasila* (the five principles of peaceful coexistence, proclaimed June 28, 1954), Mao began implicitly to modify the “two camps” theory by cooperating with the group of developing countries that sought to dissociate itself from either bloc. While allowing for the possibility of nonalignment, this did not yet alter China’s position as a subordinate member of the socialist “camp,” whose autonomous decision-making power was for this reason frequently discounted. Washington discounted the new socialist country implicitly, assuming for example that the Chinese counterthrust into South Korea in the fall of 1950 had been decided by Moscow. Moscow also discounted it, taking advantage, for example, of the sudden Soviet technological breakthrough at the end of the 1950s (Sputnik, the ICBM) to make an apparent bid for Sino-American condominium rather than using it to support the Chinese in their bid for national unification. Thus the Sino-Soviet solidarity upon which the “two camps” polarization of the world had been premised gradually began to dissolve. This breakup first appeared in the form of ideological disagreements, finally manifesting itself in territorial disputes and then military clashes. In an interesting case of ideological lag, however, the “two camps” theory survived this disintegration in both relevant “camps” for more than a decade. The Chinese and the Russians still believed in the existence of a socialist bloc that subsumed their own national interest even as they competed to define its direction.

Toward the two superpowers, China in effect pursued a “dual adversary” policy. Though this seemed, in view of the imbalance of power, an extremely bold policy, its risks were nullified by the rivalry between the two superpowers. Opting to pursue a policy of support for nationalist movements in the Third World, instead of strict camp alignment, China found itself frustrated by an unresolved contradiction between its support, on one hand, for incumbent nationalist regimes and, on the other, for insurgent mass movements led by local communist parties. Washington did not seriously attempt to woo China into a closer relationship with the United States, assuming from Chinese rhetorical and token materiel support for national liberation wars that any such overtures would be spurned—an assumption that was probably correct. Nor did the Soviet Union offer concessions to propitiate the Chinese.

From any realistic point of view, Chinese foreign policy during the late Maoist period of the 1960s and 1970s could not be considered very successful. Whereas spurning both superpowers could be dismissed as harmless bravado given the inability of the latter to collude against her, China also deprived herself of the possible benefits that alignment might have procured. That incoherent assemblage known as the Third World could offer neither security nor developmental aid, and although it would not have been irrational to try to blackmail bourgeois nationalist governments

⁴ See, for example, the treatment of such incidents as the arrest and expulsion of American consular officials from Mukden in 1948, or the seizure of Economic Cooperation Administration stocks in 1949.

with the threat of support for local communist movements, too few of the latter prevailed to make the threat very credible, while rhetorical support for them tended to alienate rather than persuade the governments. Yet I would contend that it was precisely during this objectively unsuccessful period that, paradoxically enough, Chinese foreign policy prestige and influence blossomed. Although China lacked the technological capability for strategic outreach, she more than compensated for this rhetorically as “Mao Zedong Thought” became associated (rightly or wrongly) with guerrilla movements from Algeria to the Philippines. Heaven-storming defiance aroused the resentment of both superpowers but at the same time seemed to earn their covert esteem by demonstrating an unusual capability to act boldly and independently. It was at this time that the foundation was laid for the estimate of China as one of the world’s major strategic actors.

The fiction of a socialist “camp” from which one of the constituent parties had unfortunately deviated was maintained until friction over mutual aid to Vietnam prompted Mao in 1966 to deny its existence. Relations deteriorated during the Cultural Revolution and finally erupted in violence upon its apparent conclusion. On March 2, 1969, Soviet and Chinese forces first clashed at Damansky (Chen Bao) on the Ussuri River along the Manchurian border, marking the onset of a six-month crisis. Subsequent clashes occurred along the Manchurian border on March 14, May 12–15, 25, and 28, and in the west along the Xinjiang border on April 16, 25, May 2, 20, June 10, and August 13. As the Soviets reinforced their presence along the border between Inner and Outer Mongolia, a heightening of tension was also evident there. At roughly the same time, the Tet offensive brought about a major increase in American troop strength (549,500 authorized) in South Vietnam, raising the possibility of simultaneous confrontation along both northern and southern fronts. At this point the dispute became internationalized as the Soviets engaged in diplomatic activities aimed at the formation of an Asian collective security pact and the Chinese initiated a round of “banquet diplomacy” designed to attract potential supporters in the Third World.

The Period of Realpolitik Entente

It was under these parlous circumstances, when an overture from either side might be assured of serious Chinese consideration, that the United States made the first steps toward rapprochement. Soon after arriving in office the Nixon administration signaled its desire to move toward a negotiated settlement in Vietnam under terms that the Chinese apparently considered acceptable (in their public rhetoric the Chinese continued to support struggle for national unification; in 1955 at Geneva, however, they had endorsed division of the country, and by their actions they now signaled their acquiescence in American withdrawal under that *de facto* arrangement). This would be only the beginning of a projected overall reduction of the American presence in the Pacific, as the President indicated in a press conference on Guam (July 25, 1969) and in a more formal declaration made on November 3, 1969, soon to be known as the

“Nixon Doctrine.”⁵ The United States would adhere to its security commitments and not withdraw its nuclear umbrella, but internal security in East Asia would henceforth be handled by the Asian nations themselves.

Although according to one account the Chinese leadership would have been receptive at this time to the possibility of rapprochement with the Soviet Union,⁶ the Soviet leadership was not inclined to make concessions. In a seemingly expansive mood following their successful repression of the Czech experiment in liberalization, which produced only minimal international repercussions, the Soviet leadership proceeded to generalize the Brezhnev Doctrine to analogous cases. Either as a bluff or a serious trial balloon, Moscow leaked the rumor that they were considering a preemptive attack on Chinese nuclear facilities.⁷ In a September 16 article for the *London Evening News* entitled “Will Russian Rockets Czechmate [*sic*] China?” Victor Louis wrote that Soviet rockets were quite ready to destroy China’s nuclear center at Lop Nor. Suggesting that clandestine contacts with Lin Biao may have already been underway, he noted that anti-Maoist forces were emerging in China and “could produce a leader who would ask other socialist countries for fraternal help.” In apparent response to such signals, President Nixon stated in the fall of 1969 that the United States “shall provide a shield if a nuclear power threatens the freedom of a nation allied with us *or of a nation whose survival we consider vital to our security*” [emphasis added].⁸ During 1969, Chinese aid to North Vietnam correspondingly dwindled. As Nixon noted in a July press conference: “Three years ago, Red China was furnishing over 50 percent of the military equipment, the hardware, for the North Vietnamese. Now it is approximately 80-20 the other way around.”⁹ (The Vietnamese claim that China cut its aid in 1968–70 by 20 percent; the discrepancy is presumably accounted for by a disproportionate increase in Soviet aid.) By September, China had completed the withdrawal from Vietnam of her “service forces” numbering 40,000 to 50,000 for deployment northward.¹⁰ Moreover, China began to delay and then to reduce the volume of Soviet railway traffic across Chinese territory into Vietnam.

While the reasons for Sino-American rapprochement were, from the American perspective, fairly complex—consisting of a desire to facilitate withdrawal from Vietnam, to take advantage of the Sino-Soviet dispute to bring mainland China into play as an implicit counterweight to the Soviet Union, perhaps even to enhance Nixon’s reelection prospects—from the Chinese perspective they were utterly sim-

⁵ *Background Information Relating to Southeast Asia and Vietnam*, U.S. Senate Committee on Foreign Relations, June 1970 (Washington, D.C., 1970), p. 326.

⁶ John Garver, *China’s Decision for Rapprochement with the United States, 1968–1971* (Boulder, Colo.: Westview Press, 1982).

⁷ See Coral Bell, *The Diplomacy of Détente: The Kissinger Era* (New York: St. Martin’s Press, 1977), pp. 15–16; also see Marvin and Bernard Kalb, *Kissinger* (New York: Dell, 1975), pp. 259–260.

⁸ *Background on Vietnam*, p. 326. In this section, I rely quite heavily on Richard C. Thornton, “Strategic Change and the U.S. Foreign Policy: Perceptions of the Sino-Soviet Conflict” (unpublished paper presented to the Professors’ World Peace Academy Conference on Triangular Relations of United States, China, and the Soviet Union, Marina del Rey, Calif., February 15–17, 1985).

⁹ *Background on Vietnam*, pp. 319–320.

¹⁰ *New York Times*, September 3, 1969.

ple: to deter the Soviet threat. “Better two against one than one against one,” as Mao reportedly quipped in explaining the move. And although Soviet border fortifications proceeded apace,¹¹ and Moscow assiduously cultivated relations with Hanoi and New Delhi (even initiating contact with Taiwan) in an effort to weave a noose of friendship treaties and bases around China’s periphery, there was apparently no further consideration of a preemptive nuclear strike against China.

From 1972 until about 1978, Sino-American relations were conducted within the international strategic context of a “romantic triangle” consisting of the Soviet Union, China, and the United States.¹² Washington occupied the pivotal position in this triangle, cultivating better bilateral relations with each “wing” player than either had with the other.¹³ The inherent dynamic of any such triangular relationship is provided by suspicion, but the pivot can utilize its vantage point in relative proximity to both wings to minimize its own uncertainty while profitably manipulating the corresponding uncertainty of the two wings. Washington was thus able to reap concessions that would probably not have otherwise been forthcoming. From the Soviet Union the Americans gained agreement on SALT I and SALT II and a raft of other détente treaties. From China the United States gained leeway to draw down forces along the Asian rimland (only a one-front war was now deemed likely, whereas the Soviets suddenly had to contemplate the prospect of a two-front war), and perhaps some marginal assistance in disengaging from Vietnam (at the expense of future Sino-Vietnamese relations). The Pacific Basin as a whole experienced vigorous economic growth in the wake of this settlement. In 1981, American trans-Pacific trade (and emigration) surpassed trans-Atlantic traffic for the first time. American trade with East Asia and Oceania increased from \$52 billion in 1976 to nearly \$114 billion in 1980, an increase of more than 100 percent within only four years.

Although reform is generally considered a post-Mao phenomenon, the opening to the West was to mark the first step in the deradicalization of Chinese politics. Its implications discredited the notion that foreign policy could be extrapolated from the “relations of production” in any straightforward, predictable manner, or that socialism necessarily implied international solidarity. This deradicalization was eventually formulated in Mao’s theory of “Three Worlds,” which ironically had its debut under

¹¹ The Soviet military buildup in Asia has gone through two phases. The first began shortly after Khrushchev’s purge, when the new Brezhnev leadership began to increase Soviet ground forces deployed against China from a little more than twelve divisions in 1965 to more than forty a decade later. The second stage was initiated publicly in late March 1978 when Brezhnev toured industrial and military facilities in the Soviet Far East with Defense Minister Ustinov. Following that trip, a series of military developments oriented toward neutralizing U.S. forces in Asia proceeded. A new generation of mobile IRBMs was deployed in the Siberian and Transbaikalian Military Districts—the SS-20s and the “Backfire” bomber—which could threaten all of China as well as American bases in Japan and the Philippines. Attention was given to construction of the second major land supply route to Soviet Asia, the Baikal-Amur Mainland (BAM) railway. Concurrently, the Soviet Pacific Fleet was provided with significant new assets for antisubmarine warfare and force projection—notably, the 1979 deployment of the carrier *Minsk* and the amphibious assault ship *Ivan Rogov*. See Richard Solomon, “East Asia and the Great Power Coalition” (Santa Monica, Calif.: Rand Paper no. 6733, February 1982).

¹² See my article, “The Strategic Triangle: An Elementary Game-Theoretical Analysis,” *World Politics* 33:4 (July 1981), pp. 485–516.

¹³ Henry Kissinger, *White House Years* (Boston: Little, Brown, 1979), p. 165.

the auspices of Deng Xiaoping in a major speech to the Sixth Special Session of the United Nations General Assembly in April 1974. The Three Worlds consisted of a "First World" of superpowers, who occupied an inimical position at the top of the international class structure analogous to the domestic bourgeoisie; a Second World of developed nonsuperpowers, consisting of the developed capitalist states in Japan and Western Europe, who occupied an ambiguous status analogous to the domestic national and petty bourgeoisie; and a Third World of less developed countries, analogous to the domestic proletariat, among whom China ranked herself. This unorthodox and innovative application of Marxist class categories to the international system, officially reaffirmed in the *Resolution on Party History* approved by the Sixth Plenum of the Eleventh Central Committee in June 1981, placed the mother of socialism among the "international bourgeoisie" whose "hegemonial" ambitions posed a grave threat to world peace.

Yet China conceived a conflict of interest analogous to a class contradiction between the First and Third Worlds. Sino-American relations were accordingly characterized by mutual caution during this period. Perceiving a sense of class solidarity with the third rather than the first or second worlds, the People's Republic remained hesitant about broadening contacts beyond the level deemed necessary to ensure Chinese inclusion under the American security umbrella. Cultural contacts were limited by fears of ideological contamination (as Antonioni would discover), and trade expanded in stop-and-go fashion corresponding to the vicissitudes of a succession of late Maoist mass movements. The reciprocal wariness that characterized this period derived perhaps partly from the consciousness of a continuing ideological contradiction, partly from the fact that Soviet-American détente was still being pursued simultaneously, which made the Chinese deeply suspicious. There was also an underlying incongruence about the purpose of a Sino-American rapprochement: for both, it was essentially oriented toward the Soviet Union, but China seemed more interested in using the relationship to censure Soviet hegemonism, while the United States hoped to use the relationship to promote more conciliatory Soviet behavior.

Normalization

In 1976, new leaderships acceded to power in both China and the United States. Partly because of this, and partly because of a change of course in Soviet foreign policy, the nature of the relationship changed perceptibly. From National Security Advisor Zbigniew Brzezinski's visit in the spring of 1978 through 1979, Sino-American relations rapidly improved while Soviet-American relations deteriorated correlatively; the relationship among the three powers shifted from a "romantic triangle" in which Washington played pivot to a Sino-American "marriage" ostracizing a Soviet "pariah." Although all three actors shared responsibility for this fateful shift, the Soviet Union incurred the lion's share.

In Washington, the rise of Jimmy Carter ended the brief period of Kissingerian ideological agnosticism with a strong rhetorical emphasis on "human rights," placing

both communist participants in the triangle on the ideological defensive. Probably more profound in its impact, however, was the policy vacillation that characterized the Carter foreign policy, swinging unpredictably from Brzezinski's anticommunist animus to the irenic liberalism of Cyrus Vance. Both China and the Soviet Union seem to have equated vacillation with weakness, though they reacted to it in different ways.

In Moscow, the reaction seems to have been to take advantage of perceived American weakness to launch a series of bold initiatives in the Third World. Until the mid-1970s, Soviet caution had given the advantage to the vigorous rhetoric of late Maoism in the wooing of Third World support. Now the Soviets demonstrated a newly acquired capability for international power projection, beginning in 1975 in Angola, moving to Ethiopia in early 1978, South Yemen in October 1979, incorporating Vietnam into COMECON (the Council of Mutual Economic Cooperation) (and apparently endorsing Vietnamese annexation of Cambodia), and finally invading Afghanistan, in the first deployment of Soviet troops outside the Soviet bloc since World War II. Whereas the Chinese had previously been able to compensate rhetorically for their lack of global outreach capabilities, the repudiation of late Maoism conducted by the Deng Xiaoping group in their effort to tarnish the escutcheon of Hua Guofeng now tended to alienate Western Maoists and undermine the idealistic image of new China in the Third World. Even China's staunchest African allies before 1975, Mozambique and Tanzania, became supporters of Soviet African policies.¹⁴

In China, the third rise of Deng Xiaoping on a wave of popular revulsion against the excesses of the Cultural Revolution propelled the new regime further to the right than it had perhaps initially intended. In domestic politics, this took the form of cultural liberalization and unprecedentedly open experimentation with Western ideas, leading to an ambitious set of economic and political reforms. In foreign policy, it resulted in a visceral anti-Soviet posture and attempts to construct an international united front against Soviet hegemonism. This international thrust involved a spate of unprincipled coalition building with anticommunist political actors, including Chile's Pinochet, the Greek junta, and conservative or Christian Democratic parties throughout the North Atlantic and Latin American regions. In the peace treaty that was signed with Japan in August 1978, China insisted on inserting an "anti-hegemony" clause; to the natural consternation of the Soviets, the same clause was to appear in the documents announcing normalization of Sino-American relations (signed in early 1979).

The Chinese seem to have accelerated normalization negotiations to bring them to a speedy conclusion before scheduled completion of Soviet-American negotiations on SALT II, thereby stealing the show from Brezhnev and prompting postponement (and eventual cancelation) of his triumphal signing visit. This tactic also complicated congressional ratification of the treaty by making clear that alternatives were available—though it was true that the more serious complication was created by the invasion of Afghanistan. During his visit to the United States to sign the normaliza-

¹⁴ See C. G. Jacobsen, *Sino-Soviet Relations Since Mao* (New York: Praeger, 1981).

tion agreement, Deng Xiaoping publicly called for China, the United States, Japan, and Western Europe to “further develop the relationship in a meaningful way” and “to unite” in order to “place curbs on the polar bear.”¹⁵ As the subsequent memoirs of Carter administration officials make clear, he also emphasized that China could not accept Vietnam’s “brazen interference” in Kampuchea, that she aimed to “teach a lesson” to Vietnam. The fact that China invaded Vietnam promptly upon his return despite the equivocal American response to his proposal, as well as the fact that the USSR responded with such caution, suggests that China was “playing the American card.”

The Americans were initially reluctant participants in China’s united front against hegemonism, as they still had some interest in pursuing arms control negotiations and otherwise trying to rekindle the dying embers of détente. After the Soviet invasion of Afghanistan in December 1979, however, ratification of SALT II became a dead letter and détente fell into disrepute as the Americans came to adopt the more anti-Soviet Chinese reading of the posture of their relationship. Even though both sides steered clear of formal alliance, they agreed to pursue “parallel interests,” coordinating their efforts through a series of strategic consultations and high-level visits. Based on the argument that the Chinese had after all turned to the United States for protection against the USSR, without which the relationship might prove functionally unsatisfactory to them, offers of American arms aid to China gradually escalated, particularly after the visit of Vice President Mondale to China in August of 1979. In early 1980, the United States agreed to export “dual use” (i.e., both civilian and military) technology, and then, after issuance of Special Directive 81 in March, thirty types of military-related technologies and “nonlethal” military equipment were made available for sale. Finally, in June 1981, during the visit of Secretary of State Haig to Beijing, the United States agreed to consider the sale of specific categories of lethal weapons, perhaps hoping to purchase Chinese acquiescence in continued sales to Taiwan. All efforts at “even-handedness” toward the two communist states were abandoned as the administration began granting China special concessions denied the Soviets, including most-favored nation treatment for Chinese imports, Export-Import Bank credits (up to \$2 billion through the mid-1980s), Overseas Private Investment Corporation Insurance coverage for American investors in China, and so forth. The United States and the People’s Republic signed a trade agreement on July 7, 1979 calling for \$8–10 billion in trade through 1985. In late 1980, two electronic intelligence-gathering stations were installed by the United States in Xinjiang, near the Soviet border, to replace facilities lost during the Islamic revolution in Iran—perhaps giving China an implicit veto over SALT accords by making verification dependent on Chinese collaboration. During his 1981 visit, Haig promised to seek amendments to existing laws that would remove China from the trade restrictions placed upon members of the communist bloc, and indeed by 1981 China had graduated from Category Y to Category P, moving to the category of “friendly and

¹⁵ *Time*, February 5, 1979, p. 34.

nonallied” nations such as Yugoslavia and India in June 1983 (following Secretary of Commerce Baldrige’s visit the previous month).

And yet the most recent period, from 1981 to 1985, has witnessed a perceptible cooling of the Sino-American relationship, coinciding with a Sino-Soviet thaw. Beginning in October 1981, China once again described the United States as hegemonistic, in a revival of Mao’s “Three Worlds” theory; in December 1981, it was branded imperialist. China quietly dropped its 1979–80 emphasis on development of a “long-term strategic relationship” with the United States at the centerpiece of an international united front. The greatest threat to world peace no longer derived solely from the Soviet Union, but from the risk emanating from hegemonistic competition between the two superpowers, various Chinese representatives explained in their trips abroad.¹⁶ At the same time, this contradiction assured the inexorable decline of the superpowers and the corresponding rise of the Third World, in a sort of internationalization of the “capitalist collapse” model (*Zusammenbruchstheorie*).¹⁷

In September 1979, the first indication appeared, in an academic journal published in Heilongjiang, that the Soviet Union could once again be considered a “socialist” country. Though this issue was hastily withdrawn from circulation, continued hints to this effect continued to circulate until December 1984, when Peng Zhen officially adopted this line during the Arkhipov visit to Beijing. In the fall of 1979, China agreed to participate, without preconditions, in “normalization” talks with the Russians. The first round took place in Moscow between September and November 1979; both sides agreed to a second round in early 1980, but this meeting was postponed until late 1982 in the wake of the Afghanistan invasion. The Soviet Union reportedly proposed a nonaggression treaty and mutual troop pullback, to which China responded that no such agreement was possible so long as Soviet forces threatened Chinese security in Kampuchea, Afghanistan, and Outer Mongolia; the Soviets refused to discuss this problem on the grounds that it involved “sovereign third parties.” Yet both sides have toned down their polemics, even embracing each other as “comrades” during the funeral ceremonies for Chernenko. Bilateral trade has risen from a low point of US\$150 million in 1981 to US\$300 million in 1982 to an estimated US\$800 million in 1983 and US\$1.2 billion in 1984 (a record level over the past twenty years), in 1980 constant dollars.¹⁸ Bilateral trade could be further

¹⁶ For example, Premier Zhao Ziyang took this position during his visit to North Korea in December 1981, as did Foreign Minister Huang Hua during his visit to Nigeria and Ghana in November.

¹⁷ Thus Chinese social scientists pointed out that the combined GNP of the superpowers as a percentage of world GNP declined from 39.9 percent in 1970 to 34.2 percent in 1980 and is projected to fall to 30 percent by 1990. By contrast, the combined GNP of Western Europe, Japan, and the Third World as a percentage of world GNP rose from 47.3 percent in 1970 to 53.5 percent in 1980 and is projected to rise to 57 percent by 1990. Most of this growth is, however, accounted for by expansion in the Second rather than the Third World. Xing Shugang, Li Yunhua, and Liu Yingna, “Soviet-U.S. Balance of Power and Its Impact on the International Situation in the 1980s,” *Guoji wenti yanjiu* [Journal of International Affairs], no. 1 (1983), p. 31. The authors derive these figures from a Western source for which they give no specific reference.

¹⁸ *Far Eastern Economic Review*, April 25, 1983, p. 26, and March 24, 1983, p. 80; *Christian Science Monitor*, March 12, 1984, p. 23.

expanded without the risks of "spiritual pollution" that attend trade with capitalist countries. Whether Sino-Soviet trade is complementary remains a moot point, but there would probably be a market for textiles (which has been saturated in the West), and China could benefit from the adequate, less expensive, and more labor-intensive machinery of the socialist countries, particularly in those plants originally built with Soviet assistance.

There are a number of possible reasons for this latest shift in the Sino-American relationship, which may certainly not yet be likened to the Sino-Soviet alliance of the 1950s. One of these, of course, is the issue of Taiwan, which China suddenly raised to high priority early in President Reagan's first term, partly in response to Reagan's ill-considered campaign promise to upgrade Taiwanese-American relations and partly to preempt the prospect of "Taiwanization" following the demise of the mainland refugee generation there. Although U.S. arms sales to Taiwan did not in fact increase during the first Reagan term over the very high levels set in the last years of the Carter presidency (if inflation is taken into account), the Chinese were dismayed by the fact that they did not decrease, as the normalization agreements had led them to expect. Second, as the Reagan administration dramatically departed from the relatively pro-Third World policies of its predecessor, the People's Republic found its American connection increasingly incompatible with its interest in sustaining a strong position in the Third World. At the September 1979 summit of nonaligned states in Havana, only Pakistan rose to China's defense in the face of Castro's assaults upon the United States and China as the two "archenemies" of the Third World.

Third, in terms of the logic of the triangle, bilateral relations between any two actors are a function of the relations between those two and the third. As the Reagan administration shifted rhetorically to an even more anti-Soviet stance than its predecessor, the fear of Soviet-American collusion that had informed the Chinese opening to the United States could safely be dismissed. The fear of Soviet preemptive attack also dissipated somewhat as the USSR became bogged down in Afghanistan and the Soviet economy lost its dynamism, and as Soviet defense efforts were forced to reorient themselves to the suddenly vigorous challenge of American remilitarization. Displeased by American tendencies to discount their strategic maneuverability on the assumption that the Chinese had nowhere to go, the leadership must have seen little cost and certain advantages in an opening to the east.

Perhaps the most important factor in China's shift to a more independent stance is that the tentative, preliminary attempts at strategic coordination proved so disappointing to both sides.¹⁹ To all appearances, China and the United States began informally coordinating strategies in 1976. Discussions of Chinese purchases of advanced Western military weaponry offered the pretext for a great deal of Chinese "window shopping" without bearing immediate fruit in weapons purchases. This might be attributed to American secrecy mongering or to Chinese objections to continuing arms sales to Taiwan, except for the fact that the Chinese also made no

¹⁹ See Jonathan D. Pollack, "The Lessons of Coalition Politics: Sino-American Security Relations," (Santa Monica, Calif.: Rand Monograph R-3133-AF, February 1984).

purchases from Western European arms merchants, where such problems do not apply (i.e., the British had contracted to sell the “Sea Dart” surface-to-surface missile for use on Chinese destroyers, and France was eager to sell the advanced Mirage 2000).²⁰ Advanced Western weaponry was apparently deemed too expensive for a nation determined to give military modernization low budgetary priority.

From the Chinese perspective, the initial opening to the United States had positive deterrent effects, both in terms of relatively explicit assurances of support and in terms of the Soviet response. But the American response to their punitive war against Vietnam was probably deemed less satisfactory. Deng might have assumed Washington to share Beijing’s interest in assuring the independence of Kampuchea, but if so he must have been disappointed by the American response. Washington’s considered reply was that the United States would extend diplomatic support for China but would take no action to deter the USSR should the latter come to the aid of Vietnam. Accordingly, Washington promptly called for “two withdrawals,” seeking to spread the onus from Beijing to Hanoi. An American spokesman made clear, however, that a Soviet strike on China’s northern border “would not be of direct concern to the United States.”²¹ Beijing must have heard echoes here of the feckless Soviet response to American threats in the 1958 Taiwan Straits crisis.

From the American perspective, Vietnam must have also illustrated the limits of reliance on strategic concertment, but for different reasons. First, the Americans were much more queasy about supporting the Khmer Rouge for moral reasons; thus, although the Americans were willing to commit themselves if Vietnam should attack across the Chinese border, they were not willing to support a Chinese attack across the Vietnamese border in a morally indefensible enterprise. Second, from a purely pragmatic point of view, the war sustained the credibility of China’s will at the expense of some damage to China’s reputation for overwhelming military superiority over tributary states. The Chinese apparently mobilized 500,000 troops and some 800 aircraft, absorbing losses of 28,000 killed and 43,000 wounded in less than a month, while inflicting perhaps three times that number of casualties against Vietnam. They probably achieved their geographical objectives, capturing five provincial capitals within a zone 50 kilometers deep at its farthest penetration.

Although the invasion made an indelible political impression on Vietnam, the putative Chinese objective of inflicting a punishing defeat or forcing the withdrawal of Vietnamese troops from Kampuchea was not achieved. Within a year, when Soviet troops invaded Afghanistan, strategic coordination with the Chinese proved to be even more useless, eliciting only token arms deliveries to the freedom fighters.

The Afghanistan invasion revealed another implication of strategic Sino-U.S. cooperation that must have been dismaying to both parties: its impact on Soviet behavior. Instead of becoming hamstrung, the Soviets tended to lash out or to redouble their arms investments, in preparation for possible confrontation with both

²⁰ See William Tow, “Arms Sales to China,” in Gerald Segal and William T. Tow, eds., *Chinese Defense Policy* (London: Macmillan, 1984), pp. 149–167.

²¹ *Christian Science Monitor*, February 29, 1979.

adversaries. China's disciplinary efforts simply pushed the Vietnamese into the arms of the Soviets. China cut off aid to Hanoi on July 3, 1978, having already withdrawn advisers; Vietnam responded by joining COMECON and signing a friendship treaty with the USSR. As Sino-Vietnamese tensions escalated, the Soviet Union made Vietnam its leading aid recipient after Cuba (for the 1979–1982 period, for example, Hanoi received about US\$3 billion in Soviet and Eastern European assistance) and undertook a major buildup of its Pacific Fleet, utilizing Cam-Ranh port facilities to anchor about two dozen ships. In 1979 the V/STOL carrier *Minsk* was dispatched posthaste to the Pacific in response to the Chinese invasion, and TU-142/Bear-D aircraft were deployed to the airfield at Da Nang, where they maintained surveillance of the Chinese coast and the South China Sea. By 1984, the Pacific Fleet had become the largest of Moscow's four fleets, thereby exposing the 60 percent of the Chinese population that lives within range of a possible hit-and-run strike from cruise missiles fired from offshore ships.²² The Far Eastern Military Region was given priority in the early delivery of the mobile SS-20 IRBMs (135 of which had been deployed by early 1984) and in the deployment of the latest combat aircraft, including MiG 23s and 27s (by 1981, Soviet air strength in the region was estimated at nearly 2,500, or about a quarter of the Soviet air force).²³

The Americans could perhaps afford to compete in such an arms race, but the Chinese saw the better part of valor in attempting to modulate tensions. Defense expenditures consumed 17.5 percent of China's budget in 1979 and 15.6 percent in 1981 (i.e., even after termination of the "pedagogic war"); if an amelioration of Sino-Soviet relations permitted further reductions, these funds could be spent more profitably elsewhere.

AN INTERIM RECKONING OF ACCOUNTS

In answer to the questions posed in the introduction, I propose a functional explanation: the function of the Sino-American relationship consists of the advantages it offers its participants. If disadvantages come to outweigh advantages, a deterioration of the relationship can be predicted. Advantages must also be reciprocal (for a friendly relationship), though they need not be symmetrical. Two categories of advantages/disadvantages may be distinguished: intrinsic and extrinsic. Intrinsic advantages accrue from the intrinsic nature and resources of the two participants; extrinsic advantages are those deriving from the web of international relationships in which the two participants are bound, some of which may be successfully transferred to the bilateral relationship, some of which may not.

²² Gerald Segal, "The Soviet 'Threat' at China's Gates," *Conflict Studies*, no. 143 (London: Institute for the Study of Conflict, 1984).

²³ William Feeney, "Strategic Implications," in Gene T. Hsiao and Michael Witunsky, eds., *Sino-American Normalization and Its Policy Implications* (New York: Praeger, 1983), pp. 144–192.

Intrinsic Advantages/Disadvantages

A comprehensive survey of intrinsic advantages and disadvantages would have to include some consideration of economic trade and cultural exchanges, though this will be omitted here to avoid needless repetition.²⁴ In any discussion of the specifically political and strategic facets of the relationship, some consideration of the efficacy and reliability of governmental and military systems is necessary, despite the fact that such an assessment necessarily involves unscientific judgments in view of the dearth of pertinent information. We shall first assess the intrinsic utility of the "American connection" from the Chinese perspective, then vice versa.

Given the current direction of the Chinese modernization effort, the economic utility of access to American markets and educational/scientific facilities is fairly obvious, but the political and strategic utility of the "American card" is less clear. Certainly the United States is one of the two international superpowers whose 10,000-odd strategic warheads would provide a useful shield to China should the opposing superpower threaten to attack. But the Americans have agreed to include the People's Republic under the nuclear umbrella only in the case of a nuclear assault, conspicuously withdrawing protection when China attempted to play a more active role in strategic defense against Soviet regional inroads (e.g., Indochina). This attempt resulted in such a strengthening of Vietnamese and Soviet forces in the region (unmatched by a corresponding escalation of the American presence there) that Chinese threats to teach another "lesson" lack credibility. Nor is it clear that the Chinese must relinquish the American "card" as a price of entertaining Soviet overtures.

Any attempt to assess the utility of the Chinese connection to the U.S. must balance a complex combination of assets and liabilities. According to per capita indices, China is simply a large developing country. But when aggregate indices are used, it enjoys the status of a great power: first in size of population and armed forces; second in grain output; third in strategic nuclear forces, space satellites, cotton, and raw coal output; fourth in steel and total commercial energy output; sixth in crude oil and in gross national product. The People's Liberation Army, it is generally agreed, is large (with some 164 divisions and 3.25 million men, it outnumbers the Soviet army by a margin of three to one) but technologically obsolescent and logistically so problem ridden that Chinese ability to project power beyond Chinese borders must be considered extremely problematic; nor are plans afoot to spend the money necessary to alleviate these shortcomings in the foreseeable future.²⁵ The U.S. Defense Department conducted a study in 1979 that reportedly concluded that China's armed forces were backward in terms of weaponry and posed no threat to Soviet territory in Siberia,

²⁴ On cultural and economic aspects of the relationship, see the papers of my colleagues Joyce Kallgren and Ben Ward, respectively.

²⁵ Robert S. Wang, "China's Evolving Strategic Doctrine," *Asian Survey* 24:10 (October 1984), pp. 1040-1056.

including Soviet naval and air bases on the Pacific coast; acute problems were foreseen in any American attempt to arm the PLA with modern weapons.²⁶ China has a small number of long-range ICBMs (the 6000 nautical mile CSS-4 was tested successfully in May 1980) and SLBMs (a 1,500 nautical mile missile was tested in 1982), 65–85 IRBMs (CSS-2s), some 50 MRBMs (CSS-1s) and 90 medium-range nuclear-armed bombers, comprising altogether a strategic arsenal of less than 200 launchers.²⁷ On September 20, 1981, China launched her first missile carrying multiple satellites into orbit, taking an important step toward MIRV capability. The Chinese cannot yet be said to have the capability for mutual assured destruction, but they probably do pose an unacceptable risk of retaliation and can deny an aggressor the ability to win.²⁸ As soon as a number of SLBM-equipped nuclear submarines are in regular service, China may be said to have an assured second-strike capability.²⁹ China is inherently less vulnerable to a nuclear attack than the more developed nations, given its large, rurally dispersed population and predominantly agricultural economic base, and can still pose the threat of a “people’s war” far more troublesome than that now being waged in Afghanistan. To a more limited war (say, the annexation of Manchuria), the PLA seems relatively vulnerable.

With all its obvious weaknesses, China still has the capability to play somewhat more than the strictly regional role to which American strategic planners seemed to have consigned her since 1983.³⁰ China’s influence can still transcend the region through her intercommunist party affiliations, her participation in the United Nations and other international organizations, and her propaganda initiatives. Any consideration of Soviet-American relations must still take into account that 25 percent of the Soviet military budget is devoted to the “China factor,” that 52 of its 184 divisions (not all of which, however, are at full strength) are stationed along the Sino-Soviet (and Outer Mongolian) border, and 135 of its 378 SS-20 mobile missiles are positioned in the Far East, conceivably aimed at Chinese targets. This “second front” seems likely to remain fortified even if the Chinese should tacitly abandon their demands for Soviet withdrawal from Cambodia and Afghanistan, in view of the fact that the Soviets are unlikely to withdraw unilaterally.³¹ Despite serious problems with gerontocracy and

²⁶ *New York Times*, January 4, 1980.

²⁷ Feeney, 144–192.

²⁸ See Gerald Segal, “China’s Nuclear Posture for the 1980s,” *Survival* 24:2 (March–April 1982), pp. 68–78; also by the same author, “Nuclear Forces,” in Gerald Segal and William T. Tow, *Chinese Defense Policy* (London: Macmillan, 1984), pp. 98–117.

²⁹ As of this writing, the Chinese navy is reported to have one or two Han-class nuclear-powered submarines with a capacity to carry twelve SLBMs apiece, with four more under construction. These can remain submerged indefinitely and would be able to operate under Arctic waters. Wang, “China’s Evolving Strategic Doctrine,” pp. 1040–1056.

³⁰ See Secretary of State George Shultz’s important address, “The U.S. and East Asia: Partnership for the Future,” in *Current Policy*, no. 459, March 5, 1983; also Richard Nations, “A Tilt Toward Tokyo,” *Far Eastern Economic Review*, April 21, 1983, pp. 36–50. For a Chinese reaction, see Zhang Jialin, “The New Romanticism in the Reagan Administration’s Asian Policy: Illusion and Reality,” *Asian Survey* 24:10 (October 1984), pp. 997–1012.

³¹ About 40 percent of the PLA, consisting of sixty-six divisions and some 1.5 million men, seems to be deployed in areas contiguous to or relevant to the 4160-mile border with the Soviet Union, outnumbering counterpart Soviet troops by 20 percent (although Soviet tank strength is at least three times that of

bureaucratic authoritarianism, China has one of the most effective nondemocratic political systems in the world in terms of its ability to implement bold new policies swiftly and to generate popular consensus behind them, and it seems more stable in the postsuccession era than in the past. The Chinese have demonstrated a flair for long-term planning unusual even among socialist systems, and their foreign policy has been consistently informed by a coherent global vision often lacking in the more pragmatic pluralist systems. These less tangible factors also add to China's intrinsic appeal.

Extrinsic Advantages/Disadvantages

In terms of extrinsic advantages, the chief American gains from rapprochement were to detach China from the Soviet-Chinese-Vietnamese power bloc and to facilitate a more forthcoming Soviet posture. Whether concessions were elicited from Vietnam is less clear; the Vietnamese had their own agenda and seem to have simply turned from Chinese to Soviet sources of supply. The Sino-American rapprochement seems thereafter to have encouraged a polarization between China and her fellow socialist states, making it more, rather than less, difficult for the United States to undertake profitable contacts with either Vietnam or the Soviet Union. The Sino-American friendship has produced interesting developments in both North and South Korea, however, including a flourishing underground trade between South Korea and the People's Republic.

China has clearly derived abundant extrinsic advantages from her rapprochement with the United States, for the Americans stood as gatekeepers to the rest of the "free world." While U.S. support could not be expected in China's 1971 bid for admission to the United Nations, news of the forthcoming Nixon visit created a credibility gap in Washington's opposition efforts. By refusing to define the matter as an "important issue" requiring a two-thirds majority, the United States made it possible for the People's Republic to gain representation on a simple majority vote. China has since gained membership on the Security Council and on all other U.N. or U.N.-affiliated organizations, including exclusive seats on the World Bank's Board of Governors and the International Monetary Fund's Board of Executive Directors, which she has been able to turn to profitable account.³² Even though China found its

China). During negotiations held in Moscow between September and November 1979, Chinese delegations raised the issue of a Soviet pullback several times. On each occasion their Soviet counterparts responded by asking what obligations the Chinese intended to undertake in response. Steven Levine, "China and the United States," in Samuel Kim, ed., *China and the World* (Boulder, Colo.: Westview Press, 1984), pp. 113–135.

³² Less than six months after her official entry, China succeeded in doubling her own quotas (which determine borrowing rights and voting power) in both institutions. By releasing for the first time her "complete national income statistics" to the U.N. Committee on Contributions in 1979 and to the World Bank in 1980, China reduced her assessment rate (and required contributions to the United Nations) from 5.5 percent to 1.62 percent and finally to 0.88 percent from 1980 to 1983. This was based on what many Third World countries considered a self-servingly deflated per capita GNP of only US\$152 per annum (the World Bank's own estimates placed China's 1978 per capita GNP at US\$460). See Samuel S. Kim, "Chinese World Policy in Transition," *World Policy Journal*, Spring 1984, pp. 603–633.

opening to the United States to be advantageous in gaining entry to the United Nations, she eventually found it less useful in winning friends among the Third World majority there; as we have already noted, this is one of the factors accounting for her progressive detachment from American foreign policy. China also gained formal diplomatic recognition from those nations who had withheld it in deference to the U.S. position, including Japan, West Germany, and many other countries, eventually reducing the number of nations still recognizing Taiwan to a handful. Although the connection is not immediately evident because of the time lag, it is inconceivable that the 1984 Sino-British agreement over Hong Kong could have been reached before China's opening to the West. Finally, China gained an extrinsic advantage with regard to Taiwan by inducing the United States to regard Taiwan as a part of China (i.e., no longer "extrinsic"), thereby undermining the legal basis for opposing reunification of these two estranged entities (who have of course functioned as separate nations on a *de facto* level for the past three decades). As long as Sino-American friendship persists, the prospect for peaceful reunification remains viable; it is difficult to imagine how violent reunification could occur without provoking a Sino-American confrontation that the People's Republic would be unlikely to win.

In conclusion, although the Sino-American rapprochement resulted in advantages to both sides and the relationship remains an essentially healthy one, the sheer drama and *éclat* of the opening itself seems to have unrealistically excited expectations on both sides, resulting in an inevitable deflation. Also, although the initiation of the friendship resulted in extrinsic advantages on both sides, these have by now already been exploited or discredited or in any case dissipated (having unlocked the gate to the "free world," it is no longer feasible for the United States to think of retracting this access, for example), and the friendship must henceforth rely more exclusively on the intrinsic value of the bilateral relationship per se if it is to persist. This intrinsic value is, in my judgment, considerable, but must be carefully cultivated, with scrupulous attention to reciprocity.

18. Assessing U.S.-China Relations: The Reagan Administration Period

Zhang Jialin

The China policy adopted by the Reagan administration since 1981 seems to show some continuity with that of the Carter administration, yet with the stamp of the conservative groups Reagan represents. Given the international situation and the conflicting positions of different U.S. interest groups, President Reagan, at some cost in political support from the conservatives, did not carry out his campaign pledge to upgrade U.S. relations with Taiwan. Instead, he was forced to take several moves to improve U.S.-China relations. As a result of the common efforts of the two governments and peoples, the first term of the Reagan administration saw a broad development of relations in the political, economic, and cultural fields, as well as growing communication between the two peoples. The development of Sino-U.S. relations over the past four years has not been easy sailing, however; there have been a number of twists and turns.

ARMS SALES TO TAIWAN

The stumbling block in the path of Sino-U.S. relations is the Taiwan Relations Act, passed by the U.S. Congress in March 1979, soon after the establishment of diplomatic relations between the United States and the People's Republic of China. The passage and signing of this legislation reflected a virtual dual attitude of U.S. policymakers in their China policy: on one hand, to stabilize and promote political and economic relations with the People's Republic; on the other hand, to enhance substantive relations "unofficially" with Taiwan in an attempt to make Taiwan a political entity that could be controlled by the United States, thus obstructing the reunification of China. All subsequent friction and crises in Sino-U.S. relations have stemmed from the passage of this act.

The issue of arms sales to Taiwan is an unsolved problem inherited from the first moments of Sino-U.S. rapprochement. According to the Taiwan Relations Act, the United States would continue to sell Taiwan "defense articles and services." In view

of resolute opposition from the Chinese side, a moratorium on arms sales to Taiwan was adopted by the Carter administration in 1979; these sales, however, were renewed in 1980. Having permitted Northrop Corporation to go to Taiwan to discuss the sale of its version of the F-5G fighter, the U.S. government demonstrated its intention to sell increasingly sophisticated aircraft to Taiwan.

Since taking office in 1981, President Reagan has favored the sale of advanced fighters to Taiwan. Meanwhile, conservatives within the White House and the administration did their utmost to endorse the sale. High-ranking officials in the State Department signaled that the United States would consider selling dual-use technology to China on a case-by-case basis in return for China's acquiescence to American arms sales to Taiwan. To resolve the issue of arms sales to Taiwan, serious negotiations were conducted between China and the United States in Beijing throughout October and November 1981. As a result, China has succeeded in forcing the United States to give up thinking that China would accept this kind of American treatment as if China were dependent on the United States for help. Reportedly, there were also policy differences within the Reagan administration: Alexander Haig, Caspar Weinberger, William Casey, and the joint chiefs of staff had opposed the F-5G sale, while Richard Allen and Michael Deaver expressed their approval.¹ Finally, President Reagan accepted the proposals of the first group. On January 11, 1982, the State Department announced that "no sale of advanced fighter aircraft to Taiwan is required," and "Taiwan's defense needs can be met...by extension of the F-5E coproduction line in Taiwan."²

Continued arms sales to Taiwan obviously violate the principles of the communiqué on the establishment of Sino-U.S. diplomatic relations. Within the context that the United States recognizes the People's Republic as the sole legal government of China, this communiqué stipulates that the people of the United States will maintain cultural, commercial, and other unofficial relations with the *people* of Taiwan. Arms sales do not represent commercial relations between *peoples*. The customer of arms valued at hundreds of millions of dollars is in no way the *people* of Taiwan. Moreover, any sale of arms by American corporations cannot be completed without the approval of the U.S. government. By treating Taiwan as a nation, the United States has been selling arms to Taiwan according to U.S. laws of foreign arms sales. After establishing diplomatic relations with the People's Republic of China and acknowledging that Taiwan is a part of China, the United States should have automatically suspended these sales.

An analogous case may be found in American history. During the Civil War, the British government colluded in the sale of weapons and armed vessels by British businessmen to the South and permitted these vessels to berth at British ports. Taking advantage of this benefit, Confederate forces inflicted heavy losses to the North. Protesting that such arms sales constituted an act of war against the United States, the

¹ *Newsweek*, January 18, 1982, p. 8.

² *Department of State Bulletin*, February 1982, p. 39.

U.S. government claimed reparations from Great Britain after the war. Given U.S. opposition to British arms sales to the American South at that time, how would the United States justify its current arms sales to Taiwan?

The Foreign Ministry of the People's Republic lodged a strong protest against the extension of the F-5E coproduction line, stating that the Chinese government would never accept a unilateral decision made by the U.S. government. Here Sino-U.S. relations truly reached a critical point. On August 17, 1982, China and the United States reached an agreement after repeated negotiations over ten months. The United States reiterated that it had no intention of interfering in China's internal affairs nor of pursuing a policy of "two Chinas" or "one China, one Taiwan." Considering U.S. arms sales to Taiwan an issue left over by history, the Chinese government has agreed to settle the matter step by step. The United States has agreed that its arms sales to Taiwan will not exceed, either qualitatively or quantitatively, the level set since the establishment of diplomatic relations, and that they will be gradually reduced, leading to a final resolution. In a statement issued on the same day, however, President Reagan, linking the issue with the Taiwan Relations Act, declared that arms sales would continue in accordance with the act. This statement clearly violated word and spirit of the communiqué.

Although the August 1982 joint communiqué did not lead to a final solution of the arms sales issue, it broke the impasse by stipulating several principles and goals, thus reducing tension in bilateral relations. It is worth noting, however, that the total dollar amount of weapon sales to Taiwan by the United States in 1983 was huge and apparently exceeded the ceiling of previous years. The Reagan administration has justified these sales on the questionable grounds of "adjusting for inflation." It is not clear, however, what the inflation rate for military weapons was in 1982 or in the preceding years, and how the price and inflation rate for arms is decided. In 1982, the inflation rate announced by the U.S. Commerce Department was only 3.9 percent.

FROM THE NEW ROMANTICISM TO THE NEW REALISM

The numerous obstacles to understanding that arose between China and the United States seemed to have inspired the Reagan administration to reshape its China policy. One important step in that direction was its reaffirmation that Japan, not China, was the cornerstone of U.S. strategy in the Asian-Pacific region. This shift in emphasis was stressed by President Reagan on February 23, 1983, in a speech before the American Legion in Boston. The President said: "The U.S.-Japanese relationship remains the centerpiece of our Asian policy."³ Later that spring, Secretary of State George Shultz and Assistant Secretary Paul Wolfowitz delivered speeches in which the following trends could be perceived: downgrading the strategic importance of China and regarding it as a regional force; upgrading the place of Japan in U.S. policy in Asia and stressing U.S.-Japanese relations as of primary importance.

³ *Washington Post*, February 23, 1983.

These statements, which were widely viewed by the American and foreign press as a “new course” in Asian policy, seemed to mark a shift in the U.S. partnership in Asia from the notion of a strategic triangle to an emphasis on ideology. There is “a new far-reaching turnabout in U.S. Pacific policy,” stated the *Chicago Tribune*, “that has downgraded Peking’s importance and shifted strategic emphasis to Japan and other non-communist allies.”⁴ The *Far Eastern Economic Review* noted that Shultz’s speech “represented a quiet counter-revolution against the ‘triangular tradition’ which has dominated Washington’s Asian policy since Nixon’s opening to China.”⁵

If some American scholars held that past administrations from Nixon to Carter attached too much importance to China and thus American diplomacy could be characterized as romanticism, the latest course with its emphasis on Japan can be called, in my opinion, the new romanticism of U.S. Asian policy. Wishing to deemphasize China’s role, the Reagan administration undertook some moves unfavorable to bilateral relations. Examples are: the unilateral restriction on Chinese textiles export to the United States, the opposition to restoring China’s seat in the Asian Development Bank, and the continuing increase of arms sales to Taiwan. As a result of these incidents, Sino-American relations were rather sour during the first half of 1983.

From any realistic point of view, the Reagan administration’s new focus on Japan and its deemphasis of China could not be considered very successful. The new course carried with it a number of problems and difficulties from the very beginning. First, there have been heated debates within the administration concerning China policy. In the light of global strategic interests, several influential administration officials advocated promoting Sino-U.S. relations and removing the unstable elements in these relations, and opposed the deemphasis of China’s role. Second, Japan was not enthusiastic about this new romanticism in U.S. Asian policy. According to the Japanese press, there was deep concern that the shift of emphasis toward Japan would increase U.S. pressure on Tokyo to expand its military forces, thus exacerbating conflicts with the U.S. over defense and trade issues. Finally, the second half of 1983 saw increased tensions in U.S.-Soviet relations. These tensions resulted from the shooting down of a South Korean airliner by the Soviet Union, the deployment of American medium-range missiles in Europe, and the mounting crisis in Central America. These developments seem to have upset the Reagan administration’s original scheme of redirecting its Asia policy by switching the relative importance assigned to China and Japan.

Realizing that the deemphasis of China might damage U.S. global and strategic interests and that the new focus on Japan would prove to be illusory, the Reagan administration took several steps to improve its ties with the People’s Republic of China. The issue of technology transfer to China was to a certain extent resolved as a result of the visit of U.S. Commerce Secretary Malcolm Baldrige to China in the

⁴ *Chicago Tribune*, July 31, 1983.

⁵ See Richard Nations, “A Tilt Toward Tokyo,” *Far Eastern Economic Review*, April 21, 1983.

spring of 1983. The new policy announced by Baldrige placed China in the category of friendly, nonallied countries by the U.S. government. This was soon followed by a compromise agreement on textile trade and Secretary of Defense Caspar Weinberger's visit to Beijing in September 1983.

The visit of Premier Zhao Ziyang to the United States in January 1984 and the visit of President Reagan to China in April 1984 have made a significant contribution to friendly and cooperative relations between the two countries. As a result, Sino-American relations developed tranquilly, without major obstacles, in 1984. During the 1984 presidential campaign, the question of Sino-American relations did not become an issue of debate between Ronald Reagan and Walter Mondale. This fact demonstrated that, after oscillations during past four years, both Republican and Democratic parties, after facing new international and domestic realities, were obliged to reach a more or less unified stance on China policy. Having abandoned the new romanticism in its Asia policy, the Reagan administration moved to place its relationship with China on a more realistic footing by developing a web of political, economic, and cultural relations while gradually seeking limited military ties and by exploring mutual interests of the two countries to reduce friction and stabilize bilateral relations.

CHINA'S INDEPENDENT FOREIGN POLICY

China's independent stand on foreign policy was reaffirmed at the Twelfth Congress of the Communist Party of China in September 1982. As evident in the speeches of the Chinese leaders and subsequent actions, China now pursues an independent foreign policy of peace, determining her attitudes toward key world issues based on their merits. China will never attach herself to any major power or group of powers, nor yield to outside pressure. It is not true to say that China seeks a position of "equidistance" from the two world superpowers. China cannot indiscriminately blame the United States and the Soviet Union alike simply for the sake of balancing her relations with them. In this fast-changing world, it is impossible to ask China to improve its relations one step further with one superpower for every step it improves its relations with the other, or vice versa. China opposes those who pursue hegemonism and expansionism anywhere in the world. On the Afghanistan and Kampuchean issues, for example, both China and the United States oppose the armed invasions of the Soviet Union and the Soviet-backed Vietnam. The United States, however, has met with opposition from both China and the Soviet Union in its support for Israeli aggression and for the racist regime in South Africa. Naturally, this circumstance by no means indicates that China enters into alliance with the United States in one case and with the Soviet Union in the other. It does prove that, while the Soviet Union and the United States contend worldwide, China may, in regard to certain issues, adopt an attitude similar to that held by one or the other of the superpowers. But the convergence arises from different points of departure.

Since taking office, the new Soviet leader Mikhail Gorbachev has signaled his desire to improve Sino-Soviet relations significantly. The Chinese government has

responded in kind. Reportedly, some senior U.S. officials have expressed concern over this development.⁶ They presume that any change in Sino-Soviet relations would result in complications for Sino-American relations.

In fact, this presumption is unwarranted. An improvement in Sino-Soviet relations should not, and will not, affect relations between China and the United States. The Sino-Soviet dispute, which arose early in the 1960s, was originally limited to the ideological context. The Soviet government then decided to carry ideological disagreements into the realm state-to-state relations. For about two decades, relations between the two countries have been extremely abnormal. Except for maintaining embassies in each other's capitals, political, cultural and academic exchanges were virtually suspended, while only a low level of trade was maintained. Although there have been substantial differences in foreign policies, China and the Soviet Union, as major powers sharing the longest common frontier in the world, should have worked to normalize bilateral relations, if only for the sake of diminishing the possibility of military conflicts in Asia. Consequently, the discussions between China and the Soviet Union that began in 1982 at the deputy foreign minister level are now continuing. Although the main obstacles in the way of Sino-Soviet relations have not yet been eliminated, both sides have revived economic, cultural, and other communications. In 1984, the value of bilateral trade reached US\$1,200 million, a record level for the past twenty years.

The initial steps of thaw in Sino-Soviet relations pose no threat to the United States. If the Soviet Union were ready to meet China's three-point proposal (cessation of Soviet support of Vietnam's occupation of Kampuchea, withdrawal of Soviet troops from Afghanistan, and reduction of Soviet troops along the Chinese border to their pre-1965 level), then Sino-Soviet relations could be normalized, and this would be a great contribution to establishing peace and stability in the Asian-Pacific region. Moreover, if the United States itself maintains normal state-to-state relations and negotiations with the Soviet Union on various world issues, why should China not also improve its relationship with the Soviets?

As yet, however, there is no fundamental change in Soviet policy toward China since Gorbachev took office. China will wait and see whether a change in the Soviet Union's attitude does take place. Even if total normalization of relations were realized, no actual alliance such as that of the early 1950s would be revived. China will not make new friends at the expense of old friends, nor will it sacrifice the friendship of one for the other.

Washington's anxiety over the prospect of Sino-Soviet détente in a way reflects the lingering tendency of some policymakers within the Reagan administration to play China as a card. In the eyes of some American analysts and policymakers, China can be used as a counterweight to the Soviet Union and a means of pressuring the Soviets to be more compliant in its talks with the United States. But China will not, as Chinese leaders have repeatedly stated, allow anyone to play the "Chinese card." In

⁶ See Nayan Chanda, "Superpower Triangle," *Far Eastern Economic Review*, April 4, 1985.

turn, China will never play the "Soviet card" against the United States, nor the "U.S. card" against the Soviet Union. Relations between the United States and China on one hand and between the USSR and China on the other are not interconnected. Rather than depending on Sino-Soviet relations, Sino-American relations should have an intrinsic positive value in their own right. In fact, among the incidents that have strained Sino-American relations in the past few years, not a single case had any direct relationship with Sino-Soviet relations.

China also welcomes improved relations between the United States and the Soviet Union. In terms of the logic of the triangular relationship, it seems that alliance or conflict between any two parties would be detrimental to the third, and improvement of relations between any two parties would be beneficial to the third.

There are no strategic relations between China and the United States because of the variance in foreign policy objectives between the two countries. As a developing socialist country, China is most interested in a long-standing, peaceful international environment for the purpose of realizing its goal of modernization. The United States, as a superpower, has global interests, maintaining a military presence in many regions of the world and competing with the Soviet Union for overall superiority. Thus, the strategic goals pursued by China and the United States are obviously divergent. China cannot agree with some aspects of U.S. foreign policy—for example, U.S. policy in the Middle East and Central America, the U.S. attitude toward North-South relations, and so forth. Notwithstanding these differences, China and the United States have no fundamental conflicts or military confrontation, and even share certain views on such international issues as Kampuchea and Afghanistan. The fact that no strategic relationship exists between China and the United States should not present an obstacle to continuing efforts to seek common ground and conduct a political dialogue.

LESSONS AND PROSPECTS

Assessing Sino-American relations during the first term of the Reagan administration, we may extract several lessons. To avoid possible frustrations and crises, it seems important to emphasize the following points.

1. *The principles embodied in the three U.S.-China communiqués should be observed.* Among the factors influencing Sino-American relations, the Taiwan issue remains the most important. The principles of handling the Taiwan issue laid down in the Sino-U.S. joint communiqués should be observed by both sides. In discussing Sino-U.S. relations, however, some Americans tend to bypass the Taiwan issue or complain that the Chinese attach too much importance to this question. In fact, during all negotiations at the ambassador level between China and the United States since 1955, the Taiwan issue has never been excluded from the agenda, nor will it be bypassed in the future. China must take the Taiwan issue seriously, because it bears on reunification as well as on the national sovereignty for which the Chinese people have struggled from generation to generation. Any action aimed at obstruction of China's reunification would hurt the national pride of the Chinese people.

The Taiwan Relations Act, in fact, is an attempt on the part of the United States

to pursue a "two China" policy to the bitter end. Many provisions of the act, including its claim to reserving the United States' right to continue to interfere in the Taiwan problem, run counter to the fundamental principles of the communiqués regarding establishment of diplomatic relations. Some American scholars argue that the Taiwan Relations Act is parallel to the joint communiqués and thus can serve as the "base of contemporary Sino-American relations."⁷ Moreover, it is asserted that the August 1982 joint communiqué "violates the intent of Taiwan Relations Act."⁸ Anyone familiar with contemporary international relations would realize that the Sino-American relationship cannot be subject to U.S. laws any more than it can to China's laws. Just imagine a relationship between nations based on a series of domestic laws rather than on equal, mutually beneficial bilateral agreements. What kind of international relations would these be? And according to its own domestic law, the United States would not allow a foreign country to sell weapons to a U.S. state in its rebellion against the U.S. federal government.

It is difficult, to be sure, for the United States to repeal the Taiwan Relations Act, but the U.S. government could at least strive for the following goals: first, abiding by the "one China" principle, not to take any more actions that would injure the national feelings of the Chinese people; and second, quantitatively and qualitatively reduce its arms sales to Taiwan in line with the August 1982 communiqué. According to a statement by the U.S. State Department, however, the amount of arms sales to Taiwan will be reduced only by some \$20 million for the fiscal year 1985. This kind of "gradual reduction" obviously lacks sincerity given the fact that U.S. arms sales to Taiwan will continue through the year 2020 according to this reduction rate.

The Chinese government has repeatedly stated that it will strive to settle the Taiwan issue peacefully. But this cannot become an international commitment imposed on her by any foreign country. How China settles the issue is completely a matter of China's internal affairs. The Chinese people have sufficient wisdom enough to settle this issue. Besides, both sides of the Taiwan Strait insist that there is only one China and that Taiwan is a part of China.

The resolution of the Hong Kong issue under the formula of "one country, two systems" marked a significant step toward peaceful national reunification. This formula allows Hong Kong and Taiwan to keep their capitalist systems for a considerably long period. Within the unified nation both socialist and capitalist systems would coexist, support and mutually complement, and compete with each other. The terms offered under this formula to Taiwan, as Chinese leaders have made clear on many occasions, are more generous than those offered to Hong Kong. After reunification, for example, Taiwan would retain its existing local political, economic, and social structure and its armed forces as well. As a major policy decision of the Chinese government, the formula of "one country, two systems" came about after a compre-

⁷ See Thomas Robinson, "China's Dynamism in the Strategic Triangle," *Current History*, September 1983.

⁸ See Martin Lasater, "Assessing the Taiwan Relations Act," *Background* (Heritage Foundation), December 14, 1984.

hensive theoretical analysis and was adopted with due respect for the historical reality of the situation. Never an expediency, it will be carried out firmly and persistently.

The peaceful settlement of the Taiwan question will serve not only the interests of China and the Asian-Pacific region, but those of the United States as well. Surprisingly, the U.S. government, while repeatedly signaling its interest in the peaceful resolution of the Taiwan issue, maintains silence on China's proposition of "one country, two systems," the most reasonable solution for peaceful reunification. Some American officials explained U.S. reticence on the grounds that this is an issue between Chinese in which the United States should not be involved. But, as is well known, the United States has in reality been involved in the Taiwan issue over a long period of time.

2. *China-U.S. economic cooperation should be expanded.* Given the interplay between economic and political relations, Sino-U.S. economic cooperation will give great impetus to overall good relations. The United States is the largest developed country in the world and possesses advanced industry and technology. China is the largest developing country in the world, with rich natural resources and a huge market. Because the two countries are mutually complementary in this field, the potential for economic cooperation is enormous.

Sino-American economic relations comprise trade, economic and technological cooperation (investment), and technology transfer. In 1984, the bilateral trade volume between the United States and China reached a record US\$6 billion, as compared with less than US\$100 million in 1972. The United States was the first nation to set up a business enterprise in China exclusively with foreign capital, and it is number one in terms of private investment in China. The total figure amounts to over US\$1 billion, involving more than a hundred agreements on joint ventures, cooperative enterprises, and compensation trade. The areas covered range from energy and machinery to light industry and service. Since the restriction on technology transfer to China was relaxed by the U.S. government in 1983, technology export to China has been increasing; in 1984, it reached US\$2 billion.

In spite of this progress, however, problems do exist. For instance, protectionism in the United States, particularly with regard to the textiles trade, has been on the increase. Sino-U.S. agreements on textiles have been unilaterally violated time and again by the United States. Although China is regarded as a friendly, nonallied country, to this day some outdated U.S. legislation discriminating against China remains intact. This legislation inhibiting long-term investment and bilateral trade includes: the 1961 Foreign Assistance Act, which provides that the Export-Import Bank's loans exceeding \$50 million must be approved by the President; congressional review of the most-favored-nation treatment for China year by year; the U.S. government's refusal to grant China the Generalized System of Preferences; and so forth. Though there has been a welcome improvement in U.S. technology transfer to China, unnecessary restrictions and delays are still a fact of life. Among the "Group V" countries, China is the only one whose technology imports from the United States

remain subject to U.S. national security review and to approval of the Coordinating Committee for Export Controls (COCOM). Of late, many American businessmen, according to the *Washington Post*, have urged the exemption of U.S. exports to China from COCOM review.⁹ The Chinese hope that this situation will soon be remedied so that mutual trust may be enhanced and mutual benefit enlarged.

Of course, China also needs to improve her own foreign trade mechanisms, readjust and diversify her exports to the United States, and continue to perfect her laws and regulations concerning foreign economic relations.

It is China's firm national policy to open up to the outside world. In this connection, China has already adopted a number of important measures, such as a patent law effective as of last April, the opening of fourteen coastal cities and Hainan Island to foreign investment in addition to the four original special economic zones, and the offering of attractive tax incentives in these areas. Chinese planners will concentrate first on building up the country's infrastructure, such as energy and transportation, and upgrading hundreds of thousands of enterprises. In regard to construction of large hydroelectric and nuclear power stations, American participation would be especially welcomed.

Along with achievements in modernization, a prosperous, strong China would become an important trade partner, as well as competitive counterpart, for the United States. There is nothing to fear from such a situation. Healthy competition would only stimulate the economic growth and mutually benefit.

3. *Contacts between the leaders and peoples of the two countries should be increased.* For the past few years, the exchange of visits between high-ranking officials of China and the United States has been increasing. Communications in scientific and cultural fields are growing. Chinese students studying in the United States now number many more than in any other foreign country. Mutual understanding and friendship between peoples have a significant influence on the further development of bilateral relations. These contacts, both official and unofficial, should be encouraged in the future, since the improvement of Sino-American relations will not only benefit the two peoples, but contribute to peace and stability in Asia and the world.

⁹ *Washington Post*, March 5, 1985.

19. Sino-American Cultural Exchanges: A Less Considered Aspect of American Foreign Policy

Joyce K. Kallgren

Cooperation, as distinguished from harmony, requires active attempts to adjust policies to meet the demands of others. (Keohane 1984:12)

Cooperation between Chinese and Americans, in both the public and private sectors, has resulted in tremendous growth of bilateral exchange programs. In turn, such exchanges may be used to chart much of the world of foreign relations. For instance, before 1979, educational and cultural exchanges served to document the state of relations. After normalization, the rich diversity of cultural events—symphonic performances, film and media presentations, book fairs, athletic competition, as well as educational programs—has touched a broad audience and served a number of purposes ranging from national interest to the Christian mission. As such, an analysis of cultural exchanges not only informs us about the nature of educational and technological interchange but also constitutes a useful addendum to discussions of joint strategic planning, economic competition, and political alliance—concepts more commonly accepted as part of foreign policy appraisals. This chapter focuses on educational exchanges, a small but important element in the web of Sino-American relations. In so doing, it enlightens the reader about a number of important issues in the record of Chinese American accommodations since 1979.

The topic has affected a large number of people and institutions: educational and research opportunities now exist in virtually all academic disciplines and professions. Americans can travel and work with Chinese colleagues in ways that would have been unthinkable a decade ago. These possibilities lead to the questions addressed here: What is the “value” of such exchanges, measured in terms of Sino-American relations? Placed in this context of foreign relations, what are we to make of these burgeoning exchange efforts? How has cooperation been achieved? Why have people supported these programs, expended energy and treasure on their mainte-

nance? How should they be measured—for instance, have the two sides derived mutual satisfaction from their work? Or should we look for evidence that the programs are part of long-range plans to change China, to convert the Chinese to Western science, political organization, or religious values?

This analysis concentrates primarily on the American interests, participants, and organizations. Admittedly, this focus skews the study, but a limited discussion is included as well of Chinese bureaucracy and China's national interest. The study begins by placing the last half-decade of activity within the context of the Sino-American tradition of exchanges, looking at both the nature and the historical background of exchange activity. This discussion of context permits the reader to see recurring themes in bilateral relations. The chapter then briefly sets forth the bureaucratic structures and political strengths of the key (or "core") organizations that have facilitated the exchange relationship. This portion of the analysis is important, for it delineates organizations able to influence policy directly and often successfully. Moreover, these core organizations develop constituencies of their own—supporters who reinforce their efforts to sustain specific programs. Finally, this study critically analyzes the experience to date, contrasting the differences in purposes and goals of Chinese and Americans. In that discussion it is possible to observe the nature of the "cooperation" to which Keohane refers, and to understand more fully the achievements of the programs and the remaining limitations that still confound the two nations.

THE NATURE OF EXCHANGES

Evolved to fill markedly different domestic needs in the two countries, "cooperation" has meant different things to each country. As a result, the nature of cultural exchanges has been affected as well: the post-1971 relationship between China and America has been characterized more by cooperation than reciprocity. While we can identify a coherent set of needs and goals that were articulated and pursued through international cooperation by China (i.e., an "instrumentalism"), the motives of American participants have been much more disjointed and occasionally contradictory.

If the evolution of exchanges has been shaped in part by a differing instrumentalism in China and America, it has also been shaped partially by historical timing. Most significant has been the fact that for some years exchange activities operated in lieu of formal relations between the two countries. Moreover, because Chinese politics before 1979 seemed to preclude tourism, the travel of increasing numbers of Americans was encompassed in "educational study tours" or "friendship exchanges." This "exchange" activity thus was defined as Chinese people-to-people contact well within the cultural diplomacy tradition of socialist states (Passin 1962).

But as visitors increased in numbers, the limitation of the term "exchange" as a description of events became clearer—much of the evolving world of "exchange" took on the quality of tourism instead. Chinese schools, hospitals, and similar service units became increasingly reluctant to receive the growing numbers of individuals

who wanted to see China. On the American side, these travelers began to realize that they could not reciprocate the gestures of friendship that often occurred; they had neither the funds nor the facilities to host a Chinese delegation, and thus found the appellation "exchange" misleading. To state more clearly the obligations implicit in their tourist activities, they recharacterized themselves as "paying guests" rather than participants in "exchange" programs.

A more important policy decision altered the nature of these trips from the Chinese viewpoint. Consciously deciding to encourage tourism, the government first permitted, and by 1980 encouraged, foreign tourists. This decision, coupled with implementation of plans to build hotels, train personnel, and institute appropriate procedures to facilitate travel, has made tourism an important source of foreign currency for China.

An equally important reason why "exchanges" have been reconstituted arises from the Chinese decision to adopt a national "open door" policy; this has had important implications for education and culture. This policy has meant an increased opportunity, indeed *need*, for contact with foreigners, for travel, and for participation in conferences and joint research. Foreign governmental and private programs in China have been encouraged. The possibilities in arts, humanities, language study, and social sciences as well as the natural sciences and technology have all multiplied, with the approval and encouragement of the Chinese leadership.

By 1985, this activity had led to an active interest in the state of Sino-American exchanges. A half-decade after exchanges began in earnest, it has been possible to institute a review of the national programs. Jointly financed by the U.S. Information Agency and the Ford Foundation, the Committee on Scholarly Communication with the People's Republic of China (hereafter CSCPRC) has directed a nationwide survey of American university efforts in the exchange field, together with a review of its own national programs. While universities and colleges as well as charitable foundations frequently reevaluate their programs, this 1985 exchange study is the first full-scale effort to collect data and make an appraisal of the programs underway. It also analyzes the characteristics of Chinese scholars and students based on their visa applications. Despite weaknesses in survey design, the results are likely to provide benchmarks for future studies and insight into the nature and status of exchange efforts in the mid-1980s.

In addition to the CSCPRC effort, in February 1985 a week-long international conference was jointly hosted in Honolulu by the East-West Center, the CSCPRC, and the Center for Chinese Studies at the University of California, Berkeley. The conference was designed to develop an appraisal of current efforts by examining the subject through a set of commissioned papers. Data from that conference are incorporated into this chapter. At the time of writing, the CSCPRC study was not available.

Current concern with Sino-American exchanges may well reflect the virtual routinization of exchanges in the American academic community.¹ Chinese participa-

¹ I am indebted to Dr. Avery Goldstein for observations on this phenomenon, as well as his notes and comments on the East-West Center conference.

tion has become rather commonplace; Chinese students and scholars are ubiquitous on American campuses. Though there are issues that still cause rancor and dissatisfaction among participants, there is more "cooperation" than appears to have been the case three or four years ago. Perhaps the biggest contrast with the world of early exchange efforts is the fact that, in the 1980s, alterations in policy occur within a framework that is relatively clearly understood. The arena has become more straightforward; exchanges must be evaluated for the contributions they make to foreign relations as well as to academic and cultural exchange. Even though exchanges seem strong, it is also true that current programs must compete with other claims for support, with other constituencies seeking access to limited dollars. In this context it is useful, therefore, to reconsider the state of the programs, their costs and benefits, from the American perspective.

CULTURAL RELATIONS: HISTORICAL LEGACY AND CONTEMPORARY SETTING

For two centuries Americans and Chinese have interacted. American missionaries, diplomats, and scholars have gone to China, studied and worked there; sought to expand their influence; tried to improve the conditions under which they worked and the conditions under which Chinese lived; attempted to convince their Chinese friends or audiences of the value of many aspects of American culture, religion and science. In pursuance of this effort, Christian colleges and hospitals were constructed and staffed. Chinese were educated in schools and colleges in China as well as the United States; American colleges and universities established programs for their own students to study in China and for Chinese to study in the United States. Remission of portions of the Boxer indemnity funded the education of many of the generation of Chinese scholars and administrators now retiring. Significantly, it was this generation who played a key role in the reestablishment of contact between the two countries.

In the pre-World War II period, most of the cultural and educational activities in China and the United States were funded, directed, and carried out by the American private sector. Moreover, these religious leaders, educational administrators, and government personnel considered such activity to be appropriate for the private sector (Ninkovich 1981). This assumption changed only slowly in the 1930s. With the approach of World War II there was a growing conflict and competition between German and American cultural influence and values in Latin and South America that caused some American philanthropic leaders to reconsider the distinction between the public and private sector. The same issue recurred in the post-World War II anticommunism period. Government considered it necessary to oppose the communist cultural (as well as political and military) threat with more resources than were to be found in the private sector. The original assumption had been that culture was the purview of the private sector and propaganda the responsibility of the state. This division broke down, however, and both efforts and funding by the government came to overlap with the private sector. In due course monies from the public sector were transferred to the private to carry out tasks that both sides agreed were desirable. This

hesitation about the propriety of a close relationship between the public and private sector is worth recalling in the contemporary world, where joint or parallel financing between government and nongovernment organizations is commonplace.

The point is also instructive when one recalls that the resumed contact of the 1970s between Chinese and Americans was explained initially as people-to-people diplomacy, ostensibly based on relations between the Chinese people and the American people—a fiction that both sides saw fit to sustain. On the American side, despite the public image of a private organization, there was substantial governmental assistance in the planning and executing of exchanges. In the 1980s the interaction between government, foundations, and other private sector organizations has been constant, close, and essential for some programs. This collegiality raises, therefore, the important matter of the degree to which private organizations are or can be autonomous or independent in American programs. Although the issue is not discussed in this paper, it is a bothersome matter, since many foundations attempt to deal with Chinese counterparts as though they were in fact independent.

The active programs of American organizations came to an end in China with the establishment of the People's Republic of China. The Chinese church was separated from its international ties; private schools were taken over and their faculty criticized but—subject to some political reeducation—were largely retained, while foreign representatives left the country or were expelled. The history of this period reflects both Chinese concerns about the presence of foreigners and Maoist fears about the role of intellectuals. Thus the Chinese government's insistence upon subjecting the educational establishment and clergy to national authority can be viewed as a combination of Chinese nationalism and Marxism.

For about twenty years, when connections with the Chinese organizations and scholars were nonproductive for Americans, the emphasis of foundations and private sector organizations shifted to other geographic areas and supported ancillary programs to sustain and strengthen an apparatus capable of returning to China if circumstances permitted. Foundation and religious support for churches and schools in Taiwan and Hong Kong continued and even increased in scale (Cohen 1985). Within the United States, until the early 1970s, foundations provided funding for the education of most contemporary China scholars, together with the research units in which they worked. Though there were substantial governmental programs—such as the Fulbright programs, the National Defense Education Act, and the Foreign Language Assistance Scholarships that were essential in providing support for students—the Ford Foundation provided the key leadership for the 1950s and 1960s (Sutton 1985).

In addition to foundation efforts to recruit and train specialists, a second development is now recognized to have been of great importance for the later expansion of cultural and education ties with China. At the same time that Ford, Carnegie, and others were generating and supporting a new generation of scholars, a cohort of Chinese Americans—primarily though not exclusively in the sciences and engineering fields, who could not or would not return to China—were rising in the ranks of educational circles. Some retained ties with relatives and classmates in

China. A third development in this period of limited contact, especially in the mid-1960s, was the establishment and funding of quasiprivate organizations with small staffs committed to the review of China policy by the United States and to the reestablishment of some type of connection with Chinese scientists.

By the late 1960s, therefore, several crucial components had been created: there were American scholars of China, an American Chinese elite, and a small staff and organization ready to participate in a working relationship with the Chinese when the opportunity arose. The signals of a new possibility are well known—the cordial invitation to the American ping pong team, the return visit to the United States of the Chinese team, together with various other exchange trips for athletes, congressional groups, and the like, who proved a bellwether to a growing trend.

In foreign relations terms, measuring the success of these 1970s exchanges hinged on two criteria: (1) whether or not exchanges occurred (as well as their frequency); and (2) the terms or styles of the various visits. That is, Americans (and perhaps Chinese, from their perspective) measured the graciousness, the itineraries, the toasts, the numbers of participants, the places visited, to see whether exchanges and bilateral relations were expanding, declining, or remaining constant. To look back to these days is to realize how elusive were the indicators of policy change, and how anxious and cautious the participants. The political implications of various aspects of a proposed delegation or its program could often result in a canceled trip. For instance, an American delegation of mayors found their trip canceled at the last minute because the delegation leader was the mayor of a Puerto Rican city, and at that time the Chinese viewed Puerto Rico as a “colony” of the United States. A Chinese delegation did not visit the United States when its repertoire of songs was found to include a political set of lyrics that spoke wistfully of Taiwan brothers.

The exchanges, particularly those highlighted publicly, were then and often are now easy targets for displeasure. The suspension of a number of exchanges was announced by Chinese authorities after the United States granted political asylum to a young Chinese woman tennis player. Agricultural exchanges were suspended by the American hosts when the Chinese failed to meet certain agricultural purchase targets. Both examples illustrate the political vulnerability of exchange programs. From the early months of 1971 through 1978, “exchanges”—in the formal sense of more or less equal trips roughly comparable in numbers of participants—were the rule for only a small number of organizations (see the discussion of the CSCPRC that follows).

With the death of Chairman Mao Zedong and reconsideration of Chinese modernization efforts, goals, and methods, exchanges of all sorts expanded. New possibilities have emerged in terms of access to materials and locations as well as the range of permissible subject matter. A series of policy decisions in China had important ramifications for American counterparts. The decisions to open the country, and to develop a tourist industry to earn foreign exchange, had an important effect. It separated out those who simply wanted to visit China, lessening the need to talk of exchanges in euphemistic terms.

For the purposes of cultural relations, the more important decisions were those made in conjunction with implementation of the Four Modernizations policies. The

inclusion of science in that slogan confirmed a trend visible to observers of China from mid-1975. The Chinese had determined by the year 2000 to upgrade scientific capabilities, to expand the numbers of scientists and technicians available for modernization efforts, to reestablish a Chinese presence in the international scientific community, and to make portions of the Chinese scientific research effort fully competitive with the highest international levels. These decisions then presented China with a series of important questions. How should education be restructured? Who would lead this scientific development? How should retraining occur and be financed?

It is difficult to know the extent to which the decision to implement much of this effort through American institutions was contingent on the emergence of a Taiwan compromise that permitted diplomatic relations. On one hand, Chinese leaders insisted that an increase in exchanges awaited the reestablishment of relations. Indeed, until normalization some Chinese groups refused to visit the United States. On the other hand, the expansion of efforts by Chinese students and scholars to enter American educational institutions predates the establishment of diplomatic relations. Whatever the sequence, the decision to seek assistance and training in American institutions injects a clear "instrumental" note into Chinese American exchanges.

The decision had repercussions for the American side as well. The proposal to send Chinese scholars and students to American institutions was conveyed in 1978 to President Carter through his science advisor, Dr. Frank Press. Presidential enthusiasm was tempered with the caveat that the effort must be self-supporting. How assistance was to be rendered would depend upon Chinese requests and requirements.

In Chinese circles there was apparently a discussion about means and ends, with cost being an important factor. In the fall of 1978, a Chinese educational delegation visited the United States to establish the terms of an educational agreement, subsequently signed during the visit of Vice-Premier Deng Xiaoping. Before the Washington negotiations, the Chinese spoke at length with Chinese-American faculty members as well as other friends of China. Much of the advice suggested establishing educational relationships on a bilateral basis, thus presumably avoiding the Washington bureaucracy and additional costs.

The Chinese did not seek assistance of the American institutions that routinely help place foreign students. Instead, during the first years, scholars (few students were involved) made their initial contacts, drawing on relationships with Chinese-American faculty or with the generation of American educational faculty who had taught senior Chinese officials some thirty years earlier. Within three years, the Chinese scholars and students had established a network of support and such a record of competence that future visitors had less difficulty arranging placement. Moreover, the decision to increase the number of graduate students and decrease the number of visiting scholars made the need for personal intervention less pressing: graduate students fell within the normal application procedures.

From the American side, the exchange experience has been somewhat different. The CSCPRC established the terms, scope, and provisions of the national program to send students and scholars to China. The agreement was confirmed by

Deng in 1979. Though rather small in number, this program is completely funded with federal monies (and has a Chinese counterpart). It is the only national program in the U.S. and is considered by most to set the dimensions of other programs that have been designated as bilateral.

There have been many other programs, often smaller in scope and expectations, with restricted operations. After a hiatus of forty years, the United Christian Board is once more active and sees itself as being of service to China (United Board 1984). Many pre-World War II bilateral programs have been restored: for example, Yale-in-China is now Yale China. In addition, a set of bilateral arrangements has been in place since 1978 whereby Chinese students and scholars work in American college and universities in return for which Chinese universities make available training or housing or resource access to scholars from the American schools.

Beyond these smaller bilateral relations, many of which are rather casually established and informally carried on, a core of organizations, nationally based, has established, administered, and defended national programs. All are nonprofit. The National Committee on U.S.-China Relations (hereafter the National Committee), the China-U.S. People's Friendship Association (hereafter the Friendship Association), and the Committee on Scholarly Communication with the People's Republic of China (the CSCPRC) have played key roles in various aspects of the bilateral efforts. In an appraisal of contemporary cultural relations—particularly when gauging the instrumentality inherent in American actions—it is essential to understand the missions, the political strength, and the contemporary goals of these core organizations. It is to that task that this chapter now turns.

THE CORE ORGANIZATIONS IN CULTURAL COOPERATION

From 1966 until the establishment of diplomatic relations in 1979, the overwhelming majority of exchanges, no matter whether cultural, scholarly, or political, were facilitated by these three organizations. The American government, despite the fact that secretaries of state often spoke of the importance of exchanges (e.g., *New York Times*, April 19, 1971), did not administer the programs. Yet certainly Washington was involved in funding, arranging appointments and interviews, and assisting with security and transportation. For the most part, these quasipublic, quasiprivate organizations carried on the work, negotiated most aspects of the exchanges, even set the number of groups to be facilitated, and bore the responsibility. Of the more prominent and more visibly official efforts of the three, the National Committee and the CSCPRC were the key units. While not overtly official, the Friendship Association should be included in this list because of its "people-to-people diplomacy."

When appropriate, the American associations were paired with their Chinese counterparts, such as the Chinese People's Association for Friendship with Foreign Countries (You Xie), the Chinese People's Institute for Foreign Affairs (CPIFA), the Chinese Science and Technology Association (PRCSTA).² In the process of working

² Herbert Passin discusses the Chinese methods and goals up to the early 1960s (1962), but I know of no analysis of the past twenty years that provides comparable coverage.

out the exchanges between such groups, personal relationships developed; agreements on exchange procedures were established; ways of handling issues like the granting of visas, formation of itineraries, handling of luggage, and the like were created. Although the American groups were received by whichever unit the Chinese thought appropriate for the group's purpose and status (for example, the congressional delegations were hosted by the CPIFA), until the United States and China had developed political ties, concluded agreements, and finally normalized relations, the exchange associations provided public evidence of improving relations or bore the brunt of the occasional frosty period.

After normalization, and with new internal Chinese modernization priorities, exchanges expanded dramatically in number and scope. The CSCPRC consolidated its effort, stabilized and expanded the program it had initiated in the late 1970s. The National Committee found itself reconsidering its mission; and the Friendship Association experienced a decline in that aspect of its national program that had derived from its unique access to Chinese visas. When travel and exchange opportunities diversified, the Friendship Association became oriented once again toward "friendship" programs.

Normalization in 1979 led to diversification of strategies and tasks but, since all three organizations were well established, they survived. The National Committee's survival has been in somewhat reduced circumstances. The CSCPRC, as a more solid bureaucratic organization, has been able to defend its prerogatives and "turf" in the rush that divided up the field. The Friendship Association was limited by fears about its political stance and its previous lack of financial resources, which had prevented it from developing two-way exchanges in the prenormalization period.

Why have the organizations survived past the period when they provided unique functions in lieu of governmental efforts? The significant factor is that, throughout the period preceding the reestablishment of diplomatic relations between China and the United States, China was not wholeheartedly committed to a policy of pursuing contacts with the American educational establishment. To be sure, in the early 1970s Chinese colleges and universities had reopened, graduate training was resumed in the mid-1970s and, after the death of Chairman Mao, there is evidence that internal policy regarding science technology and, to some extent, culture was being reconsidered. But none of the exchanges in the pre-1980 period occurred against the background of openness that has characterized recent years. This means, therefore, that the exchanges during the years 1971 to 1979 should be seen to represent foreign policy initiatives and only secondarily a concern with the educational value of the exchange. Without diplomatic relations, the informal contacts of these associations were critical.

With the death of Chairman Mao, the downfall of the Gang of Four, the return to power of Deng Xiaoping and the adoption of the policies of the Four Modernizations campaign, new considerations entered into exchanges policy for the Chinese—and thus inferentially for the Americans. In late 1978 and early 1979, the era of actual bilateral exchanges commenced. At the same time that national programs were being extended, students and scholars were received in the United States and China through

the efforts of individual institutions. The programs surely profited from improved Chinese-American relations, but exchanges were valued not for foreign policy considerations but for their content and contribution to Chinese modernization, and hence for their concrete value to the Chinese participants.

Despite the growing importance of exchanges, they still became, from time to time, instruments of punishment. But whereas in the prenormalization period programs were subject to cancelation or delay when either side determined that some decision or group member or proposed activity had unacceptable political overtones, retribution was more selective after normalization—such as when Chinese authorities registered their displeasure in the Hu Na case by canceling a number of planned exchanges. Those canceled were carefully selected and seemed of low priority (Kallgren 1984). The Chinese protest was made, but with low cost.

Thus exchanges in the prenormalization period did serve symbolic purposes and, even now, still retain an element of this symbolism some years after normalization. At the same time, the increased importance assigned to the development of science and technology in China has resulted in a mutual recognition of the instrumental value of exchanges. The preservation of these exchanges is clearly more highly prized than was the case seven years ago.

In 1984, the American exchange associations found themselves in circumstances quite different from those that characterized their founding period, often with constituencies and participants different from those supporting their earlier efforts, and not infrequently with less power than they had had a decade ago. We will examine each of the three in turn to see what these changes have meant.³

The National Committee

Those familiar with the development of China exchanges in the United States would quite likely consider this organization to be the most well known, senior to others, and certainly most centrally involved in facilitating the major exchanges with China of the early 1970s. Nonetheless, the National Committee was not established for this purpose.

The National Committee, in fact, was established in 1966 to bring about a review of America's China policy. It was composed of China scholars, a few political leaders and activists, and individuals prominent in the labor movement. The time was ill chosen, since the Cultural Revolution broke out that same year, and thoughts of policy review were interspersed with reports of violence in China. Despite that fact, between 1966 and 1971 the National Committee carried on work that was essentially educational, aimed at American audiences. The American ping pong team's invitation to China, however, initiated a chain of events eventually bringing the National Committee to the forefront of the exchange effort in the prenormalization period.

After 1972, therefore, two competing pressures coexisted: the requests for providing experienced escort service to visitors from and to China, together with

³ For more detailed discussion of each of these organizations, see Kallgren 1985.

claims on staff and members' time to participate in the China policy discussions underway in the American political and educational scene. Rather than trying to meet both needs, the National Committee chose the first emphasis. In 1975, the leadership adopted a policy of stressing exchanges and moved away from its "educational" services to the American public and policy makers that had been provided in seminars, conferences, briefings, and similar activities.

The work the National Committee did choose to take on has been carried out with a relatively small staff that has shown considerable stability. In addition to a core work group, the Committee members represent a broad slice of American opinion makers and leaders, including representatives from academic, business, media, government, and volunteer organizations. The list of regular members is the base from which the board of directors are drawn; the board numbered 45 in 1983. Most are from the northeast Washington triangle and have positions that enable them to provide assistance to the work of the Committee. National Committee growth has been reflected in an increased membership and budget increases. In 1972-73, the total income of the National Committee was \$377,872; ten years later, the figure was reported as \$800,098, but with a percentage allocated to staff salaries that remained very modest.

Equally important for an understanding of the work of the Committee is its source of funding. The role of the government in this matter has become decisive. This fact, together with changes in the list of corporate sponsors, apparently indicates that (1) corporations and foundations continually reconsider the support they will provide to China activities, and in what form; and (2) the activities of the National Committee have been sustained by the decision of the American government to use a private organization to provide escort service for special groups of Chinese. That work remains a key component of National Committee activities (National Committee 1983:12, 13).

Since 1979, the instrumentality of the National Committee has again altered. When the Chinese began to send scholars abroad, the National Committee initiated and now manages a series of "educational" programs to provide selected Chinese visitors with supplemental opportunities to learn about American scholarship and research. In 1984, the National Committee recruited Chinese participants in short-term programs on American history, law, and society. In sum, the National Committee program now provides a core of services to the government and certain foundation-supported travel groups, as well as a small education program aimed at Chinese. Indeed, while the work is service oriented with some educational components, the audience is primarily Chinese.

The China-U.S. People's Friendship Association

The China-U.S. People's Friendship Association stands in contrast to the National Committee. Though both wanted China policy changed, their ways of bringing this change about were different. The Friendship Association is organized from the bottom up, and the initial chapters were political in their program. Its staff,

largely volunteer and part time, is larger than the staff of the National Committee. It was and still is a mass organization. Finally, and importantly, the Friendship Association possessed, from the day of its inception, a Chinese counterpart—the Chinese Association for Friendship with Foreign Countries (You Xie). The assistance and support provided by the counterpart has been of decisive importance for the Friendship Association's growth and sustenance.

The Friendship Association is composed of small local chapters (sixty-three at current count), the first group of which was established in 1970 and 1971 in the West Coast cities of San Francisco, Los Angeles, and Seattle, plus New York. The linking together of chapters occurred at a national meeting in 1974. Activists in the social and political struggles of the 1960s initiated the Friendship Association. Some were socialists, which led to a policy against seeking financial support from corporations or foundations (amended in 1984). Many applauded and endorsed the revolutionary goals and policies of China. They intended to counter the erroneous information they saw presented about China, and to see that the real truth was set forth. This goal led them to work for a new China-U.S. policy. Many were experienced organizers.

A second group was composed of a few Americans, former long-time residents of China who had involved themselves in current U.S. foreign policy upon returning to the United States. Some members were ordinary people with an interest in China derived from relatives or missionary ties. The local counterpart of the American establishment sometimes saw the Friendship Association as a place to work for better relations. These people believed in people-to-people diplomacy.

The transition from a collection of small units to a relatively well-known organization was fostered by particular aspects of the association's history and composition. First, the original organization possessed experienced and energetic organizers. Second, the counterpart structure provided an extremely scarce and valuable resource: contacts within China. Third, the resumption of U.S.-China relations, together with the change in Chinese domestic priorities, made it much easier for the Friendship Association to engage people in its educational efforts.

The second aspect, that of Chinese contacts and information, was a scarce commodity. Since many Americans wanted to travel to China, and the Chinese insisted on group travel, the Friendship Association's counterpart, You Xie, arranged for an allocation of visas, while the Friendship Association handled the arrangements and selected the group members. The costs remain competitive with tourist opportunities, include orientation programs, and have a special quality that is emphasized in the literature. The activities of the national organization are still dependent upon the income generated by this portion of the Friendship activities.

Yet the Association has had to make a rather substantive change in its composition to survive political and diplomatic changes of the past decade. At the 1978 annual meeting in San Francisco, a heated, lengthy, and acrimonious fight over bylaws was in fact a struggle over the direction of the Friendship Association. The majority of the delegates opposed those critical of current Chinese policies and eventually adopted a series of bylaw changes that led to a withdrawal by the more activist members. (Some

of them were members of the Revolutionary Marxist party, which protested during the 1979 Deng visit.) It seems safe to assume that had the critics been successful and remained within the Friendship Association, the Association's visa allocations might have reduced or been cut off. The normalization celebrations in Washington, D.C. provided a moment of triumph when Chinese visitors congratulated the Friendship Association.

Within this context, the Association's initial goal to provide information about China remained intact (and probably became much easier to carry out with the post-1979 politics). Its policy emphasis included presentation and support of many of the Chinese proposals for continued improvement of Sino-American relations. The chapter programs diversified when the Chinese student exchange programs increased the number of visitors on American campuses. For these Chinese, the Friendship Association provides language tutoring, helps find housing, organizes dinners and social events. Short-term travel opportunities, and longer-term opportunities for study, have been developed for the Chinese coming to America. Because the Association is composed of local units, the arrangements can be made at very modest cost, and opportunities are provided for visitors to stay in local homes even for as long as six months. This portion of the program does not approach in size or expenditure the travel opportunities upon which the Friendship program depends, but it does inject a real element into the Association's program. Moreover, when seen in conjunction with the courtesies extended to visitors, it makes the nature of exchange efforts more substantive. Thus history and domestic American political changes have both been relatively kind to the goals and purposes of the Friendship Association's instrumentality: the Association's travel program provides it with the necessary basic financial support; the cellular organizational structure permits each chapter to function in an autonomous manner; and the Association remains able to stress its central purpose of educating the American public.

The Committee on Scholarly Communication with the People's Republic of China

The Friendship Association sees itself as a people-to-people organization. The National Committee has worked assiduously to develop connections and ties to the necessary local organizations and people to carry forward its work. The CSCPRC has long been, and remains in the 1980s, a powerful association integrated into the matrix of science organizations in the United States and thus is particularly well situated to advance its programs. It contrasts sharply in goals, staff, organizational cohesiveness, and financing with the other two private associations just discussed.

Like the National Association, the CSCPRC was established in 1966. Initially titled the Committee on Scholarly Communications with Mainland China, it was composed of China scholars together with the presidents of the National Academy of Sciences, the American Council of Learned Societies, and the Social Science Research Council. It included all prominent organizations of the academic world. Its

purpose was to facilitate in some manner the exchange of scientific information and knowledge between Chinese scientists and the American scientific community.

An important and special aspect of the CSCPRC was that its connections with the Chinese science academy were facilitated through close personal relationships enjoyed by certain Chinese-American scientists with the Chinese political and educational establishment (Kallgren 1981). Events since normalization, and the current development of Chinese science, continue to demonstrate that American scientists of Chinese descent play an exceedingly important role in facilitating programs and progress in exchanges at all levels. As with its counterpart the National Committee, CSCPRC programs were negotiated at two levels. Because exchanges were of symbolic as well as substantive importance in the initial phases of American-Chinese relations, they were discussed at the highest diplomatic levels at the same time that the negotiations by a CSCPRC delegation were conducted over procedures, topics, membership, and related practical matters.

The housing of the CSCPRC in the National Academy of Sciences, the status of its staff as NAS employees, has been an especially fortunate occurrence. The NAS has an extensive program of foreign exchanges and contacts. Scientists have long committed themselves to the universality of their work and to the utility of scientific exchanges. Equally important is the fact that the CSCPRC's membership is an alliance of scientists, humanists, and social scientists. Throughout the history of the organization there has been an effort to ensure that the social scientists and humanists would have some degree of participation in the total program. Moreover, in the pre-1979 exchanges only a scant few delegations focused on the social sciences and humanities; instead, the initial opportunity for many scholars in these disciplines to see China came with the CSCPRC decision to include a China scholar to provide resource and background data for each delegation. Until fairly recently this alliance across academic disciplines remained intact.

None of the associations discussed here profited as much as did the CSCPRC from the domestic changes in China. The 1978 decision to send students abroad, and particularly to send substantial numbers to the United States, opened the possibilities for exchanges of information, for real collaboration between American and Chinese scientists. While the CSCPRC programs represent only a small portion of the effort, they remain of crucial importance. For the American scholar, particularly in the social sciences and humanities, one important benefit is the full funding available from the CSCPRC. This aspect of the program, together with the prestige and reputation of the CSCPRC in assisting scholars in placement, has made its awards very desirable. The CSCPRC has, of course, confronted difficulties in implementing its program, but as a national organization it possesses the ability to resolve some difficulties at the highest level. Its part-time committee members work in the highest echelons of the science establishment, provide advice and consultation to government agencies, and interface with funding organizations and governmental personnel.

There is ambiguity in the degree of interaction between the science establishment and the government, which can be interpreted in a number of ways. Some will emphasize the autonomy of the CSCPRC, pointing to its NAS funding and even

foundation support (for selected activities) as indicators of its independence from government. Others will emphasize the role of government monies in CSCPRC programs and will point out that an academic advisor served in the American Embassy between 1979–81 as a government employee. Now that a full-time CSCPRC member is stationed in Beijing, it is unlikely that a scholar-administrator can successfully carry out duties without the strong support of the embassy.

In terms of its instrumentality, the CSCPRC has continued to focus its efforts on its originally conceived goals, although obviously the manifestations of its interests have changed as programs have changed. Nonetheless, the CSCPRC works with intellectuals in China. What might not have been foreseen was the dramatic change in Chinese domestic priorities, and the consequences for scientists and intellectuals. Universities regrouped; the value of science and its practitioners was upgraded. Domestic programs in the 1980s depend upon scientific expertise—and so the groups with whom the CSCPRC interacts have become more important in Chinese domestic perceptions. Thus the expertise of the CSCPRC has, if anything, become more valuable since normalization.

The CSCPRC seems the most successful of the associations discussed here—this is not surprising, in view of its ability to profit from its intimate relationship with, and the legitimacy bestowed by, the National Academy of Sciences; its close relationship with official Washington; its relatively generous funding with some degree of stability; and the growing approval, on both sides of the Pacific, of scientific exchanges with China. Within the comparatively narrow range of its charge, the CSCPRC therefore has proved the most effective.

EXCHANGES AS FOREIGN RELATIONS: ALTRUISM, INSTRUMENTALISM, AND RECIPROCITY

Given the complex evolution just traced in circumstances, characteristics, and experiences of core organizations in facilitating exchanges, it is certainly timely to reexamine the current instrumentality of the exchange process. While this study had made it clear that exchanges form a small but important component in the web of Sino-American relations, we still need to ask why, in current circumstances, do individuals, organizations, and universities support exchanges? Why invest resources in this program? How substantial is the investment in terms of dollars, personnel, and time? In the preceding pages, we saw how previous answers led to the growth of Sino-American bilateral relations. We turn now to an assessment of the exchanges set against the cultural and educational purposes for which they have been established.

To reckon the totals when compiling a balance sheet requires that we calculate the costs of exchanges in terms of the funding of scholars who come to the United States. This figure provides us with an estimate, unquestionably low, of the dollars and personnel that have been invested by American units. To measure these costs, the paper outlines the general purposes as perceived by the Chinese—a relatively easy task—as well as the more diverse reasons and goals for the American support of the programs. The calculations cannot be made in terms of productivity, man hours of

scholars, and similar measures, despite the fact that such figures would add much more detail to the impressions given here. Universities and colleges maintain only a rough accounting. The contributions of university-provided services, meals, gifts, and a range of facilitating courtesies to Chinese visitors cannot be calculated nor assigned to specific purposes. It is therefore only in the most general terms that we are able to make estimates about the total costs of Chinese exchanges and who bears them. There is no question that exchanges have been, and are, supported by American universities.

To establish an overall estimate, then, we can begin by setting out the budgets of two of the core organizations. The National Committee has a yearly expenditure of \$800,000 not including gifts, meals, and the like contributed to visitors. In addition, the CSCPRC total budget is \$3 million. This, too, is an understated figure, since Chinese scholars in the United States also are hosted, programmed, met, and accompanied—recipients of a wide range of services that are not considered part of the organization's annual expenses. Because the activities of the third organization, the Friendship Association, are so decentralized, it is impossible to project an annual figure for its total activities.

Calculating the American expenditure on Chinese academic exchanges in this country requires an estimate of the number of individuals supported by American university sources, in contrast to those who are supported by the Chinese government or who are self-supporting. Of the approximately 13,000 Chinese holders of F-1 visas (students) and J-1 visas (both students and visiting scholars) in the United States in 1983, about half received American university support; thus an estimated 6,500 individuals are receiving academic assistance for exchange purposes. Projecting approximately \$10,000 support per student, we reach a total annual expenditure of \$65 million. In addition, it is important to keep in mind that many of the scholars and students funded by Chinese grants do not become degree candidates but still draw on university resources. They talk with faculty, use libraries, audit classes, and the like. Universities have different policies regarding these visitors: some universities are relatively permissive, believing that the institution gains from such visits as much as it gives; others have a schedule of charges assessed on the activities of the visitors. The figure cited here does not include these costs.

However one modifies the figure, it is a substantial one. Why are such monies expended? The answer to this question involves altruism as well as instrumentalism, both in national terms and for the purposes of the receiving institution. Assessing the success of exchanges, then, requires measurements both in terms of how they satisfy the national goals and in terms of participant satisfaction with a specific program. On balance, are the exchanges providing sufficient returns to be worth their maintenance? Are both sides in the effort reasonably satisfied with the outcome?

The Chinese appear to share a consensus of purpose in which exchanges are linked to the goals of modernization. The national purpose in undertaking exchanges, whether cultural, commercial, academic, or military, is to create a strong and modernized China. This general goal is then implemented through specific commercial or academic activities. Assessed by this goal, Chinese instrumentality is, indeed, being satisfied.

For example, a wide variety of commercial exchanges are now carried out on a decentralized basis by American enterprises. They are viewed by the Chinese participants as an opportunity to learn about high-technology capabilities and processes. There are some Chinese criticisms; these arise over sheltering of information on the grounds of "industrial secrets," "proprietary knowledge," or reluctance of American allies to sanction the sharing of data with the Chinese when similar information has been shielded from the Soviet Union. For their part, American participants see exchanges as a means facilitating ongoing commercial relationships.

Similar exchange programs are run by professional organizations: legal firms, accounting companies, and travel agencies believe that informed Chinese practitioners will make negotiations easier and more satisfying. Internships and exchanges thrive. Because the results are more directly tangible for both sides, measures of success are more immediate and obvious.

Academic exchanges are more complicated to assess. The Chinese side can be characterized directly. As set forth earlier, academic exchanges in universities, colleges, professional schools, and the medical field are intended by the Chinese to provide the training opportunities for scientists and technicians and to enhance the teaching capabilities of faculty, thus contributing directly to the upgrading of science and technology for achievement of the Four Modernizations.

For American purposes, meeting a range of aims justifies the allocations of time and personnel. These purposes differ among the participants and indeed differ within an institution. Some of the American commitment to exchanges with the Chinese should be understood in relatively altruistic terms. The United Christian Board's reentry into China work is one example. Staff members of the National Committee explain their work without reference to instrumentalities.

By far the largest number of actors in the field, however, explain their work in terms of other goals. For instance, governmental exchange programs are designed to provide insight into American life and values, with the hope of some long-range influence on the activities of participants, or perhaps of short-term influence on foreign policy matters. Yet there are two limitations to achieving this instrumentality. As exchanges in the nineteenth and early twentieth century have shown, individuals who participate may not constitute the potential leadership of a country: scientists, technicians, and administrators may be called upon to execute the policies formulated by others. A second limitation in this instrumentality is the inability of those involved to predict what lessons may be learned from the experience. This point is made rather clearly in the emerging literature of Chinese visitors to the United States. For example, *Two Years in the Melting Pot* (Liu 1984) proffers perceptions that differ from those intended. From the Chinese side, one would wonder whether or not the congressional debate over the Taiwan Relations Act (which surely surprised the Chinese leadership) demonstrated a greater sensitivity to Chinese preferences and views by those members of Congress who had traveled to China (U.S. Congress 1978, 1979, 1980) as compared to those who had not.

We have already commented on the interests in commercial exchanges. Satisfying the goals of American educational institutions is more complex, since their reasons for supporting exchanges are diverse. In a series of interviews with academic

administrators and faculty, Maddox and Thurston (1985) explored the reasons for support of American exchanges with China. Many small schools and colleges simply add Chinese exchanges to a list of other foreign student programs and do not distinguish among them. A number of schools see the development of exchanges as a resumption of a long-established practice terminated in 1949; in these cases, the programs are often relatively small, and the schools' Christian tradition is often a contributing factor. Some support simply derives from a sense of China as exotic, distant, and somehow a potentially powerful nation. Other schools initiate their programs at the request of members of the faculty (often Chinese-American scientists or China specialists) and then pay little attention to them in terms of either resources or personnel; these programs remain lodged at the departmental or college level, with little claim on college resources.

Assessing the success of larger programs necessitates approaching the subject in a different way. The major programs—measured in terms of numbers of Chinese students and visiting scholars—grow out of Chinese interest in the reputation and facilities of the participating school, coupled with indigenous faculty support as well as administrative assistance both financial and bureaucratic. Such programs are sustained through faculty interest in reestablishing professional connections with Chinese colleagues, most commonly in terms of collaborative work in use of library and archives and in a general ambience of mutual support.

What these major programs get back from exchanges differs, depending on the discipline. Those in the natural sciences and professional schools customarily seek very little from the collaborative arrangements. With some exceptions—such as public health, geography, geology, and perhaps portions of agriculture—the faculty does not highly prize these connections to China as research opportunities. Many travel to China, give lectures, and then take the opportunity to visit a historical place of interest. Most of these activities seem closer to teaching than to research.

The more enthusiastic participants in the exchange efforts are normally found in the humanities and social sciences. These scholars hope for access to research holdings, libraries, archives; for the opportunity to carry on field research, interview individuals, do local histories. Here the assessment of programs is much more equivocal, particularly from the participants' point of view.

Those in the humanities, languages, literature, history, and linguistics have, to a considerable degree, expressed satisfaction and made progress in carrying out their work. Some consider this success as growing out of the textual nature of the research, since this frees them from the more controversial aspects of the social sciences (Jamieson, Kwok 1985).

Measured by the disciplinary values inherent in the social sciences, sociology, psychology, political science, and anthropology, the picture is much less positive. Despite strong efforts on behalf of this segment of the exchange audience, sharp limits on field research are in place; scholars have found their materials classified *neibu* (for limited circulation only), sometimes not even to be read and not to be taken out of the country; the exercise of survey procedures has been limited, difficult to arrange and carry through. Even the private exchanges that place special emphasis on collab-

orative arrangements and joint publication have had great difficulties in carrying forward their work from one year to the next.

From the Chinese perspective these social science constraints are often appropriate and justified. Americans should not have access to materials not commonly made available to Chinese faculty; some Chinese administrators may distrust the Western academic's use of data; they may be unfamiliar with the process and techniques of social science research. Regardless of the reasonableness of these explanations, the result has been that exchanges in these disciplines have been the most controversial, the least satisfying, and the most subject to difficulties. This has affected the placement of scholars, the facilitation of their work, and the completion of research projects. As a result, exchanges must be assessed as less successful in accomplishing the instrumentality for which they are supported from the American perspective.

In addition to the mixed appraisal of exchanges judged by American goals, there have been two other difficult issues affecting assessment of exchanges. These relate to implementation of exchange programs—specifically, the levels of support for Chinese students—and the Chinese policy to have visitors refund some monies to their units at home or to the Chinese authorities. These matters are not simply inconveniences to be solved by the administrators responsible, but rather are seen from the American perspective as important issues that jeopardize some programs with some universities. They have plagued CSCPRC programs as well as bilateral ones.

Regarding the level of support for scholars, the position of the Chinese authorities until the late spring of 1985 was that national constraints precluded more than the monthly stipend of US\$400 plus. Americans argued that the consequences of such a small grant, initially set in 1978 and not changed until 1985, were that students were forced to live in poor housing, or to room together with other Chinese students—thus robbing them of the opportunity to broaden their experiences during the year(s) of study. Moreover, the situation was made more difficult by the understandable desire of Chinese visitors to return to China with the so-called “eight great treasures,” goods that were difficult or costly to obtain at home but that Chinese customs policy permitted returnees to bring back without having to pay a high duty. Finally, in the seemingly endless negotiations between Chinese and American counterparts, the changing foreign exchange situation of the Chinese obviously had an impact as well.

Beyond the fact that the amount of the awards was insufficient, Americans objected to the practice of requiring scholars and students to return portions of the awards to his or her home unit. (This requirement was initially enforced and then in recent years sporadically enforced.) American universities argued that these awards were not salaries but rather training grants and, as such, fell within the purview of university concern. Also perceived by Americans as a matter for university concern was the Chinese government's practice of providing support to students and scholars for one year only. After that period, the student had to secure his own funding or return home. From the perspective of the American university, this policy has provoked

great caution by admissions committees, who carefully review such applications knowing that they will be followed by requests for support. The support level issue became so serious a controversy in the spring of 1985 that some American universities became unwilling to accept applications unless the student and Chinese government were prepared to guarantee a level of support equal to that required of all other foreign students. In the summer of 1985 Chinese assurances were given in some cases.

The picture presented here is incomplete without reference to the quality of students who are participating in the exchanges. On this score the record is clear. Chinese scholars and, to an even greater extent, students have established a very good academic record, one that gives promise of further improvement (Schnepp 1984). The initial application of scholars for research associate status and students for admissions to graduate programs occurred when a number of graduate programs were experiencing a decline in American applicants. Thus foreign students were welcomed. Though these Chinese students admitted to graduate programs may not figure literally as participants in the exchange efforts, their presence and achievements doubtless incline their teachers more positively toward exchange relations with China. Thus their contribution to the overall exchange situation is important.

PROSPECTS FOR EXCHANGES: EDUCATIONAL RELATIONS IN THE MID-1980S

R. Keohane notes that cooperation often emerges from discord. To a considerable degree, the development of exchange relations between the United States and China demonstrates the truth of his observations. In assessing the contribution toward Chinese-American relations made by this aspect of cooperation, this paper concludes by approaching three facets of the issue: (1) the current prospects of education as a component of foreign relations; (2) the prospects and activities of the core organizations—the National Committee, the Friendship Committee, and the CSCPRC—as bureaucratic units for the furtherance of cultural contacts; and (3) the enduring tensions in American-Chinese cultural contacts brought on by differing instrumentalities.

There has been substantial change of policy in educational exchanges as both sides have gained experience working together. Examples are numerous. In the initial contact, the Chinese side refused to permit any external set of tests to ascertain the level of competence of the students and scholars they sent. This has changed. The Educational Testing Service now administers the Test of English as a Foreign Language and the Graduate Record examinations in China for those wishing to attend American graduate schools. American universities, primarily through their graduate divisions and foreign student offices, have developed admission procedures to take into account the problems in Chinese education between 1966 and 1976, and have set criteria for justifying the use of the term “research associate” for candidates without the Ph.D. degree. In essence, the discord of the initial years of academic renewal has been mitigated with an adjustment of policies.

The investment in Sino-American relations is substantial and perhaps will

increase when and if the numbers of Chinese students admitted to American graduate schools increase. There has been no rigorous insistence on reciprocity. In bilateral exchanges a rough accounting occurs, but without the acrimonious problems of the immediate postnormalization period, and certainly far removed from the hard bargaining of Soviet exchange programs. To some extent this reflects the realization that the Chinese experience mirrors programs developed for students from other countries, or those specialized efforts designed to meet the needs of other newly industrializing countries. Moreover, the space available in graduate schools has mitigated what might have been difficult political pressures if American students were unduly disadvantaged. Finally and most important, the quality of Chinese students has made them especially attractive to faculty. This experience stands in contrast to the placement of Chinese students in Japanese universities, where competition for space is more intense (Abe 1985).

It is useful to keep in mind that exchanges with China in both the cultural area, which has received rather little attention in this paper, and in the educational field show problems that have characterized *other* bilateral relationships. There have been criticisms of other foreign scholars and students regarding their limited contacts with Americans, housing patterns of other students that have caused anger in the community. Much of the Chinese-American experience replicates relationships with other foreign students in similar circumstances (Embree 1985).

In the years since normalization, national programs and bilateral ties have become routinized. While this routinization may have resulted in less daily enthusiasm, it has engendered a stability in Sino-American relations. Though the various sponsors, both core organizations and universities, may find it difficult to increase their special funding, the patterns of support have remained intact. In that sense a holding pattern has been established. It can be argued that the routinization of budget procedures provides the best guarantee for preservation of exchanges.

With this routinization has come an institutionalization of the core organizations. The raising of funds remains a difficulty: some of those who work for these organizations do so out of personal commitment, but others see less of a distinction between work on China exchanges and other employment. Activities are common to organizations, rather than special to China.

A generalized satisfaction with bilateral relations, even with modest progress in broadening placement, suggests that both sides have sufficient if not abundant reasons to sustain programs. Moreover, the mishaps, conflicts, and difficulties that still occur are sufficiently diluted by the normalized programs that formal suspension is less likely, though obviously possible. The growth of American and Chinese organizations with vested interests in supporting aspects of Sino-American cultural relations, together with the increase of individuals who have benefitted from this relationship, engenders optimism.

Setting aside the matter of size or costs of the exchanges, both Chinese and American supporters as well as participants must wonder about the nature of the transfers that are occurring. Those who believe that insufficient attention is paid to the content of science and technology transfer warn of long-term competition. They

argue that textile problems in trade today are but the first stage of competition that will diversify in the years to come (Simon 1985). Government consultants have very mixed views about the desirability of the transfer of weapons, together with the technology underpinning their use.

For those interested in the extent and consequences of the transfer of educational ideas, values and structures, the experience of the past five years serves notice of the continued validity of the nineteenth century *t'i-yung* dichotomy. When the Chinese began to borrow from the Western countries, and Japan as well, they frequently argued that the core of their society would remain Chinese but Western innovations would be used as "instrumentalities." This same view is often expressed in the 1980s. Chinese scholars and a growing number of students often speak of their determination to return to China to contribute to her modernization. They express confidence in their ability to borrow selectively.

The American participants, citizens of a postindustrial society, find themselves less certain of the possibility of selective borrowing, more perplexed about the obligations of the donor country, and less convinced that interchange can proceed in a balanced manner. As Chinese universities and the research establishment take on organizational structures and procedures from American counterpart organizations—whether these be new letters and science curriculum, personnel promotion policies that require one to "publish or perish," or integration of science research into the university framework—American colleagues wonder at the middle and long-term consequences of the changes for Chinese society.

Many may also wonder what obligation they as host or donor have for the ideas and values that are being transmitted. Most, however, drawing on the history of cultural relations, believe that a prescription of restraint is impossible to implement. They suggest that China, as other nations, will ultimately have to live with the consequences of its open door policy and the opportunities and challenges of educational exchanges. In this way educational exchange is, indeed, an aspect of foreign policy.

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- NOTE: A number of the following references are to papers presented at the Conference on Sino-American Exchanges held at the East-West Center, Honolulu, Hawaii, February 18–22, 1985. The conference was jointly sponsored by the East-West Center, the Committee on Scholarly Communication with the People's Republic of China, and the Center for Chinese Studies, University of California, Berkeley. In the interest of brevity, these papers are noted "Sino-American Conference, February" in the list that follows.
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